

THE ROLE OF MICRO FINANCE BANK ON THE SOCIO-ECONOMIC EMPOWERMENT OF BENEFICIARIES IN EGOR LOCAL GOVERNMENT AREA OF EDO STATE

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Abstract

The practices of microfinance services for the poor have grown immensely since its beginning in the 1970s. It has become one of the most popular poverty reducing strategies in the world. The study aimed at exploring the contribution of microfinance products such as microcredit, micro insurance and micro saving to the youth who make up to more than 60% of the country's population. The contribution involved the role of microfinance in enhancing entrepreneurship development, sighting problems surrounding the credit barriers, and creation of employment through innovative business activities. The research employed descriptive research design using simple random sampling which enables every member of the population to have an equal and independent chance of being selected as respondents and also simplest, most convenient and bias free selection method. The data was collected with the use of questionnaire and was analyzed using the quantitative techniques. The study results show that microfinance banks have played a key role in economic empowerment of beneficiaries in Egor Local Government area of Edo State. Loan repayment default was largely a result of non-supervision of borrowers by the Micro Finance Institutions, as well as inadequate training of borrowers on utilization of loan funds before them receiving funds. The study recommended that the government, investors and other interested stakeholders should be involved in key decisions affecting micro financing. This would help bring new ideas which Micro Finance Institution can be able to tap and implement to boost the institutions.

Keywords: Microfinance, socio-economic, beneficiaries, micro saving, development.

Introduction

Microfinance refers to the provision of fiscal services to the small income-households which is either micro or small enterprises that serve as a vast potential to support economic activities of the poor which will invariably contribute to poverty alleviation (George, 2005). Microfinance can also be seen as the practice of providing financial services such as micro credit, micro saving or micro insurance to poor or disadvantaged individuals in the society; this will help them to gather useful sums of money, thus expanding their choice and reducing the risk they face.

According to Rieneke (2010) opined that the term microfinance has long existed; the act of savings and credit groups have being in existence for centuries in different part of the country, some of the microfinance savings accustomed to the people include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs found all over the world.

The World Bank (2005) categorized microfinance institutions as those institutions which "consists of agents and organizations engaged in relatively small financial transactions using specialized, character-based approaches to serve low income households, micro enterprises, small farmers and others who lack access to the formal financial system". Strategies are ongoing towards the promotion of entrepreneurship for propelling economic growth and development of a nation; also, for an economy to live up to expectation in terms of socio-economic empowerment of her nation's development which is also a prerequisite for improving the quality of life.

Microfinance has gained growing credit as an effective tool in improving the quality of life and living standards of very poor people. This recognition has given rise to a movement that now has a global outreach and has penetrated in the remote rural areas, besides slums and towns. The global loan portfolio amounted to USD 78 billion in 2011. Portfolio growth slowed to 15% in 2011 against 25% in 2009, but there has been a nearly 25% annual growth in Africa and Latin America since 2009. The top 100 institutions still represent 80% of the total lending portfolio -USD 61 billion - and 75% of the borrowers served at a global level in 2011. Microenterprise business lending represents 60% of total lending, and 80% of active borrowers (Semiha, Forcim, Bardhyl and Rasim 2014).

Consequently, small scale enterprises are strategic to attainment of economic goals and objective of any government. Small and Medium Scale Enterprises (SMEs), are assets in the production chain of any economy, because of their impact on issues of job creation, provision of a wide variety of goods and services, income generation and efficient sources for micro-financing (SMEA, 2007). There is a general consensus among policymakers, development economists as well as international development partners that Small Scale Enterprises are potent driving force for industrial growth and indeed, overall economic growth and development in all economies most especially in the aspect of development.

Microfinance is an integral part of our collective effort to meet the Millennium Development Goals; sustainable access to microfinance helps to alleviate poverty by generating income (Srniec and Havrland, 2006). It is a veritable tool for attaining one of the eight millennium development goals of eradicating extreme poverty. Poverty has been a major development problem in Nigeria. Provision of microcredit to Small Scale Enterprise seems to be one of the effective solutions to removing poverty from the people. Microcredit can help entrepreneurs to establish their own businesses, assist in improving their income and decrease their susceptibility to poverty. The attainment of robust economic growth will not be possible without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The provision of microfinance services will greatly enhance the capacity of the poor segment of the population for entrepreneurship and enable them to engage in economic activities and be more self-reliant increase employment opportunities, enhance household income, and create wealth

The Central Bank of Nigeria in 2005, asserted that one of the most impressive developments in the world of social economic development in the last few years has been the successful explosion and impact of microfinance on society at large (Mejeha and Nwachukwu, 2008). Consequently, Microfinance institutions provide small-scale financial services to poor people who cannot access the formal banking sector and the standard financial systems.

