

Research article

Analysis of the Role of Microfinance Banks in Financing of Micro Enterprises in Kaduna State, Nigeria

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Abstract

The first objective of this study is to find out whether microenterprises in Kaduna State have access to financial services of Microfinance banks operating in the State. The second objective is to find out whether the Microfinance banks play significant role in financing the operations of microenterprises. To achieve these objectives, a random sample of 60 microenterprises was selected from the population of microenterprises in Kaduna State. Data was collected by means of structured questionnaires. From the data collected and analyzed, it was discovered that microenterprises have access to financial services of microfinance banks in Kaduna State and to that extent the banks play significant role in financing microenterprises in the State. To further enhance the role Microfinance banks play in financing the said microenterprises, it is recommended that the banks themselves should source for more funds by means of share subscription and appeal for more financial and operational support from government and its agencies. **Copyright © IJEBF, all rights reserved.**

Keywords: Microfinance banks, microenterprises and financing

Introduction

The Economic history of nations, including the developed ones in Europe, Asia and America, has indicated that the present day multinational corporations started at micro level and grow to become big overtime (Mejeha &

Nwachukwu, 2008). For instance, in its early stages of industrialization, Japan's economy was dominated by traditional industries, cottage firms and small scale firms, drawing their strength not from abundance of capital but rather from abundance of labour supply (Ogechukwu, 2013). Similarly, during the pre-colonial period there were many cottage industries across the numerous communities or kingdoms that constituted the present day Nigeria (Ogechukwu, 2013).

The contact with Europeans, initially through trade and later colonization, brought about modern industrialization. From the colonial period to date, Nigeria has embraced modern industrialization as the main panacea to her underdevelopment. This has resulted in the neglect of cottage/micro industries. The neglect and the superior competition from the modern industries have resulted in the collapse of the craft/cottage industry sector (Berger & Frame, 2007). The collapse of the sector brought about unemployment and rise in the poverty level, especially in rural areas (Besley, 1992).

The Northern part of the country in which Kaduna State is located, has the highest poverty incidence of 70.1% as compared to 34% for the three southern geo-political zones (South-South, South East and South West). All the 10 states with the highest incidence of poverty are in the northern geo-political zone (Salihu, 2008). Studies conducted by the National Bureau of Statistics (NBS) in 1980, 1985, 1992, 1996 and 2006 revealed that although poverty had become pervasive in all zones, the Northern zone maintain a disproportionate share (Abdullahi, 2009).

Successive government regimes have adopted various measures to address the high poverty incidence in the North in particular and the rest of Nigeria in general. The measures include initiatives such as Peoples Bank, Community Banks, and National Poverty Eradication Programmes (NAPEP) among others. In 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of micro-entrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth and development (Obianuju, 2012). The objective of this paper is to evaluate the level of accessibility of micro-entrepreneurs to financial services of Microfinance Banks. The paper will achieve the following specific objectives.

1. To investigate whether microenterprises have access to financial services of Microfinance banks.
2. To investigate whether Microfinance banks play significant role in financing microenterprises.

Literature Review

Definition of Microfinance Banks

Generally, Microfinance is defined as the provision of thrift, credit and other non-financial services in very small amount to the poor to empower them raise their income level and improve their standard of living (Eluhaive, 2005). Arising from this definition, Microfinance Bank, according to the Central Bank of Nigeria (CBN, 2009), is a company licensed to carry out the business of providing Microfinance services such as savings, loans, insurance, money transfer and other financial services that are needed by the economically poor, micro, small and medium enterprises. Based on their minimum paid up capital, Microfinance banks are

categorized in to Unit, State and National. Unit Microfinance Bank is authorized to operate in one location and it has a minimum paid up capital of 20 million Naira. A state Microfinance bank is authorized to operate in one State or the Federal Capital Territory (F.C.T) and has a minimum paid up capital of 100 million Naira. A National Microfinance bank is authorized to operate in more than one State including FCT and has a minimum paid up capital of 2 billion Naira.

The Role of Microfinance Banks in Economic Growth and Development

Economic growth refers to the concerted and sustained effort to improve the standard of living of the citizenry by means of improving the productive capacity of the economy (Njiforti, Adama & Kromiti, 2008). Economic growth policies, according to Obianuju (2012) involve multiple areas such as mobilization of savings, accessibility to credit, employment generation, poverty reduction etc. Economic development on the other hand entails policies by which a nation improves the economic, political, and social well-being of its citizens (Okunmadewa, 2001). Syrous and Laura (2007) define economic development as a process by which an economy is transformed from one that is dominantly rural and agricultural to one that is dominantly urban, industrial, and service in composition.

