THE ROLE OF MICRO-FINANCE BANKS IN ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA AND SOME SELECTED COUNTRIES

BY

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ABSTRACT

This article investigated the role of micro-finance banks in entrepreneurship development in Nigeria and some selected countries. Micro-finance banks in Nigeria and other parts of the world are recognized to be the key players in the urban-rural financial intermediation system. Their functions are positively affecting the live of individuals, small business organizations, artisans and market women in both the rural and urban centres. The core functions of micro-finance institutions include; the provision of credit to small businesses, giving financial advice and assistance to petty traders, market women and artisans engaged in various trades in both the rural and urban centres. The distinctive characteristic of micro-finance banks is that they are customer-friendly and in close touch with local dwellers. The major objective of this article is to weigh and measure the role of micro-finance banking as a tool for achieving both entrepreneurship development and rural economic advancement in Nigeria.
The result of the study revealed that micro-finance banking is making great impact in rural economic development and raising the standard of living of the people. Descriptive research method was adopted in this article. 20 questionnaires were administered to each of the 10 chosen micro-finance banks operating in Lagos State. Interviews sessions were also held with the chief executive officers and some key members of staff in each micro-finance bank with a view to identifying their areas of success, problems and future prospects. Literature review on micro-finance banking in some foreign countries was carried out to compare operations and activities in those countries with current realities in the Nigerian micro-financing environment.
Key words: Entrepreneurship Development, Micro-Credit, Collateral, Loan Recovery

INTRODUCTION

Commercial banks in Nigeria traditionally lend money to medium-scale and large-scale enterprises which are considered to be credit-worthy. They avoid doing business with the rural dwellers and small scale businesses in the interior villages largely because they are poor and have no means to back up bank credit. Unfortunately these poor rural dwellers constitute the majority in these rural areas (Lepenu, 2001).

In an effort to make capital available to rural dwellers, the government came up with a policy authorizing the establishment of micro-finance banks to provide small capital to boost business activities especially in the rural areas. The micro-finance banks thus provide individuals and small business with funds to expand their business and by so doing they create employment opportunities and improve the living standard of the local populace.

Micro-finance outfits can be referred to as small credit-providing units that serve as agents of development in the rural areas by stimulating economic activities through the small credit they provide to rural dwellers (Marguerine, 2000).

Micro-finance banks are generally seen as agents of economic development especially in the rural areas. They provide small capital units to boost economic activities in the interior areas. This research study will ex-ray the activities of micro-finance banks with a view to finding out the extent to which they serve as a tool for rural economic development.

The article will also look at the problems of the existing micro-finance banks in their effort to provide means of survival for the local population. Certainly, the micro-finance banks are out to do business and, to that extent, they expect returns on the credit they provide to small businesses. The article will, in addition examine the problems of loan recovery faced by the micro-finance banks.

CONCEPTUAL FRAMEWORK

Micro-Finance is defined as the provision of a small range of financial services to the poor to help them take up new opportunities and engage in productive ventures.

According to the training programme for non-executive directors of microfinance banks in June, 2013, a microfinance bank (MFB) is defined as a company licensed to carry on the business of providing microfinance services such as loans, domestic fund transfers and other financial services to the economically active populace and other small and medium enterprises in need of financial services to expand their businesses.

According to Lepenu (2001), microfinance is defined as a form of services for entrepreneurs and small businesses lacking access to banking and related services. Microfinance means several things to several people. For example, in Southern Africa, microfinance is used to describe the supply of financial services to low income employees, which is closer to the retail finance model prevalent in mainstream banking.

Also, to some people, microfinance is a movement whose objective is to create a conducive environment in which as many poor households as possible can have permanent financial services, not just credits, but also savings, insurance, and fund transfer. Many of those that promote microfinance generally believe that such access will help the poor out of poverty.

For others, microfinance is a way to promote economic development, employment and growth through the support of micro entrepreneurs and small business (Macguire, 1999)

Furthermore, microfinance is a broad category of services, which include micro-credits. Micro-credit is the provision of credit service to poor clients. Micro-credit is one of the aspects of microfinance and the two are often confused.

According to the Central Bank of Nigeria (CBN), in the revised microfinance policy regulations and supervisory framework for Nigeria released in April, 2011, Micro-finance services refer to loans, deposits, insurance, fund transfers and other ancillary non-financial products targeted at low income clients.

According to the National Open University of Nigeria (NOUN) Course Material titled: ENT 201, Micro-credit (or micro-financing) means the provision of financial services to the economically active population to help them expand.

Microfinance is a term used to refer to different methods of giving people access to financial services in the form of savings, micro-leasing, micro-credits (loan) and payment transfers to economically active individuals or households in order to empower them to be economically productive through small scale businesses. It could also be defined as a financial intervention that focuses on the low income group of a given society, which involves credit services and may also include savings (Dhumale, 2000).

Also, Robinsons (2001), defined microfinance as an organization that gives loan, savings and other basic financial services to the poor. It is also seen as an economic development approach intended to benefit the low income persons in a given society both men and women.