Statement of the Problem

One of Nigeria's economic eccentricities is financial contradiction. There is a formal financial sector made up of the ministry of finance, the Central Bank of Nigeria (CBN), banks, some reputable financial institutions, Nigerian Stock Exchange (NSE), and many others. The formal sector exists an informal financial sector with people lending and borrowing directly from each other through methods like esusu, daily contributions and through cooperatives (Ikechukwu 2012). The presence of a large informal finance sector in Nigeria had been blamed on several factors, some of which are; population concentration in the remote areas of the country, some of which are unbanked, low literary level, loss of confidence in the banking system due to distress, elitist banking practices and absence of other financial institutions in some of these areas (Acha, 2008).

A major consequence of a large informal sector is difficulty in economic management. The experience of Nigeria in this regard is not different as the monetary authorities have had to watch impotently as their monetary policy measures fall short of desired objectives (Acha, 2009). Apart from the difficulties experienced in monetary management, the Nigerian governments over the years have had to grapple with poverty and unemployment. The realization that many of these poor and/or unemployed persons are not without skills, ideas and willingness to work, must have propelled the government to make finance accessible to them. This, the government has tried to achieve using different programmes. Another important factor identified to affect against the performance of microfinance banks in Nigeria as identified by (CBN, 2005; and Irobi, 2008). There is limited support for human an institutional capacity building. The paucity of human capacity in the microfinance sub-sector in Nigeria has been an issue from the days of community banking.

According to Ikeanyibe (2009) asserted that one of the major problems of the microfinance sub-sector is recruitment of effective and appropriate manpower. This he ascribed to be the inability of the sector to adequately remunerate staff. Other human resource problems faced by microfinance banks include lack of training opportunities and poor conditions of service. The quality of manpower in these banks is reflected in the poor performance of many of them, inefficiency and high levels of frauds and forgeries. The banks also suffer from high labour turnover a further indication of low staff motivation and poor personnel practices.

Against this backdrop, this study examine the roles of Micro Finance Bank in the Socio-Economic Empowerment of Beneficiaries in Egor Local Government Area of Edo State, Examine the causes of failure among Microfinance Banks in Nigeria and to examine the impact of Micro finance Bank on small scale enterprises among beneficiaries in Egor Local Government Area of Edo State.

Causes of Failure among Microfinance Banks in Nigeria

Micro Small Medium Enterprises has been identified as a tool for economic development and provision of employment, but lack economy of scale due to their limited size (Basil 2005). Poor absorptive capacity and limited funds have also been identified as factors that hamper the development of Micro Small Medium Enterprises in Nigeria (Taiwo, Ayodeji and Yusuf, 2012). Nevertheless, Micro Small Medium Enterprises can be perceived as a tool for economic development, even though variety of challenges seems to have a negative impact that constraint MSMEs from playing the vital role of stimulating economic development, but they provide employment opportunities in developing nation like Nigeria, if utilize might reduce some hardship and may reduce the poverty level of citizens.

According to Muhammad (2010), opined that the numerous challenges and opportunities faced by microfinance sector like improper regulations, increasing competition, innovative and diversified products, profitability, stability, limited management capacity of micro finance institutions (MFIs) and so on. Irobi (2008) asserted that the major challenges of microfinance institutions in Nigeria are communication gaps and Inadequate awareness; insufficient support from governments; inadequate donor funding; less attention on financial sustainability of Micro Finance Institutions; lack of adequate loan or equity capital to increase loan-able funds; high turnover of Micro Finance Institutions; limited support for human and institutional capacity building; illegal government and Non-Governmental Organizations operations that spoil the market; and lack of standardize reporting and performance monitoring system for Micro Finance Institutions .

According to Jenyo and Adebayo (2014) succinctly explained some of the major causes of failure of microfinance banks in Nigeria poor management of asset, liquidity problem, poor internal control measures, under capitalization and lack of adequate training of staff.

