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MICROFINANCING AND ENTREPRENEURSHIP DEVELOPMENT IN ILARA MOKIN, ONDO STATE: A CASE STUDY APPROACH

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ABSTRACT

The study examined the contribution of micro financing to entrepreneurship development in Ilara-Mokin, using the Shield Microfinance bank as a case study. Microfinance Banks (MFBs) serve as an engine, through which economic industrial development subsists. The study made use of primary data, which was collected through a structured questionnaire. Seventy-four (74) questionnaires were administered to Customers of Shield microfinance bank in Ilara-MokinOndo state, via purposive sampling. Analysis of the Data gathered was carried out through the use of descriptive Statistic like tables, frequencies, charts and percentages while inferential statistical techniques such as Analysis of Variance (ANOVA) and one-sample 'T'-test were used to test the formulated hypotheses with the aid of Statistical Package for Social Sciences (SPSS) version 20.0.The findings showed that, there was a significant relationship between microfinancing and entrepreneurship development in the community; and high borrowing charges on the loan by the microfinance bank may hinder entrepreneurship development, and which may lead to inability to stimulate economic development and business sustainability in the area. However, the paper recommends that regulatory authorities and policy makers should review the microfinance regulatory framework from time to time, according to global standard in order to ensure that, loans that are made available to the entrepreneurs are at a minimal interest rate, to enhance development.

KEYWORDS: Microfinancing, Entrepreneurship Development, Micro small enterprises, Shield Microfinance bank, Ilara-making- Ondo State

INTRODUCTION

The significant role play by finance in any economy can never be over emphasized, both in formal and informal sectors. Therefore, an easy source of funds to an entrepreneur provides a platform for economic development and financial sustainability. Financial institutions involve in financial intermediation to stimulate growth. This however has led to the microfinance bank to provide micro funds to small business owners and entrepreneurs, whose enterprises are privately owned to achieve financial sustainability. Hence, for microfinance banks to manage its ability to meet its debt obligations as at when due, credits must be determined by cost of funds. If the cost of funds is high, it discourages the entrepreneurs. Consequently, entrepreneurship is characterized by a proliferation of different definitions, but strongly lacked a unifying paradigm. It was generally believed that, entrepreneurship involved three main elements: opportunities; enterprising individuals; and resourcefulness. Entrepreneurship could be defined as how, by whom, and with what effects opportunities to create future goods and services are to be discovered, evaluated and exploited (Oakland & Ojokuku, 2008; Ingrid, 2014).

Every entrepreneur, however, needs financing for easy business operations aside skills and intelligence.

Entrepreneurship was known to be the fulcrum of social- economic development, innovation and job creation in different economies of the world. Entrepreneurship could further be characterized as the transformation of ideas into socioeconomic opportunities and tendency of being a risk lover (He's rich, 2005; Suresh, David and Chris, 2012, Akande, 2014). Entrepreneurship played major roles in the discovery of knowledge and transforming into future goods and services through industrial innovations. Microfinancing is the process of making micro proportion of funds available in terms of loans, savings and other financial payment instruments to low income earners. The small amount of the loans enables people in the rural area to effectively manage their financial resources, and increase income (Robinson, 2001; Oladejo, 2013; Taiwo et al, 2016).

Funding has been the major constraints to micro, small enterprise owners/ entrepreneurs, thereby leading to slow development trends in the informal market (Oakland, 2014). The financial intermediation process of channelling funds to the deficit segment of the economy from surplus segment, precipitated microfinance banks to assist in channeling funds to facilitate business transactions, to achieve economic development and sustainability. But government frequent intervention in the activities of the banks often hindered these institution’s intended objectives. It must be noted that in order to remove financial distortions, policy makers have often resorted to economic reforms, which affect all the sectors of the economy, including the financial sector (Demirguc-Kant &Detragiache 1998; Akingunola, 2005; Somoye, 2013).

Statement of the Problem

According to a CBN report (2017), the Nigerian financial sector has not fully recovered from the recent global financial crises in first quarter of 2008, thereby leading to macro-economic and financial challenges (i.e. Economic recession, exchange rate volatility, high rate of unemployment, high inflation rate, increasing monetary policy rate (MPR) at 14%; MPR is the rate at which banks borrow from the Central Bank to cover their immediate cash shortfall). It must be recalled that the higher the cost of such borrowing, the higher also will be the rate banks will advance credit to the real sector. On this position, microfinance banks also provide credits to entrepreneurs at a very high interest rate; because the high cost of funds discourages investors. This scenario makes many microfinance banks to find it very difficult to grant credit to entrepreneurs to boost their business at a very low interest rate. Also, the existence of market failure discriminating against entrepreneurs and their possibility to be successful becomes doubtful. In addition to these problems, lack of qualitative and quantitative information/data prevents the ability to easily determine the true profile of entrepreneurs; thereby making it difficult to assist in promoting awareness of the significant roles of entrepreneurship in the rural areas. In similar circumstances, immediately a business is established in rural areas, access to funding/finance may be more difficult for entrepreneurs.