The World Bank (2007), defined microfinance as an enterprise that provides financial services including savings and credit to the poor.. Otew (1999) defined microfinance according to its objectives. To Otew, microfinance is not just a credit-giving firm that provides capital to the poor, it also serves as an institution that delivers financial services to the poor who are ignored by the conventional commercial banks in the economy. Ledger Wood (1997) defined microfinance banks as those institutions established to provide financial services to the poor.

According to Ledger Wood, these institutions can be non-governmental organizations (NGOs), commercial banks, non-bank financial institutions, etc. (Nwachukwu, 1998).

To sum up the definitions, microfinance banks are the institutions established to provide financial services to the poor with little or no barriers in obtaining the funds of the institution whose objective is to improve the standard of living of the rural people. Earlier studies about microfinance activities which are popular in Nigeria showed that they reached out to the relatively poor in their operations. In their findings, Adam (2007), Irobi (2008), Zaman (2000), Mcculoch and Bulch (2000), concluded that micro financing is a veritable tool for achieving rural economic development

THEORETICAL FRAMEWORK

Rural Economic Development Concept

Rural economic Development as a concept has been subjected to various theoretical interpretations and empirical operationalization. Consequently, it eludes any precise definition. Nonetheless, most students of change management will agree with the notion that development as a concept is all about a process by which a continuous increase in a system's efficiency produces the conditions which result in general improvement. Improvement in this context should be material and quantitative while it could be psychological and qualitative in which case it is hardly quantifiable. Development therefore, could be said to be that process which is concerned with the general improvement of man's living condition.

Rural Development: Rural development is a determined and conscious attempt to focus on the general improvement of man's living conditions in the rural areas.

Nature of Rural Development: Rural infrastructures constitute the substance of rural welfare. Efforts to raise rural welfare must therefore, go beyond the traditional and limited approach of raising per capita income through agricultural development projects to the provision of rural basic needs such as health and medical facilities, rural transportation, electricity, pipe-borne water and schools. Rural dwellers must be appreciated for their role as producers of food and fiber for the needs of the urban economy (Peter, 2003).

The Rural Outlook: Farming is the major activity of rural people. Many Nigerians still live in rural areas. Available statistics show that about seventy percent (70%) and above of the Nigerian population live in the rural areas. Livestock and fishery production is also a significant activity engaged by people living in the rural areas.

Aside from the above stated primary activities of people in the rural areas, there are secondary activities undertaking by people living in the rural areas. Such activities include: trading, food processing, weaving (basket and cloth), tool fabrication, carving, carpentry and poultry. These secondary activities provide supplementary income and could constitute a major source of diversification of the rural economy in terms of small scale industries. The rural areas lack basic amenities as portable water, access roads, electricity supply and good housing.

Tools for Rural Economic Development

There are some tools, agencies or better still, institutions that can be effective towards rural economic development. Some of these tools for rural economic development are:

(a) Local government system (institution)

(b) Social infrastructure measures

(c) Co-operative societies

(d) Community development measures

(e) Electricity

(f) Education

(g) Social welfare system

(h) Financial Institutions

(i) Non-financial institutions

RESEARCH METHODOLOGY

Descriptive research method was adopted in this article. Descriptive research is based on information gathered through questionnaires, interviews, inventories, rating scales, self-report and observation. Descriptive research is used to find meaning and obtain understanding of the present conditions. The result obtained through this procedure can be statistically analyzed.

Data Analysis:

Twenty (20) questionnaires were administered to each of the 10 chosen micro-finance banks operating in Lagos State. Interview sessions were also held with the chief executive officers and some key members of staff in each of the 10 chosen micro-finance bank with a view to identifying their areas of success, problems and future prospects. Tables and percentages were subsequently used to analyze the data extracted from the completed questionnaires. The analysis showed that 75% of the respondents strongly believed that micro-finance banks are veritable agents of entrepreneurship development in Nigeria.

LITERATURE REVIEW

Microfinance banking can be traced back to the activities that started in the middle of the 1800s in Europe. This is sequel to the writings of the theorist Lysander Spooner (1999). Lysander Spooner wrote about the benefits of getting thee people in the rural areas out of poverty. Independent of the writings of Spooner, Friedrich Wilhelm Raiffeisen (1920) found the first co-operative lending bank to support farmers in rural Germany to boost their activities as an effort geared towards rural development. These efforts by these two great theorists and reformers could b said to be the origin of microfinance banking (Ajiboola, 2002).

The modernization of microfinance banking is linked with the event that happened in Cittagong, Bangladesh in the middle of the 1970s. In 1974, Professor Muhammed Yunus, a Bangladesh economist led his students on a field trip to a poor village. Muhammed Yunus and his students interviewed a woman who made bamboo stools, and learnt that she had to borrow the equivalent of 15p to buy raw bamboo for each stool she made. After repaying the middle man at rates as high as 10% a week, she was left with a penny profit margin. Had she been able borrow at more advantageous rate, she would have been able to amass an economic cushion and rates herself above subsistence level. Realizing that there must be something terribly wrong with the economics he was teaching, Professor Yunus took matters in his own hands and from his own pocket lent some funds to many basket weavers, about 42 to 50 of them. Professor Yunus simply found out that it was possible with this tiny amount not only to help the micro entrepreneurs in Clittagong to survive, but also to create the spark of personal initiative and enterprise necessary to pull themselves out of poverty. In 1983, against the advice of the banks and the government of Bangladesh, Professor Ynus carried on the giving out of micro loans to micro entrepreneurs which metamorphosed to Grameen Bank – meaning “village bank”.

