
IMPACT OF MICRO-FINANCE BANKS ON RURAL ECONOMIC EMPOWERMENT

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Abstract

The focus of this paper is on the impact of micro-finance Banks on Rural Economic Empowerment, in Delta State. The main objective of this paper is for the government to bring feasible developmental plan to rural communities. This is because majority of poor, in this country live in this sector. In addition, the level of paid employment in this sector is low, in sustaining good healthy conditions. Therefore, any traditional measures taken towards alleviating poverty, such as establishment of micro-finance banks, micro-credit scheme, housing scheme, skill acquisition centers, electricity, water borehole, sanitation, health centers, transport and rural agricultural development, will improve productivity, quality of lives and reduce rural-urban migration. It was recommended that micro-finance banks should enlightened rural drivellers on the need to save for investment. Micro-finance banks should grant loans to people with grass-root small and medium scale enterprise. Micro-finance banks should not engage in long-term lending. Micro-finance banks should partner with government in developing rural communities.

The population of Nigeria has been estimated to be one hundred and twenty million {120m} people, in reference to the population census, conducted by Nigeria Population Commission {NPC}, in the year 2006.

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About sixty percent {60%} of the population are mostly rural dwellers with no feasible development plan. They are therefore relegated to the background.

The need to enjoy and benefit from the essentials of life {shelter, housing and economic empowerment}, which their counterparts in the major cities are privileged to have made the Nigerian government embark on poverty alleviation measures. This is aimed at empowering rural dwellers.

The past and present government have one time or the other came up with programme geared towards empowering the people. Notable were Poverty Alleviation Programme {PAP} and Directorate of Foods, and Rural Infrastructure {DIFRRI}.

According to Okoro {2001:6}, with the programme {PAP}, the government intended to provide beneficiaries with a golden opportunity for economic empowerment, in the urban, sus-urban and rural communities.

Closely linked with rural development scheme are Nation Economic Empowerment and Development Strategy {NEEDS}. It is a broad development programme geared towards the betterment of Nigerian society.

The government's scheme that directly addressed the development programme at the grass-root is the community-based bank.

According to Onugu {2001:6}, the community banking system in Nigeria, is geared towards the mobilization of the grass-root to collectively participate in their growth initiatives through their saving mobilization, credit provisions, investment and development opportunities. This has the capacity to address poverty alleviation at the grass-root.

However, the giant stride made by the same scheme in South East Asia, in financing small scale business to address the issue of poverty in rural areas brought about the change of the name to micro-finance bank, in Nigeria. This is in compliance to a uniform system of micro-finance bank worldwide. The micro-finance policy, regulatory and supervisory framework for Nigeria, which was launched by former president, Chief Olusegun Obasanjo on 15th December, 2005

Stipulated a two-years period ending 31st December, 2007 for all existing community banks to convert to micro-finance Banks (MFBS).

The change of the name have not alter the basic functions of Micro-finance banks They are:

1. Providing Micro-finance services to poor persons with a view to alleviating poverty.
 2. To provide credit facilities.
 3. To accept deposits/mobilization of savings.
 4. To invest in shares, with the objective to provide financial services to poor persons.
 5. To enlighten rural dwellers on the need to invest.
 6. To render managerial, marketing, technical and administrative to customers
 7. The provision of essential amenities.
- To achieve a successful poverty alleviation programme, through the micro-

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Finance banks and in the face of moribund and decayed infrastructure, there is need for a holistic planning, implementation and other control approach. {Okoro: 2001:6}

In managing micro-finance banks, there is need to identify some problems which may militate against its operations. There are {Jemisenia, 2000:7}

1. Poor saving culture
2. Level of illiteracy
3. Loan repayment problem
4. Board wrangling, Board/community Development Association leader wrangling, Manager/Board of directors perceiving issues from divergent views.
5. Mismanagement and imbalance of accounts leading to fraud and under capitalization.
6. Lack of training and motivation of staff.
7. Lack of confidence in micro-finance banks.

Purpose/Objective of the Paper

The focus of this paper is the impact of micro-finance banks on rural empowerment. More, specifically, the purpose is to:-

1. Find out whether the establishment of micro-finance banks relates with the empowerment of rural communities.
2. Find out whether savings/deposit mobilization relates with investment in rural communities.

Research Question

The following research questions were addressed in the paper.

1. Is there any significant relationship between establishment of micro-finance banks and empowerment of rural communities?
2. Is there any significant relationship between savings / deposits mobilization and investment in rural.

Hypothesis {Null or Ho}

The following hypothesis will be tested.

Ho1: There is no significant relationship between establishment of micro-finance banks and empowerment of rural communities.