Despite the difficulty in accessing credit by entrepreneurs/ business owners; entrepreneurship, has been completely neglected in the society, among common occupations and industries such as catering, retail, education, tailoring, health care, cottage, Gari-processing, weaving, palm oil, palm cannel business services, barbing, wood craven and furniture, metal fabrication, soap making, hotels and restaurants etc. Consequently, the fragility of the banking sector and weak institutional environment has made the future of entrepreneurship remains uncertain with a high degree of corruption in government Ministries, Departments and Agencies (MDAs). Since entrepreneurial orientations that are necessary for successful development, are now faced with serious impediments (i.e. High cost of funds, strict guidelines, high transaction cost, hidden charges etc.), from financial institutions ‘responsibilities and practices. Moreover, less has been done empirically to examine the impact of microfinancing on entrepreneurship development to achieve sustainability, especially in Ilara-making, Ondo state, context.

Therefore, there is an urgent need to examine the contribution of microfinancing on entrepreneurship development within the framework of rural area setting (i.e. Ilara-Mokin). This study has remained significant because it would help to investigate how the financing of various entrepreneurial business operations/ occupations have been made possible in the town. This study remains germane to examine the contribution of microfinancing on entrepreneurship development: using the Shield Microfinance bank as a case study. The study will also provide answers to the under-listed questions:

- Are there profits realized by entrepreneurial businesses via credit assistance of the Shield Microfinance Bank in Ilara-making?
- What are the factors that can assist entrepreneurship to achieve sustainable development?

Research Hypotheses

Ho_1: There are no profits realized by entrepreneurial businesses via credit assistance of the Shield Microfinance Bank.

Ho_2: There are no factors that boost entrepreneurship development.

LITERATURE REVIEW AND CONCEPTUAL UNDERPINNING

Concept of Microfinancing and Entrepreneurship

Microfinancing revolves around the process of mobilizing, allocating and distributing mini financial resources to start a venture. Such ventures (i.e. via either inheritance, buying into existing one, or establishing a new one) requires decisions; such as finance decision and investment decision (Somoye, 2013; Shabbir, 2016). Entrepreneurs often decide on how sources of funds could be ascertained and type of feasible projects that such funds could be invested in. It must be noted that sources of financing to entrepreneurs include; crowd funding, trade credits, personal savings, borrowing from friends and relatives, bank loans, asset based sources etc., But due to the high cost of funds charged on loans has led to alternative sources of finance by entrepreneurs (Denis, 2004). According to studies; Bates, (2005); Babajide (2012); Oladejo, (2013); Barbosa, (2016), alternative sources of finance to an entrepreneur has been never the issue, but the ability of entrepreneurs to meet the repayment plan as at when due remains a cause for concern, because it may lead to non-performing loans to the microfinance banks. Leach and Melicher (2010) observed that entrepreneurial finance is the application of financial techniques, practices and principles to the funding, operations, and valuation of a venture. In essence, ability to access funds can assist entrepreneurial ventures to start up and expand business opportunities through the development of new production and distribution processes and new products.

Afolabi (2015) claimed that entrepreneurs are either individuals or people who conceive new business opportunities and remains risk takers, who convert business ideas into reality. Though, entrepreneurship arises when an enterprising individual identifies an unsolved problem, and who willingly proffer solutions. In this process, the individual transforms the existing status quo into a future opportunity and turns ideas into a commercial reality. According to Okezie et al, (2013), entrepreneurship is the manifest ability and willingness of individuals, within and outside organizations, to create economic opportunities (new products, new production schemes and new product during the period of uncertainty. Gevrenova (2015) defined entrepreneurship as a process that creates an individual to be a risk taker. Since there is no unifying definition of entrepreneurship, it could therefore be generalized from several studies (Okezie et al, 2013; Akande, 2014; Gottlieb, 2014), that entrepreneurship creates innovation, capital formation, investment opportunities, providing goods and services via the creation of new firms mainly to make a profit. Entrepreneurship development is a catalyst for socioeconomic development through new ideas.