Grameen Bank of Bangladesh was founded on the principles of trust and solidarity. In Bangladesh, Grameen Bank, as a microfinance bank is so popular that it has up to 2,564 branches, with up to 19,800 staff serving up to about eight million borrowers/clients covering 81,367 villages. Today, in Bangladesh and other economies of the world, microfinance banking has been popularized.

Principles of Micro-financing

A wide variety of methods have been used to reach out to the low-income people living in the rural areas with appropriate and affordable services. These methods are referred to as the principles of microfinance and they reflect the diversity of context and the environment in which these services are provided.

These principles are as follows:

Principle No.1: Micro-finance must fit the needs of Clients

- Delivery of microfinance services to low-income entrepreneurs requires understanding their needs.
- Give short term loans and extend repeat loan to customers.
- Give small loan amount
- Invest in market information of clients' demand and feedback mechanisms.
- Be customer-friendly (the customer is always the King) and must be accorded that respect at all times.

Principle No. 2: Streamlining the Operations to Reduce Cost

- Minimize staff time per loan
- Standardized processes
- Maintain inexpensive offices.
- Select staff from local communities

- Decentralize approval when managers are well trained and competent in microfinance banks.

Principle No. 3: Microfinance is a Powerful Tool Against Poverty

- Access to sustainable financial services increases income and assets of the poor.
- Poor household use financial services to raise income.
- Microfinance helps to cushion business against external shocks.

Principle No. 4: Microfinance Motivates Clients to Repay their Loans

- Provide motivation/incentives to repay loans.
- Guarantee access to repeat loans.
- Increase loan sizes.
- Use preferential pricing.
- Develop staff competence and public image that signal seriousness in loan collection.

Principle No. 5: Charge Full Cost, Interest Rate and Fees

- Cost per loan in microfinance is generally expensive due to administrative costs.
- The poor are willing to pay higher interest rate than commercial sources for services that fit their needs.

Principle No. 6: Offer Deposits as Financial Products

- Deposits have unlimited breadth of outreach
- Breadth of outreach is the number of clients.
- It has a relationship with available resources.
- Deposit is the best source of an MFB's loan portfolio

Principle No. 7: Credit is not always Appropriate

- Credit is not appropriate for everyone
- Other kinds of support may work better for people who are not destitute that they are without income or means of payment.

Principle No.8: The Role of Government is an enabler, not as a Direct Provider of Micro Finance Services.

- Government can support microfinance development by promoting macro-economic stability, avoiding interest rate caps and high inflation.
- Providing appropriate business environment for micro entrepreneurs.

Microfinance Products and Services

Microfinance institutions (MFIs) can offer their clients a variety of products and services. The range of products commonly provided by microfinance banks include:

(a) Micro-credit
(b) Micro-leasing
(c) Micro-savings
(d) Micro-insurance
(e) Remittances.

These services mentioned above are those rendered by microfinance institutions which are grouped under financial services. Microfinance institutions can also offer non-financial services which include:

(a) Social intermediation
(b) Business development services
(c) Social services.

Other Microfinance services and Products

i. Micro-credit: Micro-credits are borrowed funds with specified terms for repayment. When these funds are insufficient, accumulated savings to finance a business and the return on borrowed funds exceeds the interest rates charged on the loan, it makes sense to borrow rather than to postpone the business activity until sufficient savings can be accumulated assuming the capacity to service the debt. Micro-credits are tailor made credits for micro-entrepreneurs.

ii. Micro-savings: Savings mobilization has long been a controversial issue in microfinance services. In recent times, policy makers in microfinance sector have come to the increasing awareness that there is vast number of informal savings schemes that exist around the world. In the midst of all these, microfinance institutions have been very successful in savings mobilization. This attests to the fact that low income earners can save and do save. Savings can be mobilized via: Compulsory and voluntary savings scheme.

iii. Micro-insurance: Microfinance institutions are beginning to experiment with other financial products and services such as insurance, credit cards and payment services Insurance is a product that will likely be offered more extensively in the future of many micro finance institutions. This will happen when they mature to offer maximum services to clients and customers. At present, it is banks like the Grameen bank of Bangladesh that offer insurance services to their clients and customers. This is because of the growth maturity of such bank.

iv. Payment services: In traditional or conventional banking, payment services include cheque cashing and cheque writing privileges for customers who maintain deposits. Today, microfinance banks may offer similar payment services either with their savings services or separately for a fee. Microfinance institutions can pay artificially low interest rates on customer's deposit accounts to cover the costs of those services.

v. Social intermediation: Social intermediation prepares marginal groups or individuals to enter into social business relationship with microfinance institutions. Examples of this group formation are financial education to the rural dwellers, provision of rural drinking water scheme, etc.

vi. Business Development: Microfinance institutions also adopt an integrated approach in the provision of some types of enterprise or business development services. Another name for this services rendered by microfinance banks is non-financial services or assistance. Example of this is mentoring, adult literacy schemes.

vii. Social services: Social services include services such as health, nutrition, education and literacy training. These services are often provided by the same microfinance institutions that have chosen to provide such social services in addition to financial intermediation. Examples of such services are health education, family planning and adult literacy.