Ho2: There is no significant relationship between savings/deposits mobilization and investment in rural communities.

Significance of the Research

The study will be relevant, in the following ways:

1. This will further hasten the poverty alleviation programme of the government.
2. It will further generate interest in the Community Based Association {CBA}.
3. It will help in development of rural banking habits.
4. It will help in the development of small scale business at the grass-root.

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According to Onugu {P2001:6}, poverty alleviation in Nigeria, has taken a center stages and major focus at all government levels. It is the view of developmental experts and agencies that for effective and sustainable poverty alleviation that the poor must be brought into the development process, not passive recipients of services, but as active participants in the planning and implementation of activities that affect their lives.

Ownership Structure of Micro-finance Banks

Previous approach at providing for credit of our rural dwellers had been through direct government initiative, which was abused by government officials and politicians. The top down approach alienated the people who such services are meant for. The MFBS system, adopted bottom-up approach. By the guideline, the Communities Development Associations {CDAs}, the apex and umbrella association for all Communities Based Organization {CBOs} assume a pivotal role in the promotion and establishment process with thirty minimum share of banks equity going by the structure of the MFBS, they are the major stakeholders.

Equally, the guideline mandated that a minimum of fifty indigenes of the host community or long time residents in their capacity as individual, should have a stake in the ownership. Also various CBOs, age grades, farmer-group, women group, co-operations, religious organization, social clubs, are expected to be stake-holders. To avoid dominance and ensure CBOs, are allowed only a maximum of five percent of the banks' equity. This particular aspect of the establishment make for a larger and wider participation of the community. It projects the banks from the hijack syndrome by few rich individual as is the case in some other similar programme. Therefore, the involvement of the community in the ownership and implementation process, enhance their commitment to its success and accommodates the interest of the poor.

Every MFBS must have a minimum equity share capital of twenty five million naira {25,000,000} before it can authorized to operate. It must have memorandum of association and Articles of Association..

Micro-finance Banks, Micro-Credit/Lending Policy

The lending policy specifies the measures to be taken before loan is granted to individual or group of persons in rural areas are follows:

1. The amount to be granted
2. The interest rate
3. The period of the loan
4. The due date for repayment
5. The mode of payment, e.g. installmental payment
6. The board of Director, must approve the loan
7. The borrower must have the capacity to pay back.

However, one of the often mentioned draw backs in the implementation of rural credit schemes by commercial banks in Nigeria, has been the administrative cost associated with spreading micro credit to widely spread rural dwellers, who additionally

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have no tangible collaterals to back up their loans demand. Recent development in Africa has shown that Self Help Groups {SHGs} linkage banking, when efficiently operated, could provide answer to the problem.

Enforcement of Loan Repayment

The enforcement of loan repayment, through Self Help Groups e.g. farmer-groups, co-operative and members of the stake-holders can be veritable measures for recovery of loan. The stakeholders may include membership of Community Development Association {CDA} in board and headship of the credit committee, which sees to loan disbursement and recovery, with the credit and officers of the bank, could be exploited in solving one of the problematic areas in rural credit delivery that is loan repayment.

Community Development Organization and major stake-holders in the bank, the community Development Association, through community compulsion and directed group-pressure can sanction erring debtors to the bank and hence impact heavily on the credit discipline needed for prompt loan repayment.

Personal Financial Planning for Investment

The key to savings is for one, to live within ones means. One has to save and invest. Investment is the only way to create wealth. If one, don't have habit of saving, he/she will spend everything, he/she earns. One can join Esusu, a local saving scheme, {Ikoro; 2000:20}.

Savings

Savings is part of income, set aside for future purpose and not consumed. Therefore, savings reduces the demand for commodities. It specifically reduces consumption at the present time. What is not consumed is likely to be save. Savings is influenced and determined by level of incomes, income distribution for old age, provision for emergencies and unforeseen circumstances, custom, habit, price of commodities consumed and provision for one's children.

Investment

Investment is the expenditure on physical assets used for further production of goods and services. Simply put, it is the actual production of capital goods {e.g. factory building, railway, motorway, road, bridge, machine, etc} what is saved is likely to be invested. Therefore, investment is made from an income arising from savings. Determinant of investment are level of savings, rate of interest {Anamgba; 2002:157;158}.

From the above, the money saved can be harnessed for investment into productive ventures. Savings in banks is one of the first steps to investing. Esusu, a local saving scheme, is another step towards making investment. If one does not save, he/she will spend everything he/she earns.

However, is always good to save with financial institutions {formal and informal} where the money will be secured and probably attract some interest.

Improving Economic Empowerment Programme of Government

According to Dike {2007:8}, it is not enough to have in place micro-credit schemes, if the real grass-roots business people are not taking advantage of it. For support to be effective, the target group must actually be located and engaged.

