

EFFECTIVENESS OF MICROFINANCE BANKS IN THE DELIVERY OF CREDIT TO ENTREPRENEURS FOR POVERTY REDUCTION IN EKITI STATE

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ABSTRACT

The study investigated effectiveness of microfinance banks in the delivery of credit to entrepreneurs for poverty reduction in Ekiti State. The design adopted for the study is descriptive research of survey type. The population of the study consisted of 381 owners of registered small and medium business in Ekiti State. The whole population was used for the study therefore no sampling was done. A self-design questionnaire on 5-point scale was used to collect data for the study. The instrument was validated by two experts. The reliability of the instrument was established using Cronbach Alpha and yielded a reliability coefficient of 0.72. Data collected were analyzed using mean. Finding of study revealed that microfinance banks are effective in the use of their credit to improve the living standard of entrepreneurs. The study recommended among other things that the capital base of microfinance banks should be increased to enable them grant more credit to prospective entrepreneurs in order to increase the number of small and medium scale business.

Keywords: Microfinance banks, Credit, Entrepreneur and Poverty Reduction.

INTRODUCTION

One of the major challenges facing developing countries is high rate of unemployment. Nigeria as one of the developing nations in the world is facing high rate of unemployment among its working population. Millions of young graduates from various institutions of higher learning across the country are still roaming the streets without any tangible jobs. National Bureau of Statistics (NBS) (2019) put unemployment rate in Nigeria at 13% in January 2016, 14% in January 2017 and 23% in January 2018. This situation suggests that there is wastage on the part of human resources. It must be noted that unemployment lead to poverty because people who could not secure viable means of livelihood would find it difficult to have access to basic necessity of life. According to Oladeji (2014), poverty is a condition where people's basic needs for food, clothing and shelter are not met. Poverty is generally of two types. First, absolute poverty which is synonymous with destitution occurs when people cannot obtain adequate resources to support minimum level of physical health. Absolute poverty is common everywhere and can be eradicated as demonstrated by some countries. The other type of poverty is relative poverty which occurs when people do not enjoy a certain minimum level of living standard as determined by a government, which vary from one country to another and sometimes within the same country. Thus, relative poverty occurs everywhere especially in developing countries; it

tends to be increasing especially when appropriate actions are not taken and above all it may never be eradicated but can be alleviated through series of efforts. There is no doubt that Nigeria has been battling with unemployment problem over decades and there appear to be no end site to the problem. The unemployment situation has further increased the poverty level in the country where more than 60% of the population earns less than \$1 per day (NBS, 2019). Again Kharas et al. (2018) noted that Nigeria has bypassed India as the country with people living in extreme poverty in 2018.

Government at different times, in a bid to alleviate poverty had put in place measures such as; Better Life for Rural Dwellers, Directorate of Foods Roads and Rural Infrastructure (DIFFRI), Family Support Programme, National Directorate of Employment (NDE) and in recent time encouraging entrepreneurship among its people so as to make them self-reliant. Entrepreneurship is the dynamic process of creating incremental wealth. Gana, (2010) posited that entrepreneurship is the ability to create and build something from practically none visible situation or condition. Similarly, entrepreneurship is the process of creating something new with value by devoting the necessary time and efforts which result to monetary rewards and personal satisfaction. The essence of entrepreneurship is to enable individuals establish and manage their own businesses. The major challenge of this development is how to obtain fund for the establishment of these small and medium businesses in the country. Microfinance is one of the viable means of making fund available to prospective entrepreneurs for the establishment of small and medium businesses with the aim creating jobs and reduces poverty.

According to Conroy (2003); micro financing is the provision of financial services to poor and low income households without access to formal financial institutions. Microfinance programmers provide loans, savings and other financial services to low-income and poor people for use in businesses (Mejeha & Nwachukwu, 2008). Central Bank of Nigeria (CBN) (2008) defined microfinance as a way of providing the economically active poor and low income households with financial services such as credit to help them engage in income generating activities to expand or grow their small businesses, savings, micro leasing, micro insurance and payment transfer. The idea of microfinance led to the introduction of microfinance banks in Nigeria. The emergence of microfinance banks in Nigeria was as a result of inability of the then Community banks to provide the needed fund to people for setting up of small businesses. The CBN met with all stakeholders in the banking sector with a view to reposition the then Community banks. It was agreed that all Community banks should be recapitalized and its nomenclature be changed to Microfinance banks with effect 2005 (CBN, 2004); Soludo, (2008) noted that in December 2007, the new government policy gave license to 107 microfinance banks and converted 600 out of 761 community banks to microfinance banks which made the total number of microfinance banks 707 in the country. Thus, CBN (2005) identified objectives of microfinance banks to include the following.