Designing Microfinance Products and Services

Successfully designed microfinance bank products that meet the needs of micro enterprises are a necessity for any microfinance institution's success. It is important that the designers of such products/services understand the different elements of lending products and the way in which these elements affects both borrowers and the viability of the microfinance institution. To carry out this exercise successfully, the following are needed:

- It is important to focus on he needs and wants of the clients.
- Product development should be market focused and market driven.
- It is not always necessary to design a totally new product. Modifying an existing product is also an important strategy in microfinance bank's product design.
- Whether new or refined products, the same process of product development should be followed in order to achieve better results.

Opportunities in Product Development

- Micro-insurance
- Micro-leasing
- Micro-housing
- Agricultural financing
- Small and medium enterprises
- Alternative energy supply financing

Different Suppliers of Micro-finance Services

The suppliers of microfinance services are of different kinds. Some of them are as follows:

1. **Financial Institutions:** These include; microfinance banks, rural banks, and insurance firms.
2. **Semi-Formal Institutions:** These include non-governmental organizations, co-operative and credit unions.
3. **Informal Institutions:** These include Rotating savings and credit associations, accumulating savings and credit association, daily collection – also known as door-to-door bankers, money lenders and shop-keepers.

Microfinance Banks (MFB): Microfinance bank belongs to the financial institution of the economy. It is a company licensed to carry on the business of providing microfinance services such as savings, loans, domestic fund transfer and other financial services to the economically active poor in the economy, micro-enterprises and small and medium enterprises that need financial services to conduct and expand their business. The goals of microfinance banks are:

- To provide diversified financial services
- To mobilize savings for intermediation
- To create employment opportunities
- To enhance participation of the poor in the total economic development of an economy
- To provide revenue for the administration of government and high net-worth individuals' funds in the micro-credit programmes.

Microfinance Clients: These include such people as traders, street vendors, service providers, hair dressers, small transport operators, small restaurant operators, small cottage industries, farmers, low educational level, small scale production operators, obsolete equipments, non employees – mostly temporary or unpaid family members, people with no business records, no marketable collateral, no assets to formal credits in informal sector.

Delivery of microfinance services to low income enterprises requires a great deal of understanding. This understanding is in the areas of their needs which are peculi9ar in nature, the shortness of the loans and extent that such small loan amounts granted to them can enhance a lot of economic affairs in their lives.

Microfinance Institutions: Microfinance institution is a composition of the bodies of persons engaged in microfinance business. It is therefore, easy to state that microfinance bank is one of these operators that make up microfinance institutions.

2.1.7 Microfinance bank Categorization:

Microfinance banks are required to be adequately capitalized, technically sound and oriented towards lending to credit-worthy borrowers. There are three categories of microfinance bank:

(a) Category 1: Unit Microfinance Bank

A unit microfinance bank is authorized to operate in one location. It shall be required to have a minimum paid up capital of twenty million Naira (N20,000,000). By law, it is prohibited from having branches or cash centers.

(b) Category 2: State Microfinance Bank:

A state microfinance bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid-up capital of one hundred million Naira and is allowed to open branches within the State subject to prior written approval by the Central Bank of Nigeria (CBN).

(c) Category 3: National Microfinance Bank:

A national microfinance bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid-up capital of N2 billion and is allowed to open branches in all States of the Federation including the FCT, subject to CBN approval.

Development Stages of Microfinance Banks

There are three stages that microfinance banks could develop through. These phases are: Feasibility phase; Sustainability phase; and Commercialization phase.

Feasibility phase: This is the early stage. At this stage, the bank features micro product. The targeted credit here is poverty lending. The sources of funds are grants, donations and subventions from individuals or donor institutions. Players at this stage are: Religious bodies, government and community-based organizations.

Sustainability Phase: This stage commenced in the 1990s. The dual mission of microfinance banks were seen as being possible to be achieved simultaneously. This was sequel to the emergence of the Grameen Bank, Bangladesh. Feature here are: Product diversification, expansion of business and funds sources diversification for the microfinance bank institution.

Commercialization phase: At this stage, there is a high level of operation done in the microfinance bank. Debts and equity become the funding sources of the (MFB). The microfinance bank seeks to balance her social responsibility mission and her co-operate responsibility mission. Reputation is highly maintained (Christen, 1997).

