Chapter 4

Microfinance and Entrepreneurship in Nigeria: A Macro Analysis

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ABSTRACT

Microfinance banks were established to provide diversified, affordable, and dependable financial services to the active poor that would enable them to undertake and develop long-term, sustainable entrepreneurial activities to create employment opportunities, increase their productivity, and thereby increase household’s income and standard of living. This chapter employed ordinary least square and vector error correction estimation techniques to establish the contribution and long-run relationship of microfinance to entrepreneurship development in Nigeria for the period 1992-2015. The result shows that a positive significant relationship exists between microfinance gross loan portfolio, total deposit liability, and entrepreneurship proxied by number of newly registered business, while a negative significant relationship exists between microfinance bank asset and entrepreneurship. This therefore suggests that availability of loanable funds for micro and small-scale enterprises provided significant support for entrepreneurship development in Nigeria. The result also shows that a long-run relationship exists between microfinance variables and entrepreneurship in Nigeria. The study therefore recommends that microfinance banks should improve on the quality of their asset by reducing non-performing loans.

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INTRODUCTION

One of the goals of establishing microfinance bank is to provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner that would enable them to undertake and develop long-term, sustainable entrepreneurial activities and also create employment opportunities, increase their productivity and thereby increase individual household income and uplift their standard of living. Central Bank of Nigeria - Microfinance Policy, Regulatory and Supervisory Framework (CBN-MPRSF, 2005). Entrepreneurship is a dynamic process of creating incremental wealth. Wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment of providing value for product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. Microfinance gives local entrepreneur the opportunity to exercise their latent potential in creating and adding value in the society.

Access to finance foster entrepreneurial development drive both at start up and expansion stage. Lack of access to appropriate financial support stifle entrepreneurial drive and stagnate entrepreneurial growth initiative (IFC, 2013; Babajide and Taiwo, 2011; Olutula and Obamuyi, 2008). Different financing dimension contribute to failure or success of a business firm. While inadequate financing has been identified as a major contributor to business failure (Bekele and Zekele, 2008), the nature of financing and its timeliness both have significant impact on the success probability of a firm. For most new businesses, the nature and structure of financing not only affects the firm’s ability to seize growth opportunities, but also its ability to attract and retain other resources necessary for its long-term sustainability and profitability.

Early researchers have shown that financial sector promotes investment in productivity enhancing activities through entrepreneurial selection and financial intermediation. King and Levine (1993) drawing from Schumpeterian financial intermediation model and early contributions by Boyd and Prescott (1986) and Diamond (1984) show that even when individuals have equal time and financial endowments but different entrepreneurial skills and abilities, the financial sector by providing evaluation and ranking, allocate fund to promising entrepreneurs only and in the process lower cost of investing in productivity enhancement and thereby stimulate growth. The financial sector through financial intermediation and economies of scale diversify risk and promote innovation. Accessing the right type of finance at the right time is a major task to most entrepreneurs particularly in Sub-Saharan Africa. Sub-Saharan African region is confronted with underdeveloped / maladapted financial system characterized by weak institutions, shallow market, credit constraint, large informal market and weak corporate governance (Ojo, 2010). The weakness in the financial system constraint its ability to provide appropriate financial services required for entrepreneurial growth in many Africa countries (Bekele and Zekele, 2008), hence, the need for a more flexible and adaptable financial system. The microfinance operators are familiar with the peculiar challenges of micro-enterprises and their owners. The microfinance system recognizes the inability of the poor to provide tangible collateral, and therefore promotes collateral substitution. Disbursement and repayment of loans are structured to suit credit needs and cash flow patterns of small business operators (Aderibigbe, 2001).

Africa as a continent is plague with so many developmental challenges, particularly Sub-Saharan Africa. The region has the highest poverty prevalence in the world and the least human development index (World Development Indicator, 2015). The development challenges includes high poverty prevalence, poor governance, maladapted financial system, weak institutions, high level of corruption, low productivity, high level of illiteracy, low savings, low credit supply and political and economic instability to mention...