This is an issue not yet sufficiently addressed something akin to a “mapping of the informal sector” needs to be done. The natures, location, growth opportunities and constraints of existing capacities at grass-root level, must be identified.

Micro-credit and other small and medium enterprises support schemes, must be designed using empirical data, so that government support actually scratches where it itches. It is no good setting aside ton of money, when this is not drawing any response from those areas where it could really make difference in terms of poverty alleviation.

Skill Acquisition Programmes

Basic Education can lay the foundation for human capital formation through the process of skill acquisition. Provision of adequate vocational training centers to equip youths at rural areas in particular, for self-empowerment and facilities maintenance of community level project. The activities of National Directorate of Empower {NDE}, need to be constantly appraised and effort should be made to link up more with the informal sector, where apprenticeship activities are carried out without proper basic structure of sustaining the apprentice when they finish learning the job.

Provision of Critical Infrastructure

Provision of basic amenities such as water sanitation and health services, will promote good health, which will invariably, increase peoples’ productivity. Other include good roads network and functional electricity. Moreover, government expenditure on the social sector needs to be more focused on social priority areas that affect the poor.

Support of International Agencies

International agencies like United Nations Development Programme; UNDP, United Nations Fund for Children Education; UNICEF etc. in conjunction with federal government effort are geared towards employment creation, provision of credits, skill acquisition, enhancing income earning opportunities of vulnerable of groups among others are very germane to economic empowerment. But they need to be properly focused on the poor {Ogwunike; 2001:16}

Method

The research provides information about the procedures for the research paper. This covers population of the study, sample and sampling method, data collection techniques and tools for data analysis.

Population of the Study

The population under is the subject matter. The subject matter is the impact of micro-finance banks on rural economic empowerment. The members of the population are customer of various micro-finance banks in Delta State.

Sampling and Sampling Method

The sampling procedures are “Random Sampling”. Every member for the population has equal chance of being selected. The accessible population for the research study will be used for the collection and validation of the data. Based on the above, the researcher intends to distribute 100 questionnaires to customer of various micro-finance banks in Delta State.

Data Collection Method

The method used in data collection is through primary source. Primary data will be collected with the aid of questionnaire.

Tools for Data Analysis

The data collection from the various sources will be analyzed, using the following method:

1. Table and percentage: The formula adopted is shown below:

$$\frac{\text{No. of Response in each category}}{\text{Total response}} \times 100$$

Note: This is not use for test of hypotheses.

2. The Chi-Square $\{X^2\}$: This will be used in testing the two hypothesis formulated. The Chi-Square $\{X^2\}$ is the difference between observed and expected frequency. It is used, where data are collected from various sources and no response is related to the other.

The formula is stated below {Baridam, 2001:165}.

$$\text{Chi-Square } \{X^2\} = \frac{\sum \{of-fe\}^2}{Fe}$$

X^2 = Chi-Square

\sum = Summation

F_o = Actual frequency or observed frequency

F_e = Expected frequency

F_e = $\frac{\text{Row total} \times \text{Column Total}}{\text{Grand Total}}$

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The test for level of significance is 0.05 with $\{R - 1\}\{C - 1\}$, degree of freedom =N

Decision

If the calculation chi-square $\{X^2\}$ is less than table value, the Null hypothesis is accepted. If the calculated chi-square $\{X^2\}$ is greater than the table values, the Null hypothesis is rejected.

Data Analysis and Results

In this section, the responses from respondents will be presented and analyzed. Also the hypotheses will be tested using Chi-square $\{X^2\}$ statistic, with 0.05 significance level and number of degree of freedom =N.

Questionnaires Distribution

A total of 100 questionnaires were distributed. One hundred were collected and used for analysis and hypothesis testing.

Analysis of Research Questions

Based on the responses gathered from the questions in the questionnaires, the research questions will be analyzed using tables and percentage. Respondents were asked, to rate socio-economic development in the community.

Table 4.2.1

Category of Response	No. of Response	% Response
Good	30	33.33
Pass	35	38.89
Poor	25	27.78
Total	90	100.00

Source: field data

Respondents were asked, if establishment of micro-finance banks have encourage any rural economic development.

Table 4.2.2

Category of Response	No. of Response	% Response
Yes	35	38.90
No	55	61.10
Total	90	100.00

Source: Field data

Respondents were asked, to tick the type of account they have.

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Table 4.2.3

Category of response	No. of Response	% Response
Savings	60	66.67
Current	30	33.33
Total	90	100.00

Source: Field data

Respondents were asked, to tick the purpose for maintaining the account.