Microfinance Banking in Nigeria

At different times, a number of government sponsored interventions as well as non-governmental organizations (NGOs), community based organizations as well as faith based organizations have emerged. Government initiatives include: People's Bank of Nigeria, Directorate of Food, Road and Rural Infrastructure and lastly community bank were initiated by the Federal Government of

Nigeria towards rural banking programme. But all these past initiatives failed to bring about effective rural banking operations in Nigeria.

The concept of microfinance banking in Nigerian banking industry was not an instant process, it took a lot of gradual process and latter metamorphosed to what it is presently. The process involved is as stated below:

1. Rural Banking Scheme in Nigeria

The rural banking scheme in Nigeria was introduced in Nigeria in the year 1977 to mobilize savings deposits, as well as extend loan facilities to the rural people, who did not have access to banking facilities. The rural banks were to disburse about 40% of funds collected from the rural ar3eas as loans and advances to areas where they were operating. The need to introduce the program was borne out of the fact that most of the people in the rural sector depend almost entirely on non-institutional practice and swindling of depositors funds (Charistonenko, 2004). The government of Nigeria then decided to replace such non-institutional sources with rural banking scheme.

Factors that limited the success of rural banking scheme

(a) Banks are very reluctant to open rural branches

(b) Most banks complain of high overhead costs

(c) Lack of basic infrastructure, such as communication network, rural electrification and good roads.

(d) There are records of high staff turnover due to the refusal of their staff to go to rural areas.

(e) Low business volume also contributed to the unwillingness of the bank to open up branches in rural areas.

People's Bank of Nigeria

The problem of the rural banking and the limited impact of the scheme had on the rural economy predicted the establishment of the People's Bank of Nigeria on the 3rd of October, 1989. The bank was meant to provide an alternative accommodation to those denied of credit by the existing financial institutions. In actual sense, People's Bank was established for the purpose of eliminating the problems of collateral lending, spatial distribution of bank branches and high interest rates.

By nature, the People's Bank is a nonconventional bank established to provide special services to the poor. The bank is non-conventional because its capital base is wholly provided by the government and it is exempted from all Banking Acts and Regulations.

Due to the limitations of the traditional banking system, the bank was set up and opened on the 3rd of October 1989 at Ajegunle in Lagos State, Nigeria by the Nigerian President. The bank is fashioned in line with the Grameen Bank of Bangladwsh and bank Rakyat of Indonesia. The People's Bank of Nigeria was designed to provide financial assistance at low cost to the poor, the unemployed, the small scale entrepreneurs and others operating in the formal sector of the economy whose annual income have been defined as below poverty level so that they can have access to he banking credit without collateral and productive in their self employed activities. Following the set up and the mode of operations adopted by the Grameen Bank of Bangladesh serving as pilot scheme between October to December, 1990. The bank was established primarily to provide credit to the lowest income and under-privileged group of banking Nigerians who are engaged in micro-enterprises as provided by degree No. 22 of 1990.

Community Banking in Nigeria

The introduction of community banks though novel, did not come as a surprise into the Nigerian banking industry. The rapid increase in the number of banks, finance companies, stock, brokerage firms and related companies in the urban centers, particularly Lagos at the time was enough evidence. Considering the redefinition of the roles expected of banks, it was only a matter of time before this boom made its impact on the semi-urban and rural areas. The birth of the community banks was justified by the following reasons.

(a) The under banked nature of the Nigerian economy, which is considerably more pronounced in the rural areas

(b) The inability of the orthodox banks to cater for the needs of the rural populace.

(c) The need for the development of less formalized grassroots financial institutions.

(d) The necessity of mobilizing savings and encouraging banking habit in rural communities.

Links between ROSCAS (Esusu) and Community Banking

Indeed, Rotating Savings and Credit Association (ROSCAS) or Esusu, which dominates the informal credit system of the rural and urban poor provides a viable structure upon which community banks was build. India has already reported the development of some of its own rotating savings and credit association into formal banks. The Nigerian age-long ‘ “Esusu” system has similar potentials for providing viable basis for the evolution of virile rural banking system. However, the advent of community banks did not necessarily mean the phasing out of the rural banking programme of the Central Bank of Nigeria. Instead, both schemes were developed simultaneously. Commercial Banks in Nigeria should accept the social responsibility of contributing actively to achieving the development goals of the Nigerian economy.

Reasons for Failure of Past Initiatives

(a) Inadequacy of skilled manpower required by the operation to deliver services effectively.

(b) Unwillingness of conventional banks to support micro enterprises

(c) paucity of funds required to meet the needs of borrowing customers.

(d) Absence of support institutions in the sector

(e) Weak internal capacity microfinance institutions displaced in the following areas:

(i) Incompetent management

(ii) Poor corporate management

(iii)Insider abuse

(iv) Weak internal control

(v) Poor credit administration

(vi) Poor asset quality

(f) Low management capacity of clients

The New Micro Finance Policy in Nigeria

In December, 2005, the Central Bank of Nigeria (CBN) introduced a microfinance policy framework to enhance the access of micro-entrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth. The rationale was that no inclusive growth can be achieved without improving access of thin segment of the economic strata to factors of production especially credit services. This marked the advent of a holistic microfinance banking activities in Nigeria.