Impact of Microfinance Bank on Small Scale Enterprises in Nigeria

Poverty and unemployment cannot be won without putting in place a well-focused microfinance policy to strengthen the existing microfinance institutions in poverty reduction, unemployment reduction and wealth creation through empowering the people to engage in Small Scale Industries, by increasing their access to factors of production, especially credit. The potential of the poor for entrepreneurship would be significantly enhanced through the

provision of microfinance services which would enable them engage in economic activities, and be more self-reliant, thus increasing employment opportunities, enhancing household income and creating wealth (CBN, 2004).

The experience of many countries indicate that entrepreneurship which manifest in the form of Small and Medium Scale Enterprises (SMEs) can meaningfully contribute to the attainment of country's economic development objectives. The impact of microfinance bank include output expansion, employment generation, location of industries among regions of a country, income redistribution, promotion of indigenous entrepreneurship and technology, as well as production of intermediate goods to strengthen, inter and intra industrial linkages. These among others, explain the increased interest, which many countries have shown in the promotion of entrepreneurship (Abu and Ezike, 2012).

Brune (2009) examines the impact of micro-finance institutions on development. Micro Finance Institutions operating in selected African and Asian countries and choosing average savings and loan balances per client as proxies for development; the study shows that there is empirical evidence for significant positive impact of micro-finance institutions on development. Oni and Daniya (2012) sees the role of government and other financial institutions particularly micro finance institutions in the development of small and medium scale enterprises in Nigeria.

Theoretical Framework

Financial growth theory was used as the theoretical framework for this study. The theory was developed by Berger and Udell (1998). The theory asserted that, as a business matures over the years, its financial obligations and financing options metamorphose having more information available to the public. The theory opined that, firms that are smaller, younger and possess more ambiguous information must depend on initial internal funding, trade credit. As the firm grows, it qualifies for acquiring both venture capital and mid-term as sources of both intermediate equity and intermediate debt respectively. Furthermore, as the firm matures and grow bigger and lack proper information to run effectively. This thus qualifies the firm to have access to both public equity and long term loans as sources of both long term equity and long term debt respectively.

Application of the Financial Growth Theory to the Study

The capital structure of Small Medium Enterprises is thus very different from that of bigger firms because Small Medium Enterprises rely more on informal financial market which limits the type of financing they are able to secure. The Small Medium Enterprises initial use of internal financing leads to a peculiar state of affairs whereby capital structure decisions are heavily dependent on the limited financing options. Therefore, Small Medium Enterprises possess varying capital structures and are financed by various sources at different stages of their development (Berger and Udell, 1998). Thus, most beneficiaries through micro financing need financial strength for this institutions in order to attain financial growth to sustain them.

Methodology

The study adopted the one-time survey method, as it would ensure the designing of suitable pattern for enhancing the possibility of having an on the spot assessment of beneficiaries in

Egor Local Government area of Edo-State. The study has a descriptive survey research design that involves collecting and analyzing data necessary to help solve basic issues. The target population of this study comprised of beneficiaries who are resident in Egor Local Government Area in Edo-State. A total of 200 respondents was randomly selected from 10 microfinance organization, respondents was purposively and randomly selected among Beneficiaries in selected Microfinance Bank in Egor Local Government Area in Edo-State. The study adopted the simple random sampling in selecting 200 beneficiaries of micro finance banks in Egor Local Government; this necessary because it gives every beneficiaries of micro finance micro an equal chance of being selected.

The quantitative data was used as a method of data collection for this study. The quantitative data was the structured questionnaire; close-ended format was used for the purpose of data collection, both the primary and secondary data was also used for the study. The questionnaires were administered to the respondents in ten different micro finance bank which was randomly selected for the study. The descriptive statistics such as tables, percentages, pie chart and bar chart were used for the analysis.