1. Provision of timely, diversified, affordable and dependable financial services to the economically active poor;
2. Creation of unemployment opportunities and increase the productivity and household income of the active poor in the country, thereby enhancing their living standard;
3. Promotion of synergy and mainstreaming of the informal Microfinance sub-sector into the formal financial system;
4. Enhancement of service delivery to micro, small and medium enterprises;
5. Mobilisation of savings for intermediation and rural transformation;
6. Provision of dependable avenues for the administration of the microcredit programmes of government and high net worth individuals on a non-recourse basis among others.
7. In order to achieve the objectives listed above, the target of the microfinance policy was geared towards the following activities.

8. To increase access to financial services of the economically active poor by 10 percent annually.
9. To increase the share of microcredit 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 microcredit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020;
10. To ensure the participation of all State and FCT as well as at least two-thirds of all the Local Government Areas in microfinance activities by 2015;
11. To eliminate gender disparity by ensuring that women's access to financial services increase by 15 percent annually, that is 5 percent above the stipulated minimum of 10 percent across the board (CBN, 2004).

From the foregoing, it can be seen that microfinance bank has being strengthen to provide funds for small and medium enterprises in Nigeria. In addition, globally small and medium enterprises are known to contribute to poverty reduction through their employment generating potentials. Although in Nigeria, the employment generation potentials of small businesses have been seriously constrained by lack of access to finance, either to start or expand their present scope of economic activities.

The belief is that the present microfinance has been improved to provide the financial services to economically poor people. Awojobi, (2014) stated that the evidence attached to microcredits in reducing poverty prompted the Nigerian government to introduce microfinance banks in 2005.

Meanwhile, the extent to which microfinance banks are effective in delivery credit to potential entrepreneurs Nigeria and Ekiti State in particular leaves much to reduce poverty was the focus of this study. Thus, there were contradictory findings as to contributions of microfinance banks to employment generations and poverty reduction.

Madume et al. (2016) conducted a study on assessment of the impact of microfinance bank on the development of entrepreneurs in Rivers State. Researchers discovered that a positive relationship existed between microfinance credit facilities, income and profit of the entrepreneurs. This suggests that microfinance bank is capable of reducing poverty among people in Rivers State. Similarly, Awojobi (2019) discovered that microcredit from microfinance bank is a strategy for poverty reduction in Nigeria. Also, in a study conducted by Akangbe et al. (2012) on effectiveness of microfinance banks in reducing the poverty among men and women at Akinyele Local Government, Oyo State, it was discovered that there was delay in disbursement of loan to people in the area coupled with high interest rates charged on loan facilities by the banks.

The outcome of the study suggests that microfinance banks have not been effective in meeting the need of economically active poor people in the area. Also, Yahaya et al. (2011) carried out a study on effectiveness of microfinance banks in alleviating poverty in Kwara state.

The findings of the study revealed that microfinance banks has significant role to play in the economy as it helps to reduce poverty by providing financial services to the economically active poor. Similarly, respondents were of the view that microfinance banks had been effective in the delivery of credits to small and medium entrepreneurs.

Again, Chowdhury (2009); submitted that microfinance banks are effective in the delivery of credit to entrepreneurs because the interest rates charged by microfinance banks are lower than the rates charged by informal creditors. Olusanya & Oyebo (2012) conducted a study on impact of microfinance on standard of living of hairdressers in Oshodi in Lagos state. The findings of study revealed that due to the existence and help of microfinance banks, poverty was significantly reduced among hairdressers in Oshodi Lagos State.

In the same vein, Opue et al. (2011) carried out a study on the role of microfinance banks on social economic development of rural communities in south-east Nigeria. A long linear model

was used to investigate whether microfinance banks actually impacts on small scale business in the rural areas. Findings of the study showed that credit policy of the microfinance banks operations resulted in social economic growth of rural communities. Also, Alani & Sani (2014) conducted a study on effects of microfinance banks on the rural dwellers in Kogi State. The findings of the study revealed that the establishment of microfinance banks significantly impacted on the life of the rural dwellers in Kogi State.