Table 4.2.4

Category of Response	No. of Response	% Response
Investment	40	44.44
Consumption	30	33.33
No Idea	20	22.22
Total	100	99.99 or 100 approx.

Source: Field data.

Test of Hypothesis

Hypothesis One

HO¹: There is no significant relationship between microfinance banks and rural development

Extract from Table 4.2.1 and 4.2.2

Table 4.3.2 Data Validation for Hypothesis One

	Good		Pass		Poor		Total
	Fo	Fe	Of	Fe	Fo	FE	
Yes	17	(11.7)	8	(13.6)	10	(9.7)	35
NO	13	(18.3)	27	(21.4)	15	(15.3)	55
Total	30		25		25		90

Sources: Response to table 4.2.1 and 4.2.2

Table 4.3.3 Computation of Chi-square (X²) Values

Fo	Fe	Fo-Fe	(Fo-Fe) ²	(Fo-Fe) ² /Fe
17	11.7	5.3	28.09	2.401
8	13.6	-5.6	31.36	2.306
10	9.7	0.3	0.09	0.009
13	18.3	-5.3	28.9	1.535
27	21.4	5.6	31.36	1.465
15	15.3	-0.3	0.09	0.005
90	90	0	Cal X ² =	7.721

Decision

The test for the significance at 0.05 level and degree of freedom at (2-1)(3-1) = 2x1=2, gives chi-square table value to be 6.00. The chi-square calculated is 7.721. Since, the calculated chi-square (X²) is 7.721, which is greater than the table value, the Null is rejected, stating there is significant relationship between microfinance banks and rural development.

Hypothesis Two

H₀²: There is no significant relationship between savings and investment.
 Extracts from Table 4.2.1 and 4.2.2

Table 4.3.2 Data for Hypothesis One

	Above Average		Average		Below Average		Total
	Fo	Fe	Fo	Fe	Fo	Fe	
Savings	28	{26.7}	24	{20}	8	{13.3}	60
Current	12	{13.3}	6	{10}	12	{6.7}	30
Total	40		30		20		90

Table 4.3.5 Computation of Chi-square (X²) Values

Fo	Fe	Fo- Fe	{Fo-Fe} ² /Fe	{Fo-Fe} ² /Fe
28	26.7	1.3	1.69	0.063
24	20	4	16	0.800
8	13.3	-5.3	28	2.112
12	13.3	-1.3	1.69	0.127
6	10	-4	16	1.6
12	6.7	5.3	28.09	4.19
90	90	0	Cal X ² =	8.895

Decision

The test for the significance at 0.05 level and degree of freedom at {2-1}{3-1} = 2x1=2 gives chi-square table to be 6.00. The chi-square calculated is 8.895. Since, the calculated X², = 8.895 is greater than table value, 6.00, the Null is rejected, stating that there is significant relationship between saving and investment.

Discussion of Findings

This based on the analysis and literature review: The findings revealed that 30{33.33%} respondents indicated Good, 35{38.89%} respondents indicated pass and 25{27.78%} indicated poor. This is in the rate of socio-economic development in the community. Also the findings revealed that 35{38.90%} respondents indicated Yes {agreed} and 55{61.10%} indicated No{disagreed}, as to whether the establishment of micro-finance banks have encouraged any rural development. According to Dike {2007:8}, the real grass-roots business people are yet to take advantage of micro-credit schemes. For development to take place, this group must be targeted and engaged.

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The findings further revealed that 60{66.67% } respondents indicated savings and 30{33.33% } respondents indicated current. This is in response to the type of account they have with the bank. Also the findings revealed that 40{44.44% } respondents indicated investment, 30 {33.33% } respondents indicated consumption and 20{22.22% } respondents indicated No idea. This is in account. According to Anamgba {2002:157,158}, investment is made from an income arising from savings. Determinants of investment are level of savings rate of interest.

Conclusion

In summary, the test revealed that there is relationship between establishment of micro-finance banks and rural development. However, the level of infrastructural development is slow {Okoro; 2001:6}. Also, there is relationship between savings and investment. According to Ikoro {2001: 20} one has to save in order to invest and by so doing create wealth. Investment is made up of capital goods for production of goods and services e.g. Machines, Vehicles, Railways. Land, Factory and building.

Recommendations

1. The rural dweller should be enlightened on the need to save through micro-finance banks.
2. The government should provide critical infrastructure such electricity, good roads network etc.
3. The micro-finance banks should grant loans to people with grass-root small and medium, scale enterprise.
4. The micro-finance banks should increase their capital base to assure customers of the safety of their deposit.
5. Micro-finance banks should not engage in Long-term lending.
6. The Federal government should streamline rural development Programmes, to target the poor.
7. Micro-finance banks should partner with government in developing rural communities.

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