In pursuit of economic growth and development by all nations of the world, economists have developed a number of theories to explain and facilitate the process. The theories or models include that of Keynesian macroeconomic growth model, Harrod-Domar model, Leontif's input/output model and a host of others. The centre piece of all the models is that economic growth and development is tied down to levels of savings, investment, employment generation and poverty reduction (Obianuju, 2012). Based on theoretical propositions, countries have developed various measures to strengthen the banking sector to play the intermediary role of mobilization of savings and allocating it to the productive sectors of the economy for investment, employment generation and poverty reduction, especially in rural areas.

In Nigeria, the conventional banks provide financial services only to about 35% of the economically active population while the remaining 65%, are excluded from access to financial services of the banks (C.B.N, 2005). Microfinance according to C.B.N (2005) is about providing financial services to the poor who largely constitute the 65% excluded from access to financial services of conventional banks. According to Taiwo (2012) microfinance has worked successfully in many parts of the world-Africa, Latin America, Europe and North America. Through microfinance the poor people in most countries were able to have access to variety of financial services comprising savings, loans, money transfer and insurance. The accessibility has resulted in employment generation, poverty reduction and consequently economic growth and development (Taiwo, 2012).

An Overview of Microfinance Banks in Nigeria

Different societies have different ways of addressing the capital needs of the economically active poor people (Taiwo, 2012). This form of financing operates under different names like esusu among the Yorubas, Etoto among the Igbos and Adashe among the Hausas (Mejeha & Nwachukwu, 2008). The traditional form of financing provides access to credit for the rural and urban, low income earners (C.B.N, 2005). The informal system of financing has limited outreach mainly due to paucity of loanable funds. To supplement the traditional

flow of finance to the poor, the Non-Governmental Organizations (NGOs) are also engaged in the micro/rural credit initiatives. The NGOs initiatives are based on membership and are registered under the *Trusteeship Act* as charity and social programmes on poverty alleviation. The programmes are financed from grants, fees, interest on loans and contributions from members of the respective NGOs.

To further compliment the traditional methods and efforts of NGOs in supply of finance to the poor, Government has, over the years, initiated a number of publicly-financed micro/rural credit programmes and policies targeted at the poor (C.B.N, 2005). The programmes comprise rural banking, sectoral allocation of credits, concessionary interest rate, Agricultural Credit guarantee scheme. Other programmes include establishment of National Directorate of Employment (NDE), the Peoples Bank, the Community Banks, the Nigerian Agricultural Cooperative and Rural Development Bank Limited and National Poverty Eradication Programme. The policies and programmes, according to C.B.N (2005) adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities such as trading, tailoring, weaving, blacksmithing, and agro-processing and transportation.

Though the policies and programmes have resulted in increased accessibility to finance by the economically active poor in the aforementioned activities, the effects were short lived mainly due to inadequate loanable funds, corruption, inconsistency and continuity of the programmes. As part of measures to address these shortcomings and ensure improvement in the flow of financial services to the rural and urban poor, the Federal Government, in December 2005, introduced a Microfinance policy Framework. The policy is in line with the United Nation's declaration of 2005 as the Year of microcredit following the award of the Nobel Peace prize to Professor Muhammad Yunus and the World's most famous Microfinance institution-Grameen Bank of Bangladesh. The aim of the policy is to enhance the access of micro-entrepreneurs and low income households to financial services required to expand and modernize their operations with a view to improving their contribution to economic growth and development (Obianuju, 2012). The policy recognizes the existing informal microfinance institutions and brings them within the supervisory purview of the CBN. The policy has resulted in formalization of informal Microfinance institutions and establishment of many others. As at 2011, there are a total of 900 Microfinance banks operating in Nigeria out of which 27 are located in Kaduna State (www.infostricles.com). The study will focus on the role the 27 Microfinance banks located in Kaduna State have played in financing Microenterprises also located in the State.

Definition of Microenterprise

There is no single universally accepted definition of Microenterprise. The definitions change over a period of time and depend, largely on a country's level of development (Aruwa, 2009). Varying definitions among or within countries may arise mainly from differences in levels of industrial development, economic development and technology (Sule, 1986). Prior to 1992, different institutions and agencies in Nigeria adopted different definitions of Microenterprise. The institutions comprise the Central Bank of Nigeria (C.B.N), Federal Ministry of Finance, National Association of Small and Medium Enterprises, Centre for Industrial Research and development, National Economic Reconstruction Fund, Nigeria Bank for Commerce and Industry (now Bank of

Industry) and National Council on Industry (Aruwa, 2004). The main factors used in defining or determining whether or not an enterprise is an SME are capital and number of employees (Onwumere, 2000).

For convenience and easy comprehension, this paper will adopt the Bank of Industry's definition of Microenterprise as presented by Osa-Afiana in Ango (2011). The Bank defines Microenterprise as enterprise with capital of not more than 1.5million Naira (or US\$11,278) including working capital but excluding cost of land and/or labour size of not more than 10 workers.