One of the notable recommendations is that the CBN should reduce their prime rate charged in order to enable microfinance banks reducing their lending rates to the people. Muogbo & Tomola (2018) in their study discovered that microfinance bank impact significantly on the development of entrepreneurship. Although the researchers discovered that microfinance bank was not strong enough to effectively finance all forms of entrepreneurial business.

Ekiti state is part of south west and the World Bank Report (2014) noted that poverty rate in south west was 16 percent. Although, poverty rate in the south west zone differs from one state to another. National Bureau Statistics (2018) indicated that 96.53 percent of total population in Ekiti state is poor while 3.47 percent of the same population represents non-poor people. This statistics shows there is need for intervention.

Also, the number of microfinance banks in Ekiti state which can be used to reduced poverty had grew from 13 in 2009 to 17 in 2018. In addition, the number of microfinance banks in Ekiti state as at 2009 was 13 out of 386 that available in south west. This figure is the least among states in the zone and it represents less than 1 percent of total microfinance banks in the region.

According to Ekiti State Ministry of Commerce and Cooperatives (2017), the total number of registered small scale businesses in Ekiti state as at 2015 is 389 while the number of microfinance banks at the same period is 17.

This implies that the ratio of microfinance bank to small scale business is 1:25 therefore there is need to determine the effectiveness of these banks in the delivery of credit to potential entrepreneurs and the extent to which entrepreneurs are able to access credit in microfinance banks either to start new business, expand or sustain the existing ones. This would help to determine if there is going to be a poverty reduction among people living in Ekiti state.

Statement of the Problem

Government had expressed deep concern over the high rate of unemployment coupled with poverty in the country and suggested entrepreneurship as a possible solution. Fund which is one of the major perquisites for entrepreneurship activities in the country is difficult to access by some potential entrepreneurs due to stringent conditions attached to credit facilities by financial institutions in the country.

Thus, in a bid to overcome the challenge of fund faced by entrepreneurs, government took a step and repositioned the then community banks into microfinance banks. The main objective of microfinance banks is to make fund available for the setting up of small and medium scale businesses in order to create wealth and reduce poverty.

However, periodic evaluation has been carried out by relevant agencies regarding the extent to which microfinance banks are discharging its statutory duties. Opinions are however divided concerning the contributions of microfinance banks toward poverty reduction in the country.

This suggests that there is no consensus concerning the impact of microfinance banks on the economically active poor in the country. It is against this background that this study

investigated the effectiveness of microfinance banks in the delivery of credit to entrepreneurs for poverty reduction in Ekiti State.

Purpose of the Study

The main purpose of this study was to assess the effectiveness of microfinance banks in the delivery of credit to entrepreneurs for poverty reduction in Ekiti State. Specifically, the study was designed to assess the effectiveness of microfinance banks in using their credit to increase the number of small and medium scale businesses and improving the living standard of entrepreneurs in Ekiti State.

Research Questions

The following research questions were raised to guide study. In the opinion of entrepreneurs in Ekiti State

1. How effective are microfinance banks in the use of their credit to increase the number of small and medium scale businesses in Ekiti State?
2. How effective are microfinance banks in the use of their credit to improve the living standard of entrepreneurs?

METHODOLOGY

The descriptive research design was adopted for the study. This design allowed collection of data from respondents to describe the existing situation without manipulation of variables. The population of the study consisted of 381 owners (entrepreneurs) of registered small and medium businesses in Ekiti State.

The whole population was used for the study therefore no sampling was done because the population was not too large. A structured questionnaire on 5-point scale was used to collect data for the study. The instrument was validated by two experts. Suggestions and comments made the experts were taking into consideration before making the final draft of the instrument, which was used to collect data for the study.

The reliability of the instrument was established using Cronbach Alpha and yielded reliability co-efficient of 0.72. From 381 questionnaires distributed, only 356 copies were duly completed and returned, giving a return rate of 93 percent. Data collected were analyzed using mean. Any item with a mean score of 3.00 and above indicated that it was effective, while any item between 0 to 2.99 indicated that it was not effective.

RESULTS

Research question 1: In the opinion of entrepreneurs, how effective are microfinance banks in the use of their credit to increase the number of small land medium scale businesses in Ekiti State?