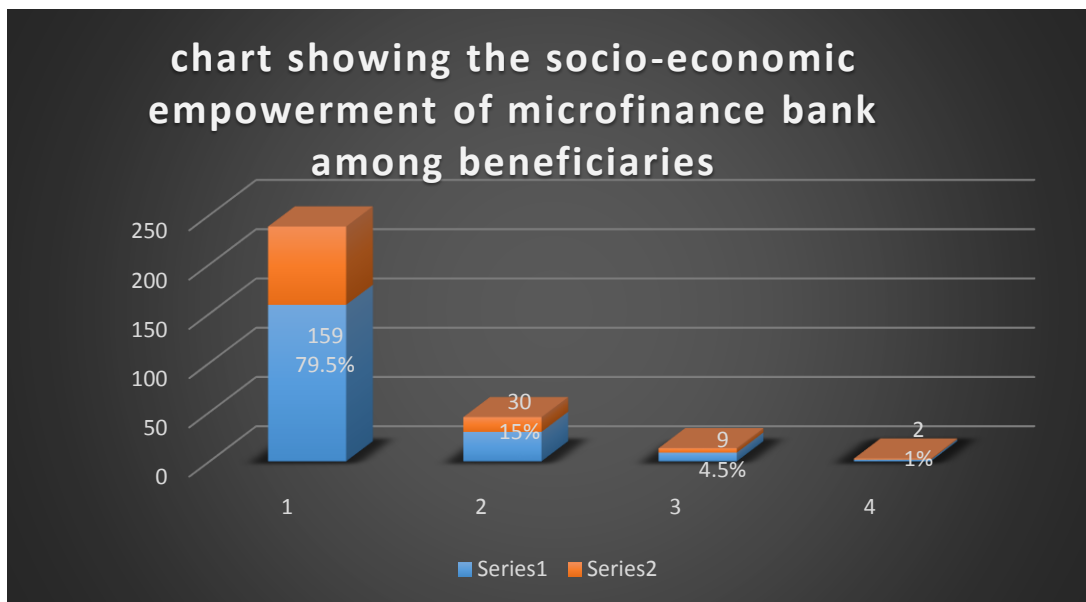
Table 4.2.1: Microfinance and the Socio-economic Empowerment among Beneficiaries

Question	Responses	Frequency	Percentage (%)
Microfinance Bank has assisted young Entrepreneurs in Sourcing for finance to boost their business	SA	159	79.5
	A	30	15.0
	UD	9	4.5
	D	2	1.0
	SD	0	0
	Total	200	100.0
Encourage them to save for their families And help them economically	SA	70	35.0
	A	78	39.0
	UD	36	18.0
	D	16	8.0
	SD	0	0
	Total	200.0	100.0
Microfinance bank has helped beneficiaries to Be prudent in spending	SA	42	21.0
	A	82	41.0
	UD	51	25.5
	D	24	12.0
	SD	1	0.5
	Total	100	100.0

Source: Fieldwork, 2019

The result in table 4.2.3 showed how microfinance bank has help in the socio-economic empowerment of beneficiaries in Egor Local Government Area of Edo-state. It was observed that respondents were asked if microfinance has assisted young entrepreneurs in sourcing for

finance to boost their business. Finding from table 4.2.1 above indicated that a vast majority of the respondents with 79.5% strongly agrees that that microfinance has assisted young entrepreneurs in sourcing for finance to boost their business, while 15.0% agrees, 4.5% undecided and 2.0% disagree. This therefore shows that microfinance bank has supported the growth of young entrepreneurs in Nigeria to enhance their financial strength.



The result also revealed respondent opinion on whether microfinance has encourage to save for their families as well as help them economically. 35% of respondents affirmed that microfinance has encourage to save for their families as well as help them economically, while 18% respondents opinion were undecided and 8% of respondent disagrees. It can be deduced from the finding that microfinance banks have helped in ensuring that families save appropriately and help them economically.

Table 4.2.3: Causes of Failure among Microfinance Bank in Nigeria

Question	Responses	Frequency	Percentage (%)
Microfinance Bank lack competent staffs in her Banking operation	SA	36	18.0
	A	62	31.0
	UD	57	28.5
	D	39	19.5
	SD	6	3.0
	Total	200	100.0
The interest rate is not favourable to her customers and is part of the reasons why it strive to exist	SA	92	46
	A	17	8.5
	UD	27	13.5
	D	43	21.5
	SD	21	10.5

	Total	200.0	100.0
Beneficiaries are not willing to pay back their loans, due to high interest rate and is part of the reasons for the fall of some of this microfinance bank	SA	47	23.5
	A	20	10.0
	UD	55	27.5
	D	54	27.0
	SD	24	12.0
	Total	200	100.0

Source: Fieldwork, 2019

The study above, shows the likely causes of failure among some microfinance banks in Nigeria, 36 respondents representing 18% affirmed that lack of competent staffs in the banking operation is one of the cause, while 62 respondents representing 31% agree to the opinion, 28.5% shows indecisive opinion, 19.5% disagree with the assertion and 3% strongly disagree with the view. This therefore, shows that irrespective of the fact that microfinance bank contributed immensely in standing of living of beneficiaries, there still exist some flaws which of course is incompetency of some of the staffs in its operations.