Ojo, (2009) and Oladejo, (2013) defined microfinance as the provision of financial services to the poor and low income people. It can also be regarded as the process by which low income households will have a greater access to a variety of high quality financial services to finance their own small business enterprises. Ogujiuba, et al, (2013) further claimed that the services rendered by microfinance institution are not limited to, credit facilities only, but it encompasses savings, and money transfers. Typical microfinance clients include the poor and the low income people who find it difficult to benefit from the conventional or formal financial institutions. Microfinance clients are predominantly living along the poverty line engaged in small enterprises which include small retail shops, street vending, artisans manufacture, black smiting, welding, carpentry and many others. In most cases where micro-credits clients receives micro loan to start their businesses, research suggests that only half or less of the total loan proceeds are used for business purposes. Most of the credit receives tend to be spent on a range of household cash management needs which includes stabilizing consumption, expenses on education, health and other life cycle events (Akande, 2005; Okoh, et al, 2009; Orodje, 2012; Oladejo, 2013;).

Evidence from Literature reveal that the concept of microfinancing covers not only the provision of credit services to economically active poor and the low income who have no access to the formal financial system, but it also focuses on the provision of financial services such as loans, and other forms of formal financial services.

Entrepreneurship Sustainable Factors

The development of emerging markets globally may be due to the increasing participation of entrepreneurs' activities. Entrepreneurship can contribute positive values to the family, community and the society. Entrepreneurship is growing in many other occupational areas such as garment manufactures, farm owners, establishing firms like, milk centers, petty shops etc., and (His rich & Peters; 1998; Padmayathi, 2011). Sustainable development of entrepreneurship in rural area is challenging. Most businesses and organizations create significant social value in the form of employment, improvements of working conditions, competitive environments, goods and services that people either need or desire. The significance of entrepreneurship development in Nigeria include; development of an individual's economic and financial self-reliance; to promote personal and social initiatives like awareness creation; propagate social networking; build self-confidence and discipline; employment empowerment; promoting a standard of living etc. World Bank (2004) claimed that economic growth is essential in order to achieve the Millennium Development Goals, and achieving the goal for reducing income poverty. The global apex bank further expatiate that many services that contribute to health and education of poor people are failing. The main reason for this failure appears to be the fact that public spending effectively does not reach the poor, and even if it does, service provision is inefficient and of inadequate quality.

Gbandi and Amisah (2014) identified that traditional debt financing options availed by banks through term loans and overdrafts remain the common source of financing for entrepreneurship, but high interest rates charged by microfinance banks has often hampered the smooth business transaction between entrepreneurs and banks. They added that the high cost of funds has remained the major constraint being faced by entrepreneurs; thereby discouraging them to obtain loans. Since the global financial crunch of 2008, there have been strict conditions in bank lending as the financial institutions have become more risk-averse in expanding credit to the informal sector. According to IFC (2010), the economic crunch had a negative effect on the informal sector development, in terms of output and employment, but, further worsens as many MSEs recorded low returns on investment. OECD (2014) observed that trade credit allows businesses to delay payment for goods and services purchased, thus helping in effective cash flow management and bridging of short-term working capital requirement.

Constraints to Entrepreneurial Financing

Luper (2012) identified one of the challenges of entrepreneurship financing as the risk profile of entrepreneurs. It was believed that lack of financial records has made it difficult for entrepreneurs to access credit. Kerr and Nanda (2009) further claimed that lack of requisite infrastructure and the fragile economic environment. The willingness of financial intermediaries to lend to entrepreneurs (and by extension the willingness to keep their funds with intermediaries) is dependent on the security and financial laws in a country. Berkowitz and White (2004) stated typical example of U.S.A where entrepreneurs are less likely to obtain credit for their stereotypes in view of strong bankruptcy protection for individuals. Thus, banks are less likely to extend credit facilities when there is less certainty of loan recovery in the event of start-up. The degree of competition between financial intermediaries is seen to have a decisive impact on the terms of credit to startups and to the extent that capital is allotted to the highest-quality ventures. Studies (Stern, 2002; OECD, 2014; Okezie et al, 2014) have shown that there is the existence of close ties between financial intermediaries and entrepreneurial firms, was caused by the reduction in information asymmetries and consequently the lowering of financial constraints. Furthermore, as identified by Berger, Klapper and Udell (2001), borrowing entrepreneurs with longer banking relationships have a higher tendency to advance collateral, and less likely to depend on expensive trade credit and encountering fewer constraints in their investment decisions when compared to firms with shorter banking relationship. Other factors that may hinder entrepreneurship development include:

- Financial constraints (High collateral requirements; lack of assets; lack of information on financial products and services; perceived risk by financial institutions to lend to entrepreneurs/ micro and small business managers, etc.).
- Legal, institutional and business environment constraints (Risk of harassment or corruption; lengthy registration, licensing, or permit process; weak property rights; lack of information on the formalization process etc.).
- Other constraints (Limited participation in networks; limited skills /experience outside of traditional sectors; mobility restrictions; lack of access and knowledge of ICT; low education; limited participation in business networks etc.).

