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EFFECT OF MICROFINANCE BANKS ON THE DEVELOPMENT OF YOUTH ENTREPRENEURS IN NIGERIA

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Abstract

This study examined the effects of Microfinance Bank lending services on the development of youth entrepreneurs in Kaduna State of Nigeria. Multi – Stage random sampling technique was used to select respondents from 20 microfinance banks with over 200 youth entrepreneurs as customers. The data was analyzed using both descriptive statistics as well as Foster Greer and Thorbeck(FGT) Model. The findings indicate that average loans to youth entrepreneurs amounted to ₦586,878.76, while loans and advances to pooled customers was ₦406,764.38. This signifies that youth entrepreneurs who are customers of microfinance banks had easier access to loans than their counterparts who are not microfinance bank customers. In addition, results of this study indicate that the annual income of 29.60% of all youth entrepreneurs fall short of ₦406,764.38 whereas only 18.25% of those that are customers of microfinance banks recorded an annual income of less than ₦586,878.76. The loan repayment default rate against the youth entrepreneurs was only about 5% percent. The study concludes that Microfinance Banks have significantly contributed to the development of youths entrepreneurs in Nigeria. It was therefore recommended that Government should come up with policies that will enhance effective credit delivery services to young entrepreneurs by the Microfinance Banks

Keywords: Microfinance, Entrepreneurship, Bank Lending, Youth.

Introduction

Microfinance is a form of financial services for small businesses and entrepreneurs lacking access to conventional banking and related services. It is that kind of financial service that is rendered to those at the lower strata of the society. Microfinance is a source of financial service for the youth entrepreneur lacking sufficient access to banking related services (Roodman, David and Usma, 2016). The history of Micro financing dates back to 1880s, where the theorists Lysander Spooner wrote on the benefits of small credits to entrepreneur as a way of getting people out of poverty (Okaro and Okaro, 2013). Over the past centuries, visionary leaders have established institutions deliberately designed to bring development to the doorsteps of the youth entrepreneurs.

In India, loans to the young entrepreneurs by banks have many limitations. These range from lack of collateral securities to high charges and interests. Therefore, Microfinance was developed as an alternative to grant loaning services to the young entrepreneurs with the main aim of creating financial inclusion (Odell, 2010). Microfinance in India is looked at as, financial services, in the form of savings account, insurance fund and credit provided to the youth entrepreneur and low income customers such that will help them raise their income levels, thereby improving their status symbol in the society.

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The Nigerian banking sector has experienced turbulence and failures at different developmental stages. Mordy (2015) reports that the first banking crisis in Nigeria took place in the late 1930s. However, Ogubunka (2010), observed that the introduction of Banking Ordinance in 1952 and the establishment of Central Bank of Nigeria (CBN) in 1959 appeared to have brought some sanity into the Nigerian Banking Sector. The first real effort at a banking policy for those in the lower income was in 1990 with the establishment of community banking scheme (Robinson, 2016).However, the systemic crisis that rocked the banking sector in the Mid 1990s and early 2000s led to the creation of Microfinance Banks (MFBs) in 2005.

This marked the commencement of the transformation of community banks into Microfinance banks. The CBN report sheet for 334 community banks whose operations were analyzed by December, 2002 revealed that the assets were N98 million, total deposit mobilized was N640 Million, loans and advances amounted to N150 million while gross earnings was N107 million (NDIC 2017).

In spite of the above, many of the community banks had become distressed by 2005 due to weak capital and large sums of non - performing loans. The Federal Government of Nigeria through the CBN issued a microfinance policy supervisory and regulatory framework allowing for the establishment of microfinance banks that will cater to the needs of the low income earners and youth entrepreneurs. Microfinance banks were therefore, expected to provide financial services to the youth entrepreneurs in Nigeria amongst other categories of customers. The extent to which the microfinance banks have impacted on the growth of youth entrepreneurs is the main objective of this study.

Research Objectives

The objective of the study is to investigate the effect of Microfinance Banks (MFBs) on the growth of Youth Entrepreneurs. Specifically, the study seeks to examine the extent to which lending services of microfinance banks have impacted on the growth of the Net assets of the average Youth entrepreneur.

Research Hypothesis

Ho_1 There is no significant relationship between lending services of microfinance banks and the net assets of average youth entrepreneur

Literature Review

Conceptual Review

Microfinance is movement that sees a world whereby low income people can have access to a variety of financial activities. These services include credits savings, deposits, insurance, remittances, and payment and so on. The underlying basis is that extension of such financial services will enable the youth entrepreneur to participate in productive economic activities and exploit entrepreneurial opportunities through business start-ups and expansion of on-going businesses (Morduch, 2015).