Before the emergence of microfinance banks under the microfinance policy, the people that were not served and underserved by formal financial institutions usually found succor in non-governmental organization – microfinance institution (NGO).

The popular institutions that lend money are microfinance institutions, money lenders, friends, relatives, credit unions, etc. Although these informal sources of funds have helped to partially fill a critical void, it did not proffer the desired result. The revised policy framework by Central Bank of Nigeria (CBN) took cognizance of the aforementioned category of institutions, which have now become key players in the Nigerian microfinance landscape. However, ko0re emphasis would be placed on microfinance banks because they are under the regulatory and supervisory purview of the Central Bank of Nigeria. The revised policy is in excess of the power conferred on the CBN by the provision of section 33(1) (b) of the CBN Act No.7 of 2008 and in pursuance of the provisions of section 56-60 (a) of the (BOFIA) No. 25 of 1991 (as amended).

Challenges of Micro-finance Banking in Nigeria

Iganiga (2008) put forward some challenges of microfinance banking as follows:

High Operating Costs: Some unit of services are small, there is a great challenge of high cost, several loan applications to be managed and monitored and retrieval of loan repayment from several clients especially in rural communities, etc.

Problem of repayment: Clients defaulting refunding loans has posed great challenges to he institutional sustainability. It is becoming a deadly virus which afflicts microfinance institutions. It demoralized staff and deprives beneficiaries of valuable services. Because of loan delinquency, most microfinance institutions cannot be successful.

Inexperienced Credit Staff: Microfinance institution is posed with the challenge of inexperienced staff planning, product development and effective engagement with clients. Most employees are rather school leavers or their first job therefore they lack the capacity to expand and increase performance of institution.

Lack of Re-financing facilities: It is obvious that microfinance institutions rely more on donors as source of fund. In most cases such funds are not adequate to manage the demand for funds from clients. Other emerging development issues as HIV/AIDS and environmental degradation attract donors' attention.

Clients Apathy and Drop-Out: Due to poor service delivery strategies of microfinance institutions, client drop-out. Therefore, it is observed that microfinance institutions lose up to 20% client base annually.

Measures to Solve the Challenges of Micro Finance Banks in Nigeria

Sequel to the aforementioned identifiable challenges facing the microfinance subsector of the Nigerian economy, a number of measures have been put in place as measures aimed at solving the challenges facing the microfinance institutions in Nigeria. Some of these measures include:

Framework for through supervision of microfinance subsector:

The following constitute the frame work for the supervision of microfinance sub-sector:

- Licensing and supervision of microfinance banks
- Minimum operation standards and supervision guideline for microfinance banks
- Establishment of the National microfinance policy consultative committee.
- Credit reference Bureau
- Rating Agencies

- Deposit insurance scheme
- Capacity building

Incentives for the Growth of Micro-Finance Banks in Nigeria

The new window of opportunity to bring financial services to the under-served and unbanked in the rural areas shall require the support of government and the regulatory authorities.

The following form the incentives for microfinance banks:

- Microfinance Development Fund: This fund will be established by the government, CBN and other stakeholders to support the microfinance banks in rendering financial services to their clients on sustainable basis. The fund shall comprise two windows: Commercial and Social.
- Subsidized Training and Capacity Building Programmes: This would be made available to the microfinance banks.
- The interest Drawback Programme: This programme by CBN would have to be extended to the microfinance banks clients in agriculture and allied businesses.
- The Central Bank of Nigeria (CBN) in collaboration with relevant ministries, departments and agencies as well as other stakeholders would provide enabling environment for microfinance banks and microfinance institutions to operate.

Human Capital Development in Microfinance

The dearth of the requisite skilled human capital in the microfinance sub-sector in Nigeria cannot be overemphasized. Therefore, efforts by managements of microfinance banks towards training staff in the right areas in microfinance sub-sector will be a measure geared towards solving the challenges of microfinance banks in Nigeria.

Governmengt Intervention: Bail-Out Programme: The Federal Government of Nigeria through the Central Bank of Nigeria (CBN) has intervened in the operations of commercial banks through bail-out programmes for any of the banks that faces distress situation in her operations. Bail out programmes help banks to regain stability. However, government is yet to extend such helping hand to the microfinance banks operating in Nigeria. In recent times, operators of microfinance banks in Nigeria have called on government to come to their aid while they experienced some distressed situation in their operations, but the government is yet to do that. Such government interventions will help solve the challenges faced in the microfinance sub-sector.

Risk Management in Micro-Financing

This simply means the possibilities of an undesirable outcome disrupting an institution or project which ultimately results in loss. Risk event means, the undesirable outcome. Risk management can therefore be described as the activity of proactively identifying and controlling undesired outcome. Because risk is inherent in any business venture, developing a framework for its management becomes a way to solve the challenges it will pose.