The Role of Microfinance Banks in Financing of Microenterprises

Microenterprises in Nigeria have not made the desired impact on the economy (Nwachukwu, 2012). This may not be unconnected to the numerous challenges facing the enterprises, among which is finance. Olorunshola (2001) rightly observed that the major gap in Nigeria's industrial development process is lack of long and in some cases short term finance for Microenterprises.

Microenterprises usually raise their finance through informal sources. The sources comprise owners' savings/retained earnings, contributions/borrowing from friends, relations etc(Ango, 2011). In most cases finance generated from informal sources fall short of the required capital for Microenterprises (Okungwu and Saleh, 2004). To raise the balance of the required finance, entrepreneurs look up to the formal sources, which comprise banks, other financial institutions, cooperative societies and government loans agencies (Ango, 2011). There are a lot of challenges for Microenterprises in raising finance through the formal sources, especially as it affects banks and other financial institutions (Lawal, 2010). Most of the banks are not willing to advance loans to the Microenterprises mainly due to the absence of the so called collateral security. Microenterprises are in dire need of the loans for capital formation and financing of their operations. Considering the significant role Microenterprises play in the Economic development of the Nation and the challenges they face in raising finance, the Federal Government, in 2005, through the CBN, introduced a Microfinance policy framework. The goals of the policy are as follows:

- Provide diversified, affordable and dependable financial services to the active poor, in timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;
- Mobilize savings for intermediation;
- Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;
- Enhanced organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;
- Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on non-recourse basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents, and
- Render payment services such as salaries, gratuities, and pensions for various tiers of government.

Based on the goals of Microfinance banks, C.B.N (2005) stated the following policy targets for the banks:

- To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty;
- To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0-2 percent in 2005 to at least 5 percent in 2020;
- To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015;
- To eliminate gender disparity by improving women's access to financial services by 5% annually; and
- To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually

The Microfinance policy is about nine years old (2005 to 2013). The period is long enough to warrant assessment and evaluation. There is serious dearth of literature on performance of Microfinance banks on achievement of the policy goals and targets, which all aim at reducing poverty by means of providing access to financial services. This study intends to determine the extent of attainment of the policy goals/targets by Microfinance banks in Kaduna State by means of determining their role in financing of Microenterprises. The study is meant to bridge the existing gap in literature on performance of Microfinance banks on the attainment of the policy goals.

Methodology

The target population of this study includes the entire clients of microfinance banks in Kaduna State of Nigeria. A random sample of 60 microenterprises was selected for the data collection through structured questionnaires. Furthermore, the research design adopted is an admixture of cross-sectional and survey research designs. Similarly, the sampling design is the stratified random sampling with optimum allocation. An effective survey strategy was adopted to minimize non response, error and respondents' bias to the barest minimum. In this strategy, follow-ups were made for the questionnaires not returned or not properly filled so as to maintain the effective sample size. This is the efficient survey strategy for optimal results. The log-likelihood ratio test and Kendall's coefficient of concordance were used to analyze the data through IBM SPSS version 20.

Results

Cronbach's Alfa was used to measure the reliability of the instrument used based on a sample of 20 microenterprises and based on the 11 construct items in the questionnaire. The value of the Cronbach's Alfa was 0.901; which implied that the instrument has excellent reliability. The results also show that from the sample of 60 microenterprises operators, 10 (16.7%) of them were into manufacturing, 5(8.3%) were into distribution while 26(43.3%) of them were into services. On the other hand, 19 (31.7%) of them were into other unspecified businesses. This shows that the bulk of the microenterprises were into services. Furthermore, 43 (71.7%) of the microenterprises were owned by male while 17(28.3%) were owned by female. The average start-up capital for these microenterprises was ₦385, 200 (US\$2,400). The summary statistics for the construct items are shown in table 1 below.

Table 1: Descriptive Statistics

Constructs	N	Mean	SE	Remark
I obtained the initial capital from a microfinance bank loan	60	3.45	0.20	Neutral
I secured the land for my business from a microfinance bank loan	60	2.83	0.19	Neutral
I procure the raw materials used in my business from a microfinance bank loan	60	3.98	0.16	Agree
I procure the machinery used in my business from a microfinance bank loan	60	3.48	0.19	Neutral
I pay the wages and salaries of workers in my business from a microfinance bank loan	60	3.38	0.20	Neutral
I finance the expenses incurred in distribution of my products/services from a microfinance bank loan	60	3.72	0.17	Agree
I finance the expenses incurred in advertisement of my products/services from a microfinance bank loan	60	3.73	0.18	Agree
I finance the sundry expenses of my business from a microfinance bank loan	60	4.03	0.15	Agree
I obtained technical advices from a microfinance bank	60	3.85	0.18	Agree
I got encouragements for my business from a microfinance bank	60	4.40	0.14	Agree
My business was positively affected by the services of a microfinance banks	60	4.27	0.14	Agree