Proponents of those who promote microfinance are of the view that such access to financial services will help the young entrepreneurs to grow their businesses. Microfinance is a way of promoting economic development, employment creation and growth through the support of

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micro-entrepreneurs and small businesses. A wide variety of studies on microfinance from various discipline indicate that microfinance has great impact on poverty reduction and household wellbeing at various levels including asset acquisition, household nutrition, food security, children education, women's empowerment as well as social interactions (Morduch 2016 and Roodwan and Morduch, 2017).
However, existing literature on impact of microfinance suggest that microfinance work differently from one context to another.

Microfinance Lending Services
Lending is a highly risky venture. It is even against this background that banks protect themselves against losses arising from risks in lending by asking for securities. The bank as a creditor after granting loans is confronted with four possible situations regarding the prospects of loan repayment. These include: The borrower remains able and willing to pay, the borrower remains able but unwilling to pay, the borrower remains willing but becomes unable to pay and the borrower becomes both unwilling and unable to pay.

Security for advance consists of items deposited with the bank to support the amount being borrowed. It will also confirm the debtors willingness to repay the loan, this is because it is assumed that when a borrower deposits a valuable item in the form of a security, he will not want to lose the item, he will therefore ensure prudence in managing the loan so that he will not end up forfeiting the valuable item to the bank.
In accepting valuable items, the bank will have to consider the title, who is the true owner? This is because there is that legal principle of 'nemodat quod non habet' i.e. you cannot give what you don't have. In addition, the rights or title of-the borrower to the security must be assignable and the value of the security fairly stable. An accepted rule is that banks will prefer securities that appreciate in value over time.

More so, microfinance banks are expected to grant advances and loans to youth entrepreneurs without requesting for stringent collateral securities. In most cases group guarantees are sufficient securities (Morduch, 2015).

According to Waithaka, Gakure and Wanjau (2013) a credit analyst would be expected to take into consideration various factors that would assist him in deciding whether to lend or not. Generally, some of these factors will include the economic climate, political stability, contribution/capital and collateral and most important the character of the borrower.

Theoretical Framework

Leisure Class Theory

An important theory regarding the understanding of Youth Entrepreneurship businesses and the business nature of microfinance banks is the theory of the leisure class propounded by Thorstein Veblen. By business, Veblen meant the owners, leaders "captains" of industry who focused on the profits of their own companies but, to keep prices and profits high, often engaged in efforts to limit production. Thus, business leaders were the source of many problems within society, which Veblen felt, should be

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led by those who understood the industrial system and its operation and were interested in the general welfare.

The Social Capital Theory
Social capital is seen as the relationship subsisting among people such that it will lead to social and economic benefits. "Social capital is the abilities of people to work together towards resolving community/social issues to the benefits of development". Therefore, social capital can be seen as that lubricant that oils the wheel of economic development. The theory also laid emphasis on collective responsibility that ensures prompt repayment of loans and advances.

The social capital theory assumes that when members act as a group they become an unbeatable force which in turn give rise to economic and social development. Such developments are of immense benefits to both the individual members of the group as well as their community as a whole (World Bank, 2015). Social development has to do with the improvement in relationships and interactions between people while economic development concerns both physical progression as in Material acquisition, and improvement in financial conditions. The Application of social capital theory to the role of microfinance banks on growth of youth entrepreneurs is expected to result in social, financial and physical benefits altogether.

Empirical Review
Quite a good number of studies have been carried out on the effect of Microfinance Bank on the growth of businesses in different parts of the world. Mordy, (2015) focused on the impacts of Microfinance on the development of businesses at Macro and Micro levels covering financial markets. They found out that Microfinance has indeed contributed to the development of these businesses.

Albert and Henry (2013) investigate the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality, in Kenya. This study adopted a descriptive survey research design. The target population was stratified into homogeneous categories as wholesalers, retailers, restaurants and service delivery. A semi- structured questionnaire was used to collect data. The association between microfinance lending and MSE performance variables was established through Chi square and correlation tests at 95% significance level. A multivariate logistic regression was used for significant bivariate variables at 95% significance level. The amount of loans is significantly and positively related with performance of MSEs in Kitale Municipality.

Ojo (2009) investigates the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy called Nigeria. The researcher used questionnaire as an instrument of primary data collection. Three different hypotheses were formulated and tested using various statistical tools such as chi-square test, analysis of variance and simple regression analysis. The study reveals that there is a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use them; there is a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and that there is no significant effect of microfinance

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institutions activities in predicting entrepreneurial development. The researcher concludes that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer.

Abiola (2012) investigates the effects of microfinance on micro and small business growth in Nigeria. The study employed panel data and multiple regression analysis to analyze a survey of 502 randomly selected enterprises finance by microfinance banks in Nigeria. The study revealed that there is strong evidence that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, are found to have positive effect on enterprise growth.