Micro-Finance Banking in Bangladesh

The Grameen Bank of Bangladesh was established in 1983. The advent of Grameen Bank was as a result of the passion which the founder (Professor Muhammed Yunus) had for the rural dwellers in the province of Chittagong and its environ where very poor people and a lot of micro entrepreneurial lived and had good business ideas. Grameen Bank means “Village Bank”. The operating pattern of the bank indeed made it to justify the name "Grameen Bank". Grameen bank was established under the Grameen Bank Ordinance in 1983, operating within the objective of alleviating poverty through financial services, especially by providing micro-credit to rural farmers and micro entrepreneurs. Empowering poor people is the ultimate objective of the bank. Borrowers of the Grameen Bank at present own 94.34% of the total equity of the bank and the remaining five 5.66% is held by the government of Bangladesh.

Professor Muhammed Yunus is the founder and CEO of Grameen Bank. The government of Bangladesh nominates three directors including the Chairman and nine other Directors which represent the interest of the borrowers.

Today, Grameen Bank has grown to the height of having a lot of subsidiaries such as, Grameen fund, Grameen Capital Management Limited, Grameen Capital Limited, PoenKalyan, Grameen Shakti, Grameen Shamogree, Grameen Telecom, Grameen Trust, Grameen Bank, America, etc. The Grameen Bank adopts the group loan delivery method. This guarantees maximum loan requirement. Grameen embarks on adequate staff training and customer orientation programmes more than any other microfinance bank. Grameen Bank and Professor Yunus jointly won the prestigious Nobel Peace Prize in 2006. The first time an individual and an institution from Bangladesh won the award.

Micro-Finance Banking in Indonesia

Bank Rakyat Indonesia (BRI) was founded in 1895. It has undergone many name changes. It was in 1934 that the present name it bears came. It is one of the largest banks in Indonesia. (BRI) specializes in small scale and microfinance style borrowing from and lending to its approximately 30 million retail clients through its over 4,000 branches, units and rural service posts. It also has a comparatively small but growing corporate business. As of 2010, it was the second largest bank in Indonesia by asset. (BRI) is currently 70% government-owned and has been government-owned for the entire period since 1945, 1949 till November, 2003 when the 30% of its shares were sold through an IPO – Initial Public Offer. Following the 1997 East Asian financial crises, (BRI) has been concentrating on increasing its core business and improving its risks management practices. As part of the reformasi (reform) process in Indonesia since 1998, the government has been steadily reducing its influence on the bank's day to day operations, culminating in its IPO. It is also seeking to comply with Baseli II accord, as amended by bank Indonesia by 2008. Between 2006n and 2011, the BRI assets jumped almost 62%. The bank topped the list of the nation's most profitable banks for six years. The bank's recorded assets of BRI stand as RP249.56 trillion or US $28.6 billion in the year 2010 from RP154.72 trillion in the year 2006.

Microfinance Banking in the United States of America

In the late 1980s, microfinance institution developed in the United States of America (USA). These institutions served low income and marginalized minority communities. By the year 2007, there were five hundred microfinance organizations operating in the United States of America (USA).

Factors that Triggered Micro Finance Banking in the United States

There were three key factors that triggered the growth of microfinance activities in the United States:

(1) Change in social welfare policies and focus on economic development and job creation at the macro-level.

(2) Encouragement of employment, including self-employment, as a strategy for improving the lives of the poor.

(3) The increase in the proportion of Latin American and Asian immigrants who came from societies where micro-enterprises were prevalent.

All these factors incentivized the public and private supports to have micro-lending activities in the United States of America. Some of the microfinance institutions in the United States are:

ACCION USA: This is an affiliate of ACCION International. This offers micro-loans and other financial services to low and moderate income entrepreneurs for their small businesses, people who cannot get financial support through traditional means.

ACCION Chicago, ACCION Texas-Louisiana.

PROJECT ENTERPRISE: This was founded in 1997 in New York City. Project Enterprises provides support to entrepreneurs and small businesses in lower income communities through access to business development services and networking opportunities.

GRAMEEN AMERICA: This is a microfinance institution based in New York and is founded by Professor Muhammed Yunus. Grameen America provides micro loans, savings program, financial education and credit establishment to low income groups.

CAPITAL GOOD FUND: This is a good example of a microfinance start up. This institution is based in providence in Rhodes Island. Capital Good Fund (CGF) provides credit-building business and consumer loans, financial coaching and free tax preparation.

RISE FINANCIAL PATHWAYS: This was formerly known as community financial resources centre. This institution is based in Los Angeles. This first private partnership of its kind provides micro loans, Seed/Expansion loans, high interest savings account, financial education and counseling to low and moderate income entrepreneurs and poor communities.

2.2.7 Micro-Finance Banking in Canada

Microfinance activities in Canada took shape through the development credit unions. These credit unions provided financial services to the Canadians who could not get access to traditional financial means. Two separate branches of credit unions developed in Canada to serve the financially marginalized segments of the population. Alphonse Desjardin introduced the establishment of savings and credit services in late 1990 to the Quebecois who did not have financial access. Approximately 30 years later, father Moses Coady introduced credit unions to Nova Scotia. |These were the models of the modern institutions still present in Canada today.

