



THE ROLE OF MICROFINANCE BANKS IN ENHANCING SUSTAINABLE GRASSROOT DEVELOPMENT IN NIGERIA

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Abstract

Nigeria like many other developing countries has adopted two main strategies aimed at grassroots economic development. The first strategy is the integrated approach which entails development of projects where some basic infrastructural facilities are already in place. The second strategy is the bottom-up approach to development. This strategy places emphasis on integrated community development. The microfinance banks' objective includes the stimulation of growth in the productive activities and the promotion of rural development. This paper examines the role of microfinance banks in enhancing grassroots development in Nigeria. Fifty (50) microfinance banks in Kaduna and Niger States were sampled for data were analyzed using descriptive statistics. About 80% of the microfinance banks had existed as community banks before their conversion to microfinance banks in 2005. The remaining 20% come into existence from 2005. Result indicated that there is strong relationship between access to finance and grassroots economic development. The study recommends the repositioning of microfinance banks for enhanced credit delivery services to small producers in the grassroots areas.

Keywords: *Microfinance, Grassroot Development, Banking, Credit Facilities, Rural Transformation.*

Background to the Study

In both developed and developing countries, there are unserved or underserved enterprises and households, ranging from the ultra-poor, who may not be economically active, to small growing enterprises that provide employment in their communities. This portion constitutes the demand side for microfinance services. Often the supply side does not offer a corresponding continuum services. Microfinance Banks (MFBs) need to supply services that fill the gaps and integrate the unserved groups into the market.

The goal of MFBs as grassroots development organizations is to service the financial needs of unsaved or underserved markets as a means of meeting development objectives generally include one or more of the following:

- i. To reduce poverty
- ii. To empower women or other disadvantaged population groups
- iii. To create employment opportunities
- iv. To help existing businesses grow or diversify their activities
- v. To encourage the development of new businesses

In a World Bank study of lending for small and microenterprise projects, three objectives were most frequently cited (Webster, Riopelle, and Chidzero 1996)'

- i. To create employment and income opportunities through the creation and expansion of microenterprise
- ii. To increase the productivity and incomes of vulnerable groups, especially women and the poor
- iii. To reduce rural families' dependence on drought-prone crops through diversification of their income-generating activities.

Given the large number of conditional variables in each country context, every organizational decision to enter or serve a target market will involve balancing the conditions in the market. This decision-making process must keep in mind the two long-term goals of microfinance: *outreach*, serving those who have been consistently underserved by financial institutions (such as women, the poor, the indigenous and rural populations), and *sustainability*, generating enough revenue to cover the costs of providing financial services. Depending on which target market is selected, there are consequences to the MFBs financial position, because costs will be affected. In short, there are trade-offs involved in the decisions about objectives and how to reach them. The central calculus for an MFI concerns which objectives it can afford to set in order to facilitate grassroots development.

Nigerian economy is characterized by pronounced poverty, unemployment and inequality in distribution of income and social amenities particularly at the grassroots level (Idole, 1989). The need to address these issues led to the transformation of community banks to microfinance banks in 2005 (CBN, 2005). The growing awareness of the potentials of microfinance institutions has effectively put the issue of microfinance on the political agenda of Nigeria.

Conceptual Clarifications

Micro finance: the provision of financial services to low income group and rural dwellers including the self employed persons.

Financial Services: These include savings and credit facilities

Micro-Enterprise: A business that requires micro credit/loans to operate.

Microfinance Client: Central Bank of Nigeria (CBN, 2005) defines a client of MFB generally possess the following:

- (i) Have a monthly income per capital income of Nigeria or minimum wage, whichever is higher.
- (ii) Have a total productive assets of not more than N500,000.00 (Five Hundred Thousand Naira Only).
- (iii) Is not a regular employee of any organization.

- (iv) Age between 18 and 60 years.

Microfinance Bank (MFB): Any company licensed to carry on the business of providing microfinance services.

Grassroot Development: A strategy designed to improve the economic and social life of the people at the grassroots level.

Microfinance Loan: This is a facility granted to an individual or a group of borrowers whose principal source of income is derived from business activities involving the production or sale of goods and services.

The Emerging Theory of Microfinance

In recent years, the argument that microfinance activities are essential for grassroots development is gaining acceptance in developing countries. The United Nations Capital Development Fund (UNCDF) argued that 'microfinance is a major stimulus for grassroots development in developing countries and that it is a powerful instrument for alleviating poverty. Two assumptions were advanced by the UNCDF report:

- (i) Poor population possess the capacity to engage in income generating activities but they lack access to capital.
- (ii) That microfinance institutions can facilitate entrepreneurial activities by empowering the poor at the grassroots level.