Methodology

The study employed a multi-stage random sampling technique with a random selection of Kaduna north, Kaduna south, Zaria and Jema'a local government areas of microfinance banks for the selection of youth entrepreneurs' customers of microfinance banks. The choice of those local government areas was informed by the population and intense business activities therein. The study adopted the Cochran formulae to determine the sample size from the list of microfinance banks licensed by the central bank of Nigeria.

Thus, Cochran's formula is provided as

$$n_a = \frac{n_r}{1+(n_r-1)/N} \qquad (1)$$

But

$$n_r = \frac{(1.96)^2 pq}{e^2} \qquad (2)$$

where:

n_a= Adjusted sample size for finite population

n_r= Sample size for infinite population

N+ population size

p= proportion of population having a particular characteristics

q= 1-p

e^2= error gap

Thus, p= 0.01 and q= 1-0.01=0.99.

Data Collection and Analysis

The data were collected through personal interview and questionnaires Forster, Greer and Thorbecke (FGT) model was used in addition to descriptive statistics to analyze the collected data.

This model was proposed in 1984 to measure development or growth status in this situation of youth entrepreneurs. It is expressed as follows:

P_0= 1/N $\sum_i^N = 1$ (Yi<z)

Where: P_0= headcount index

N= Income (#)

Z= Youth entrepreneurship development

I= Dummy variable

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Finding and discussions

Characteristics of youth entrepreneurs

The characteristics of youth entrepreneurs considered in this study were age, gender, educational attainment, and business experience. the distribution is shown in the table below:

Table 1: Distribution of youth entrepreneur's socio-economic characteristics

Variables	MFBs customers n=160	Non-customers of MFBs n=210	Pooled n=370
Age	Frequency	Frequency	Frequency
20-29	45(28%)	50(23.81%)	95(25.68%)
30-39	60(38%)	75(35.71%)	135(36.4%)
40-49	55(34%)	85(40.48%)	140(37.83%)

As can be seen from Table 1 above, a vast majority of respondents are within the age bracket of 30 to 39. The customers of microfinance banks who are in this age bracket constitute 38% of the respondent while the non-customers are 35.71%. This goes to show that these Youth entrepreneurs are in their energetic ages. Taken together the 66% of the youth entrepreneurs who are customers of the microfinance banks are between the ages of 20 and 39. This is in agreement with the sub missing ofAdebayo(2016) that youth entrepreneurs that are beneficiaries of microfinance banks facilities are in their prime ages.

Table 2: Distribution of youth entrepreneur according to gender

Variables	MFBs customers n=160 Freq.	Non-customers of MFBs n=210 Freq.	Pooled n=370 Freq.
Male	120 (75%)	160 (76%)	280 (76%)
Female	40 (25%)	50(24%)	90 (24%)

From the result of gender distribution in Table 2 above, it is clear that 75% of the youth entrepreneurs that are customers of microfinance banks and male. Only 25% of these category of customers are females. Similarly, 76% of non-customers of microfinance banks are male, while 24% are female. By implication, the results indicate that there were more male youth entrepreneurs than their female counterparts.

Finding from the studies of Asuquo (2015) andUsman (2016)suggest that there are more male entrepreneur than female entrepreneurs. This concurs with the pooled result on gender in Table 2 which showed that 76% of the respondents were male.

Table 3: Distribution showing educational attainment.

Variables	MFBs customers n=160 Frequency	Non-customers of MFBs n=210 Frequency	Pooled n=370 Frequency
Primary school certificate	20(12%)	70(33%)	90(24%)
GCE 'O' level and/or equivalent	50(32%)	30(14%)	80(22%)

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NCE/HND/degree	70(44%)	90(43%)	160(43%)
Post Graduate qualifications	20(12%)	20(10%)	40(11%)

The educational status of respondents shown in Table 3 above indicate that there is significant difference between the literacy levels of youth entrepreneurs that are customers and non-customers of microfinance banks. Only 12% of the MFB customers are primary school leavers while 33% of non-customers of MFBs are holders of primary school leaving certificates. However, majority of the youth entrepreneurs are either holders of Higher National Diploma, First Degrees or NCE. This category was revealed by pooled result to have 43% while 11% hold post graduate qualifications. Together 54% hold post-secondary school qualifications. This is the agreement with Joseph (2014) who reported that most of the youth entrepreneurs are indeed literate and possess formal qualifications.

Table 4: Distribution according to business experience.

Variables	MFBs customers n=160 Frequency	Non-customers of MFBs n=210 Frequency	Pooled N=370 Frequency
1-5 years	11 (7%)	32 (15%)	43 (12%)
6-10 years	81 (50.6%)	92(44%)	173(47%)
11-15 years	48(30%)	53(25%)	101(27%)
16-20 years	11 (6.8%)	25(12%)	36(9%)
Above 20 years	9(5.6%)	8(4%)	17 (5%)

Table 4 above showed the length of experience of the youth entrepreneurs in business. Clearly, the results indicate that a vast number of respondents fall within the category of 6 to 10years of experience for both the youth entrepreneurs who are customers and non-customers of microfinance banks.