Efforts to transfer specific microfinance innovations such as solidarity lending from developing countries to Canada have not succeeded hitherto.

Some selected microfinance institutions in Canada are: Rise Asset Development, Alterna Savings, Access Community Loan Fund, Momentum and Vancity.

RISE ASSET DEVELOPMENT: This was founded by Sandra Rotman and CAMH initiative that provides small business loans, leases and lines of credit to entrepreneurs.

ALTERNA SAVINGS: This institution was founded in 2005 through the merging of the civil services savings and loan society and the metro-credit union, Alterna is a financial alternative to Canadians. Their banking policy is based on co-operative values and expert financial advising.

2.2.8 Microfinance Banking in India

Loans to poor people by banks have many limitations including lack of security and high operating cost and so microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality.

Sequel to the introduction of microfinance banking in Bangladesh by Professor Muhammed Yunus "Grameen Bank" NABARD took this idea and started the concept of microfinance banking in India.

In this concept, there exists a link between self-help groups, NGOs and banks. The self-help groups are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations.

They are entitled to seek credit6 from the bank. There is an involvement of the concverned NGO before and even after the self-help bank linkage. The self-help bank linkage programme which was undertaken since 1992 in India had financed about 22.4 lakh self-help by 2006. It involved commercial banks, regional rural banks and co-operative banks in its operations.

CONCLUSION

This article critically weighed and measured the operations of the microfinance banks in Nigeria and selected foreign countries to find out the extent to which the banks serve as the tool for rural achieving entrepreneurship and economic development in Nigeria. Micro-finance banks provide small credits to rural traders, farmers and crafts people to enable them enhance their businesses and improve their standard of living.

By the functions of the micro-finance banks, they serve as the tool for rural economic development. They make these small credits available to the rural dwellers at low interest rate making repayment of the loan easy for the poor rural dwellers.

Microfinance banks have made it possible for small business people living in rural areas to have access to credit. Credit facility to poor rural traders and farmers was not possible before the advent of micro-finance banks because the villagers had no collateral securities to tender in order to borrow money from conventional commercial banks. Therefore, the existence and functions of the micro-finance banks in the rural areas of our country has been a blessing especially to the less privileged people in our society.

Based on the result of this study, it is clear that micro-finance banks have started providing beneficial services to the society by providing the rural dwellers with basic capital and requisite entrepreneurial knowledge which enable them to engage in various productive businesses. These services are increasing the standard of living of the rural populace. What is even more important is that the local dwellers (most of them illiterates) are beginning to learn techniques and dynamics of banking.

Furthermore, the Asian Continent where micro-finance banking has proved to be of tremendous help towards the boosting of economic activities, are also learning new methods of improving the operations of micro-finance banks from other nations of the world such as Nigeria. In Nigeria the activities of the micro-finance banks will go a long way in sensitizing the rural economic activities thereby helping the nation to achieve its vision 20:20. .

Micro-finance banks are essential tools for rural economic development. The success of micro-finance banks is dependent on the efficiency of their services in the rural setting. The services of these local banks have become so essential to the society that life and standard of living of the people are dependent on their services.

RECOMMENDATIONS

Following the discussions and findings of this article, the following recommendations are made With a view to improving the services of the micro-finance banks and making their impact felt the more in the rural areas:

1. Microfinance banks need to be assisted financially by the Federal Government of Nigeria and other stakeholders to enable them be able to have enough capital to carry out their businesses.
2. With additional funds in the hands of micro-finance banks, they will be able to help in the provision of basic amenities such as roads, bridges, pipe borne water and dispensary services to the communities where they operate.
3. Government should relax some of the monetary policies affecting financial institutions so that micro-finance banks can have some free hand to provide more effective financial services to the rural dwellers.

4. If it is possible, microfinance banks should be able to organize some training and lectures as is done by Grameen Bank of Bangladesh, for the local populace on how to run some of the small businesses where they put in the bank's money.
5. Micro-finance banks should relax their loan terms to give the rural borrowers opportunity to use the money longer than one year at a low interest rate.

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James Nwoye Obi was born on the 10th April, 1960 in Anambra State of Nigeria.

After his primary and secondary education in Anambra and Kaduna States respectively, he gained admission into Ahmadu Bello University, Zaria, Nigeria and successfully completed his B.Sc. degree in Business Administration in 1983.

After working for a few years, he returned to Ahmadu Bello University for postgraduate studies and completed his M.B.A. degree in 1989. In the year 1997, he enrolled at the University of Lagos and obtained an Advanced Diploma in Human Resources Management.

It was time to look beyond the borders. With a burning ambition to do a doctoral degree programme, he left the country in January, 2001, to Germany and from there to the United States of America and came back to Nigeria in January, 2010 with a Ph.D. degree in Business Administration obtained from the United States of America.

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He is married with children, among them is Miss Chinyere R. Obi of the Department of Human Kinetics and Health Education, University of Lagos. Dr. Obi has academic publications in Corporate Social Responsibility, Leadership, Staff Training, Mergers and Acquisitions, and Decision-making.