From table 1 above, the microenterprises operators were neutral on whether they obtained their initial capital from a microfinance bank loan. They were also neutral on whether they secured the land for their business from a microfinance bank loan. On the hand, the microenterprises operators agreed that they procure the raw materials used in their business from a microfinance bank loan. However, they were neutral on whether they procure the machinery used in their business from a microfinance bank loan. They were also neutral on whether they pay the wages and salaries of workers in their business from a microfinance bank loan. Moreover, they agreed that they finance the expenses incurred on distribution of their products/services from a microfinance bank loan. They also agreed that they finance the expenses incurred on advertisement of their products/services from a microfinance bank loan. They also agreed that they finance the sundry expenses of their business from a microfinance bank loan. They also agreed that they obtained technical advices and got encouragements for their business from a microfinance bank. Lastly, they also agreed that their business was positively affected by the services of a microfinance banks.

Table 2: Chi-square and Log-likelihood Ratio Statistics

Statistics	Value	N	df	Asymp. Sig.
Pearson Chi-Square	71.900 ^a	60	12	0.000
Likelihood Ratio	66.519	60	12	0.000

a. 15 cells (75.0%) have expected count less than 5. The minimum expected count is .30.

The log-likelihood ratio statistics on table 2 above is used to test the null hypothesis that microenterprises have no access to financial services of microfinance banks in Kaduna State of Nigeria. Using the 5% level of significance, the null hypothesis should be rejected if $p < 0.05$. Hence, since $p = 0.00 < 0.05$, the null hypothesis was rejected and we conclude that microenterprises have access to financial services of microfinance banks in Kaduna State of Nigeria.

Table 3: Kendall's Coefficient of Concordance

Statistics	Value	N	df	Asymp. Sig.
Kendall's W ^a	0.161	60	10	0.000

a. Kendall's Coefficient of Concordance

The Kendall's coefficient of concordance in table 3 above is used to test the null hypothesis that microfinance banks do not play significant role in financing microenterprises in Kaduna State of Nigeria. Using the 5% level of significance, the null hypothesis should be rejected if $p < 0.05$. Hence, since $p = 0.00 < 0.05$, the null hypothesis was rejected and that indicates that microfinance banks play significant role in financing microenterprises in Kaduna State of Nigeria.

Conclusion and Recommendation

Microfinance banks provide financial services to microenterprises. The services are supposed to affect all operational areas of microenterprises. From the findings of the study it is concluded that the Microfinance banks in Kaduna State provide services in most of the operational areas of microenterprises and to that extent the banks are playing significant role in financing microenterprises in the State. To further enhance the role Microfinance banks play in financing microenterprises, it is recommended that the banks themselves should source for more funds by means share subscription and appeal for more financial and operational support from government and its agencies.

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Appendix

QUESTIONNAIRE ON THE ROLE OF MICROFINANCE BANKS IN FINANCING OF MICROENTERPRISES IN KADUNA STATE

This questionnaire is aimed at obtaining information on the role of microfinance banks in financing of microenterprises in Kaduna State. The results will be used to improve the operations of microfinance banks in the State. In view of this, you are assured that your kind and sincere responses would be treated with utmost confidentiality. You are hereby requested to kindly and sincerely respond to the questions by appropriately ticking (✓) the spaces provided. Thanks for your anticipated cooperation.

Section A: General Information

1. Type of business:

- a. Manufacturing
- b. Distribution
- c. Services
- d. Others

2. Gender of respondent:

- a. Male
- b. Female

3. Year of commencement of business: _____

4. Amount of start-up capital: _____

Section B: Information on Microfinance Banks

Use the following keys in the following sections.

Response levels	Keys	Ranks
Strongly Agree	SA	5
Agree	A	4
Undecided	U	3
Disagree	D	2
Strongly Disagree	SD	1

You can respond by ticking or marking the correct responses

S/N	Questions Items	5	4	3	2	1
		SA	A	U	D	SD
5.	I obtained the initial capital from a microfinance bank loan					
6.	I secured the land for my business from a microfinance bank loan					
7.	I procure the raw materials used in my business from a microfinance bank loan					
8.	I procure the machinery used in my business from a microfinance bank loan					
9.	I pay the wages and salaries of workers in my business from a microfinance bank loan					
10.	I finance the expenses incurred in distribution of my products/services from a microfinance bank loan					
11.	I finance the expenses incurred in advertisement of my products/services from a microfinance bank loan					
12.	I finance the sundry expenses of my business from a microfinance bank loan					
13.	I obtained technical advices from a microfinance bank					
14.	I got encouragements for my business from a microfinance bank					
15.	My business was positively affected by the services of a microfinance banks.					

Thanks for the response