Microfinance can assist the poor businessmen and women by offering them opportunities for new profits through innovation. Schumpeter (1938) argued that the role of entrepreneurship and seeking out of opportunities for novel values generating activities would expand and transform the circular flow of income. Schumpeter (1928), 1939) emphasized that innovation is a perpetual gale of creative destruction that were required as driving forces for growth rate. Microfinance Banks (MFBs) as well as businessmen and women can use innovation to contribute to sustainable grassroots development

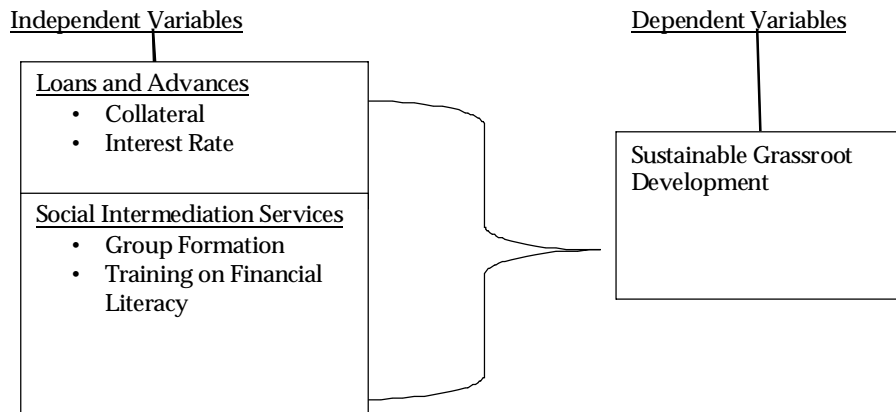
Study Objectives

The objectives of the study are:

- (i) To establish the influence of MFBs on grassroots development in Nigeria.
- (ii) To suggest ways of enhanced and sustained grassroots development through activities of MFBs.

Research Questions

1. Do the activities of MFBs have any influence on sustainable grassroots development in Nigeria?
2. Do government policies have effects on the performance of MFBs in Nigeria?



The Role of Microfinance Banks (MFBs)

Microfinance is growing for several reasons:

1. The promise of reaching the poor: Microfinance activities can support income generation for enterprises operated by low-income households.
2. The promise of financial relationship: Microfinance activities can help to build financially self-sufficient, subsidy-free, often locally managed institutions.
3. The potential to build on traditional systems: Microfinance activities sometimes mimic traditional systems (such as rotating savings and credit associations). They provide the same services in similar ways, but with greater flexibility, at a more affordable price to microenterprises and on a more sustainable basis. This can make microfinance services very attractive to a large number of low-income clients.
4. The contribution of microfinance to strengthening and expanding existing formal financial systems: Microfinance activities can strengthen existing formal financial institutions, such as savings and loan cooperatives, credit union networks, commercial banks, and even state-run financial institutions, by expanding their markets for both savings and credit and, potentially, their profitability.
5. The growing number of success stories: There is an increasing number of well-documented, innovative success stories in settings as diverse as rural Bangladesh, urban Bolivia, and rural Mali. This is in stark contrast to the records of state-run specialized financial institution, which have received large amounts of funding over the past few decades but have failed in terms of both financial sustainability and outreach to the poor.
6. The availability of better financial products as a result of experimentation and innovation: The innovations that have shown the most promise are solving the problem of lack of collateral by using group-based and character-based approaches; solving problems; solving problems of repayment discipline through high frequency of repayment collection, the use of social and peer pressure, and the promise of higher repeat loans; solving problems of transaction costs by moving some of these costs down to the

Group level and by increasing outreach; designing staff incentives to achieve greater outreach and high loan repayment; and providing savings services that meet the needs of small savers. financial institution, which have received large amounts of funding over the past few decades but have failed in terms of both financial sustainability and outreach to the poor.

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Study Methodology

This study examined the role of microfinance banks in enhancing sustainable grassroots development in Nigeria. Fifty (50) microfinance banks in Kaduna and Niger States were sampled for data collection. Questionnaires were designed and used as instrument of data collection. This was in addition to interviews and direct observation tools. The data were analyzed using descriptive statistics.