Perhaps the reason for the above could be because of directive from CBN. It was discovered that microfinance banks were ineffective in the remaining items such as: assisting entrepreneurs to get other factors of production (mean score 1.63); provision of technical assistance to support entrepreneurs in the course of their businesses (mean score 1.45); assisting

entrepreneurs in identifying businesses opportunities in Ekiti State (mean score 1.05); monitoring the activities of entrepreneurs in the course of their business (mean score 1.47) and ensuring the credit obtained from it was used for entrepreneurial purposes (mean score 1.58).

Table 1 MEAN RATINGS OF RESPONDENTS ON EFFECTIVENESS OF MICROFINANCE BANKS IN THE USE OF THEIR CREDIT TO INCREASE THE NUMBER OF SMALL AND MEDIUM SCALE BUSINESSES.			
S/ N	Items	Mean	Remark
1	Microfinance banks provide enough capital for entrepreneurs to set up various form of businesses.	3.82	Effective
2	Microfinance banks assist entrepreneurs in getting other factors of production apart from capital.	1.63	Ineffective
3	Microfinance banks usually provide technical assistance to support entrepreneurs in the course of their businesses.	1.45	Ineffective
4	Microfinance banks assist entrepreneurs in identifying businesses opportunities in Ekiti State.	1.05	Ineffective
5	Microfinance banks offer credit to entrepreneurs at affordable rates.	3.05	Effective
6	Microfinance banks monitor the activities of entrepreneurs in the course of their business.	1.47	Ineffective
7	Microfinance banks ensure the credit obtained from it was used entrepreneurial purposes.	1.58	Ineffective
	Weighted Mean	2.01	Ineffective

The results in Table 1 show that microfinance banks were rated effective at providing enough capital to entrepreneurs to start their business with a mean score of 3.82.

Also, microfinance banks were effective at granting loans to entrepreneurs at affordable rate with a mean score of 3.05.

The weighted mean of 2.01 confirmed that microfinance banks were not effective at ensuring the credit obtained from it was used to increase the number of small and medium scale business in Ekiti State.

The results show that microfinance banks only interested in making loans available to entrepreneurs at affordable rate. The bank is not concerned on how credit obtained from it is been utilized.

Research question 2: In the opinion of entrepreneurs, how effective are microfinance banks in the use of their credit to improve the living standard of entrepreneurs?

Table 2 MEAN RATINGS OF RESPONDENTS ON EFFECTIVENESS OF MICROFINANCE BANKS IN THE USE OF THEIR CREDIT TO IMPROVE THE LIVING SYANDARD OF ENTERPRENEURS			
S/N	Items	Mean	Remark
1	Entrepreneurs are making more profits from their business due to loans obtained from microfinance banks at low interest rate.	3.72	Effective
2	The income of entrepreneurs has increased as a result of their business activities.	3.51	Effective
3	Entrepreneurs have more purchasing power to meet their needs	3.45	Effective
4	More people are employed for business activities by entrepreneurs.	3.12	Effective
5	Entrepreneurial activities improve the quality of life of Entrepreneurs.	3.06	Effective
6	Microfinance banks contribute to wealth creation of people.	3.15	Effective
7	All entrepreneurial aspirations of entrepreneurs have been met through microfinance banks.	2.73	Ineffective
	Weighted Mean	3.25	Effective

The results in Table 2 show that out of seven items, respondents rated microfinance banks as effective in six they include; entrepreneurs are making more profits from their business due to loans obtained from microfinance banks at low interest rate (mean score 3.72); The income of entrepreneurs has increased as a result of their business activities (mean score 3.51); entrepreneurs have more purchasing power to meet their needs (3.45); more people are employed for business activities by entrepreneurs (3.12); entrepreneurial activities improve the quality of life of entrepreneurs (mean score 3.06); microfinance banks contribute to wealth creation of people (3.15) but ineffective in one, that is all entrepreneurial aspirations of entrepreneurs have been met through microfinance banks (2.73). The weighted mean of 3.25 showed that microfinance banks were effective in the use of their credit to improve the living standard of entrepreneurs in Ekiti State.