Conclusion and Recommendations

The results revealed substantial evidence of the importance of microfinance in socio-economic environments and the roles it has played in reducing poverty, provides diversified, dependable and timely financial services to poor people and it creates employment opportunities. Therefore, the study found that the microfinance institution has a positive impact in ensuring beneficiaries save for the future. On the other hand, the study stated the major challenges faced by beneficiaries; ranges from increased interest rate, incompetent staffs as well as the bureaucratic nature of the organization. Need to check the excess of microfinance bank in Nigeria, regulate and check the corrupt practices of some of these microfinance banks in Nigeria.

The study has attempted to discuss the role of micro finance banks in the economic development of Nigeria. Empirical evidence has affirmed that microfinance banks are at the heart of the poverty alleviation programmes and national economic development. Microfinance has filled certain gaps which the conventional banks have neglected, provision of financial services to the active poor and under privileged, undertaking financial literacy at the grassroots level and provision of business training skills. Microfinance banks have, thus far, helped in reducing poverty and financial exclusion and could achieve greater strides if more efforts are made by all and at all levels. There is also the need for closer collaboration by all stakeholders to ensure human and institutional transformation, provision of incentives, training skills and a conducive operating environment for the microfinance banks. Microfinance banks have, thus far, helped in reducing poverty and financial exclusion and could achieve greater strides if more efforts are made by all and at all levels. There is also the need for closer collaboration by all stakeholders to ensure human and institutional transformation, provision of incentives and a conducive operating environment for the microfinance banks.

Though, microfinance has achieved significant improvement in the life of beneficiary in the community, however, certain challenges that exist in some of these microfinance institutions

need to be tackled. The repayment period should be moderate and strict measures should not be applied but good techniques should be applied to ensure that customers pay as and when due. Also, the interest rate charged by microfinance institutions should be moderate so that beneficiaries would not use the loan to service the interest and the principal.

Furthermore microfinance institutions should endeavor to give out loans to Small Scale Enterprises so that the purpose of their establishment will not be defeated without playing down on sagacious and subtle measures that will enhance prompt recovery of the loans. Also, for enhanced performance, the government should provide an enabling environment, as well as monitoring the microfinance bank institutions that were primarily established for credit delivery to small scale enterprises in Nigeria.

Finally, given the positive impact of micro finance on the beneficiaries in the study area, efforts should be made by the government to ensure efficient service delivery mechanism that would allow for effective use of economies of scale for group guaranteed loans. Moreover, more resources should be made available to the micro finance organization so that more people can benefit from the program.

Recommendations

Based on the above study, the following recommendations are made:

1. To increase accessibility for microfinance products and services the study recommends that the government, investors and other interested stakeholders should be involved in key decisions affecting micro financing. This would help bring in new ideas which Micro Finance Institution can be able to tap and implement.
2. Micro Finance Bank should have simplified designed system of operation that provides efficient and effective services delivery that are accessible and preferred by the youth across the country in enabling them improve their living standards.
3. Some incentives should be given to employee for good performance both by the borrowers and the microfinance staff particularly loan advancement and loan repayment.
4. Every local government area as a matter of policy should own at least a microfinance bank and make provision of micro credits to those in need to reduce/eradicate poverty. Microfinance banks will perform better if but the regulatory (CBN, NDIC), commercial banks and personnel of the banks together with their customers are all preferred to play their roles and function as expected. If the economic climate of the nation also improves, it will go a long way in the stability, growth and performance of microfinance banks.
5. Financial help could be advanced by central bank of Nigeria as matching loans or special liquidity support could be given to microfinance bank. Considering the importance of microfinance bank at the grassroots level which being sometimes could be the only financial institution in a whole local government, the federal government of Nigeria should continue to sustain, invigorate and financially empower the microfinance bank scheme with central bank of Nigeria as supervisory body. Prominent microfinance institutions bank should as a matter of deliberate policy Endeavour to employ qualified persons, and of related discipline to man microfinance bank. Financial matters are too delicate to be left in the hands of unqualified friends, relations. It is a different matter if such friends and relatives are actually qualified.

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