Data Presentation and Analysis

Table 1 to 6 show results of primary data collected through the questionnaires that were administered. A total of 118 questionnaires were administered but 104 were successfully returned this represents 88.13%. The responses recorded are presented in Table 1 to 6 below:

Table 1: Respondents' view on Easy Access to Loans and Advances

Respondents	Frequency	Percentage (%)
Yes	98	94
No	06	06
Total	104	100%

Table 1 above indicate that majority of the microfinance bank client have easy access to loaning services offered by the MFBs. 94% of the respondents attest to the fact that they have accessed loans and/or advances from the microfinance banks.

Table 2: Respondents' on Collateral Requirements

Respondents	Frequency	Percentage (%)
Yes	91	87
No	13	13
Total	104	100%

Results in Table 2 is a clear indication that most of the MFBs clients enjoy credit facilities without stringent collateral requirements. A total of 87% respondents attest to this fact.

Table 3: Respondents' view on the Interest Rates charged on Loans and Advances

Respondents	Frequency	Percentage (%)
Yes	64	61
No	40	39
Total	104	100%

Table 3 indicate that 61% of the respondents are of the view that the interest rate charged on loans and advances are high while 39% consider the interest rate as adequate.

Table 4: Respondents' view on MFBs Provision of Social Services

Respondents	Frequency	Percentage (%)
Yes	34	33
No	70	67
Total	104	100%

Result in Table 4 indicate that 67% of the respondents are of the view that the level of social intermediation services provided by the MFBs remain poor. Only 33% considers the social services as adequate

Table 5: Respondents' view on Role of MFBs on Group Formation

Respondents	Frequency	Percentage (%)
Yes	28	27
No	76	73
Total	104	100%

Table 5 above clearly depicts the low level of involvement of MFBs in group formations by their clients. Only 27% of the respondents agreed that MFBs are actively involved in group formations. 77% of the respondents disagreed.

Table 6: Respondents' view on the Role of MFBs in the Training of Clients

Respondents	Frequency	Percentage (%)
Yes	34	33
No	70	67
Total	104	100%

Table 6 above shows that most of the respondents (67%) are of the view that the MFBs do not provide sufficient training on financial literacy to the clients. Only 33% expressed a contrary opinion.

Findings and Discussions

Microfinance has evolved as a grassroots economic development approach intended to benefit low income businessmen and women. In Nigeria, microfinance banks (MFBs) provide loan disbursement services for the delivery of credit programmed of government agencies, groups and individual for poverty alleviation on non-recourse basis. Through the rendering of such and other services, MFBs are expected to contribute to sustainable grassroots development.

Microfinance Banks are also expected to offer professional advice to the poor on investments in small business, as well as offer financial literacy training and managerial/technical advice to their clients. The result of this study indicate that credit facilities are actually granted to the MFBs client largely without stringent collateral requirements.

However, the social intermediation services such as provision of financial literacy training, assistance in group formation (Cooperatives, Community Development Associations etc) still largely remained unattended to.

As noted by Ledgewood (2000), microfinance is not simply banking, it is a development tool. In addition to banking services, microfinance institutions should be able to provide enterprise development services, such as skills training and marketing, and social services such as literacy training and even health care. The results of this study show that these services are seldom provided by MFBs in Nigeria. Sustainable grassroots development can be facilitated through enhanced service delivery by the MFBs.

Conclusion

Grassroot development is an approach aimed at raising the living standards of the rural poor. Microfinance banks can serve as engine of economic and social growth at the grassroots levels. These can be achieved through easy access to credit facilities as well provision of social intermediation services. Since grassroots development is a process involving efforts aimed at enhancing income generation and employment creation (Olayide, 1981), can and do play significant roles in achieving sustainable development.

From the results of this study, it is clear that the microfinance Banks' have performed satisfactorily in the area of loaning services. The same cannot be said of social intermediation services. This study concludes that microfinance banks require proper positioning to enable them contribute significantly to sustainable grassroots development in Nigeria.

Recommendations

The following recommendations will be useful in enhancing microfinance banks (MFBs) role in promotion of grassroots development.

1. Microfinance banks should be conveniently located in business areas close to businessmen and women.
2. Procedures for obtaining credit facilities should be made more easy. Stringent collateral requirements should be avoided.
3. Government should give matching grants to microfinance banks to enable them provide social intermediation services.
4. As part of efforts to ensure healthy and sound microfinance banking sector, there is the need to give greater attention to issues relating to regulation and supervision of MFBs.
5. Taking a queue from other countries like Malaysia and India, the new microfinance landscape requires MFB management in to re-examine the existing business models to see where their strengths lie, and to what opportunities these strength can be applied to enhance returns.
6. Specifically, there is need for microfinance banks to engage in the training of their rural poor client on financial literacy.

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