DISCUSSION

The finding of this study revealed that in the opinion of entrepreneurs, microfinance banks are not effective in the use of its credit to increase the number of small and medium scale businesses in Ekiti State. The reason for the above was attributed to the fact that microfinance banks only interested in providing capital for entrepreneurs to start their businesses, they are not effective at providing technical assistance to support entrepreneurs in the course of their business. Again, the respondents are of the opinion that microfinance banks were not effective neither at assisting entrepreneurs to identify business opportunities nor ensure the credit obtained from it was used for entrepreneurial purposes. Also, it was observed that the total number of microfinance banks in Ekiti State as at 2018 stood at 17. This number was grossly inadequate considering the population of the state that stood at 2.3 million and 85 percent of the population were categorized as poor within the same period according to NBS (2019). However, the outcome of this study contradicts Chowdhury (2009) who submitted that microfinance banks are effective in the delivery of credit to entrepreneurs to increase the number of small scale business.

Chowdhury stated further that low interest rate charged by microfinance banks attracted more potential entrepreneurs to obtain credit to establish their businesses. Similarly, the outcome of this finding contradicts Mougbo & Tomola (2018) who reported that microfinance bank impact significantly on the development of entrepreneurship in Anambra State. This means that microfinance banks had been contributing to the growth of entrepreneurial activities in Anambra State as against what obtained in Ekiti State. Meanwhile, the finding of this study agrees with Akangbe, et al. (2012) reported that microfinance banks have not been effective in meeting the need of economically poor people. This implies that certain category of people who need services of microfinance banks have not been benefited from services they rendered to increase the number of small scale business.

The finding of this study showed that in the opinion of entrepreneurs, microfinance banks are effective in the use of its credit to improve the living standard of entrepreneurs in Ekiti State. This was so because out of seven items generated for this area of responsibilities of microfinance banks, six were rated effective. Respondents were of the view that more profits were realized from their businesses due to credit obtained from microfinance banks. Also, respondents indicated that they have more purchasing power to meet their needs and that the quality of life they live had improved. Similarly, majority of the respondents indicated that microfinance banks contributed to wealth creation. The outcome of this study is in line with one of the cardinal objectives of establishing microfinance banks as indicated by CBN (2005) that microfinance banks should create employment opportunities and increase household income of the active poor in the country, thereby enhancing their living standard. Similarly, the finding of this study corroborates Yahaya, et al. (2011) who reported that microfinance banks had been effective in alleviating poverty among people in Kwara State. The respondents in this study were of the view that microfinance banks have increased the income of entrepreneurs as a result of their business activities. Again, the outcome of this study supports Olusanya & Oyebo (2012) who posited that the existence of microfinance banks had helped significantly to reduce poverty among hairdressers in Oshodi, Lagos State. Furthermore, the finding of the study agrees with Opue, et al. (2011) who stated that credit policy of the microfinance banks operations resulted to socio-economic growth of the rural communities. Similarly, Awojobi (2019); discovered that microcredit from microfinance bank is a strategy for poverty reduction in Nigeria. Again, as it was discovered that microfinance banks improved the living standard of people in Ekiti State. Similar result was obtained in a study conducted by Madume et al. (2016) on assessment of the impact of microfinance bank on the development of entrepreneurs in Rivers State. Researchers discovered that a positive relationship existed between microfinance credit facilities, income and profit of the entrepreneurs. This suggests that microfinance bank contributed to reduction of poverty among people in Rivers State. Thus, despite numerous contributions of microfinance banks to the living standard of entrepreneurs, it must be noted that respondents indicated that microfinance banks are not effective in meeting all entrepreneurial aspirations of entrepreneurs.

CONCLUSION

From the findings of the study, it can be concluded that microfinance banks have not been doing enough apart from provision of credit to entrepreneurs to increase the number of small and medium scale business in the state. Also, microfinance banks had not been providing technical supports such as identifying potential business opportunities needed by entrepreneurs to operate successful business in the state. However, microfinance banks have been effective in the use of its credit to improve the living standard of entrepreneurs and the communities where they

operate. Besides, more jobs have been provided for people through activities of microfinance in the state. This has helped to reduce the rate of poverty among people in Ekiti State.

RECOMMENDATIONS

Based on the findings of this study, the following recommendations are made.

1. The capital base of microfinance banks should be increased to enable them grant more credit to prospective entrepreneurs in order to increase the number of small and medium scale businesses.
2. Microfinance banks should monitor all credit given to entrepreneurs in order to ensure it is used for entrepreneurial purposes.
3. Microfinance banks should organize seminars for all prospective entrepreneurs with a view to provide technical assistance before engaging in business activities. This would prevent entrepreneurs from embarking on unfruitful entrepreneurial ventures.

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