However, the customers of microfinance banks appeared to be slightly higher (50.6%) than the non-customers (44%). This again concur with the results of Hamisu (2016) who opined that youth entrepreneurs that are customers of microfinance banks over the last 10 years have experienced relative growth in business compared to their counterparts that have no access to credit facilities from the Microfinance banks.
Effect of microfinance bank lending activities on the growth of youth entrepreneurs

Table 5: access to credit level of youth entrepreneurs and pool entrepreneurs

Item description	Youth entrepreneurs (MFB customers)	Youth entrepreneurs Non- Customers
Credit extension line	586,878.76	406,764.38
Frequency of “loan applicants”	35	106
Frequency of “non-loan applicants”	115	355
Head count index (%)	18.25%	29.60%
Loan Gap index (%)	10.70%	30.86%

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Security index	3.64%	11.23%

Source: Computed from field survey, 2019

Results in table 5 above present a vivid picture of access to credit facilities by Youth entrepreneurs. From this table, it can be seen that an average youth entrepreneurs who is customer of microfinance bank have easier access to credit (N586,878.76) than the average respondents. This implies that microfinance lending services had a positive effect on the development of entrepreneurship businesses for the youths. In addition, the annual income of 29.60% of all youth entrepreneurs fall short of N406,764.38 whereas only 18.25% of youth entrepreneurs who are customers of Microfinance banks reported that their annual income was below N585,878.76. By implication, 29.60% of the pooled youth entrepreneurs recorded low annual income resulting from lack of easy access to loans. Only 18.25% of youth entrepreneurs that are customers of microfinance banks have problems with access to credit facilities.

Furthermore, the degree to which youth entrepreneurs suffer as a result of lack of credit availability problems was 10.70% and 30.86% for those that were microfinance bank customers and non-micro finance banks customers respectively. This testifies that the youth entrepreneurs who lack access to credit facilities among the MFB customers were closer to having business growth problems than those who lack access to credit facilities among the pool youth entrepreneurs. This is also clearly represented by the severity index where only 3.64% of the MFB customers were suffering from chronic business growth problems compared to 11.23% of the pooled youth entrepreneurs.

Table 6: Net Assets position of Youth Entrepreneurs.

Item description	Youth Entrepreneurs (MFB Customers)	Youth entrepreneurs Non- Customers
Net Assets Position (N)	55,578.65	30,667.67
Frequency of new purchases (%)	68	52
Headcount index(%)	50.51	40.87
Net assets gap index (%)	30.25	45.68
Severity index (%)	18.33	12.45

Source: Computed from field Survey, 2019

Table 6 above shows that on the average, youth entrepreneurs who were customers of Microfinance banks had a net assets position of N55,578.65 as against N30,667.67 of non-customers. Again, this is an indication that Microfinance banks financial service rendition had a positive effect on the growth of young entrepreneurs. Further analysis shows that 68% of the youth entrepreneurs that were MFB customers had acquired net assets as against 52% of the non-customers. This implies that business expansion is easily achievable by customers of Microfinance banks than non-customers, largely due to availability of loans without stringent collateral requirement. The proportion of the youth entrepreneurs whose ability to expand their businesses was 50.51% and 40.81% for Microfinance bank customers and non-customers respectively. Put differently, the headcount index revealed that 50.51% of youth entrepreneurs that were Microfinance

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bank customers had the capacity to increase their net assets as against 40.81% of non-customers.

Furthermore, the net assets gap index or the extent to which the respondents are unable to expand their net assets is 30.25% for the MFB customers and 45.68% for the non-customers. Additionally, the severity index fell from 18.33% for the customers to 12.45% for the non-customers. It can therefore be concluded that the Microfinance banks contributed significantly to the Net assets growth of youth entrepreneurs. This result also concurs with the findings of Adeyemi (2017) who reported that beneficiaries of loans from the Microfinance banks can indeed expand their businesses.

Conclusion

The findings revealed that Microfinance banks assist in growing the Net assets of youth entrepreneurs by providing easy access to loans. The study also note that microfinance banks have had to contend with challenges of high personnel cost, high transaction costs associated with growing facilities, poor liquidity management practiced, as well as inefficiency in loan administration. These have limited their ability to extend financial services to the youth entrepreneurs. It was therefore, recommended that a special regulatory agency should be established by the government to monitor and train the staff of microfinance banks. And also Microfinance banks should increase the use of collateral substitutes such as group guarantees, peer pressure and character based lending as against stringent collateral requirement to allow for easier access to credit by the youth entrepreneurs.

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