Micro financing Contributory Factors in Entrepreneurship Development

- **Innovation:** Innovation means openness to new ideas. Innovativeness is the inclination to take part in the discovery through the presentation of new products via Research and Development (R & D) in the course of action (Rauch et al, 2006). Innovativeness explains the readiness to advance from technological process and move beyond the present state of the art.

- **Provision of Loan Facilities:** Entrepreneurship enjoys start-up capital, particularly where there are no means of accessing loans. According to Olaitan (2001) & Okpara (2009), the objective of microcredit programs is to raise incomes and provide financial services such as loans, savings and transfer payments to micro and small-scale entrepreneurs who otherwise lack access to capital markets. Some of the programs have primary social missions, focusing on outreach to MSEs and measuring success in terms of poverty alleviation.
- **Profit Maximization:** MSEs comprise a variety of firms which possess a wide range of skills and operate in most sectors of the economy with different market, social and institutional arrangements. The range goes from a home-based unregistered business (informal) to a formal enterprise engaged in international businesses. Despite the heterogeneity, they are independent business establishments formed for profit making are mostly managed by the owner/s. The profit aim of the business enterprise is a fundamental factor for their existence. Many business decisions are normally made based on their impact on profitability (Medvedev & Ana, 2013.) Profitability further determines the success and survival of the firm (Katayama et al., 2009). An existing business is making a profit or feeling there is a profit or is with a hope of making it.
- **Provision of Non-Financial Benefits.** Microfinance banks through various microcredit programmes provide job opportunities for the timing unemployed youths via training and learning different entrepreneurship skills in order to become self-reliance and the ability to create wealth. The financial services provided by MFIs are important sources for job creation, new businesses formation, and livelihoods improvement. However, financial services alone are not enough to continuously improving the livelihood of the clients and enhancing the sustainability of their micro and small businesses. Thus, the necessity of integrated nonfinancial services and microcredit has been recommended by many studies and researchers. Ledger wood & White (2006) identified that microfinance is not a simple bank; it is a development tool of human skills to effectively use financial sources. Morduch and Hayley (2002) point out that, the entrepreneurial skills and knowledge are essential tools to drive a successful microenterprise and not all microfinance institutions' clients are evenly able to take on a credit due to the problem of non-repayment behaviour.

METHODOLOGY

The study makes use of survey research on Shield Microfinance Banks Customers inIlara –Mokin town, Ondo State. The choice of Ilara –Mokin town for the study is as a result of socio-cultural and economic activities enjoyed by other neighbouring communities for business and market expansion; and the proximity of the researcher to the area. Both primary and secondary data were employed. Primary data was collected through the structured questionnaire to determine the responses of respondents in the study. The secondary data was collected through referencing, books, newspaper, magazines, internet and others. The questionnaire adopted four (4) points scaled questionnaire (Likert type) consisting of relevant statements to the study. Data collected was analysed via the use of descriptive analysis like table, percentage, chart and others, while inferential technique such as Analysis of variance (ANOVA) and One –Sample T'-test were used to test the formulated hypotheses one and two respectively with the aid of Statistical Package for Social Sciences (SPSS) version 20.0.

RESULTS AND DISCUSSIONS

This section interprets the result of study that, a total of seventy-four (74) respondents with 40 (54.1%) of male and 34 (45.9%) of female as shown in table 1 below. This shows that male constitutes the larger proportion of the respondents than the female counterpart.

Table 1: Respondent's Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	40	54.1	54.1	54.1
	female	34	45.9	45.9	100.0
	Total	74	100.0	100.0	

Source: Researcher's Survey Field, 2017

Table 2, below shows the age of the respondents as follows; below 15 years, 15 (20.3%); 16 -25 years, 28 (37.8%), 26 -35 years, 17 (23.0%); 36 -45 years, 14 (18.9%). Therefore, respondents that fall between 16- 25 years are more captured in the study.

Table 2: Respondent's Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 15 years	15	20.3	20.3	20.3
	16-25 years	28	37.8	37.8	58.1
	26 -35 years	17	23.0	23.0	81.1
	36 -45 years	14	18.9	18.9	100.0
	Total	74	100.0	100.0	

Source: Researcher's Survey Field, 2017

The figure 1 below shows that most of the entrepreneurship business' life span is between 1- 3 years, 29,(39.2), followed by 3 -5 years, 20, (27%), below 1 year, 12 (16.2%) and 5 years & above, 13, (17.6%) in Ilara-Mokin. This shows that, most of the entrepreneurship businesses in the town is less than four years.

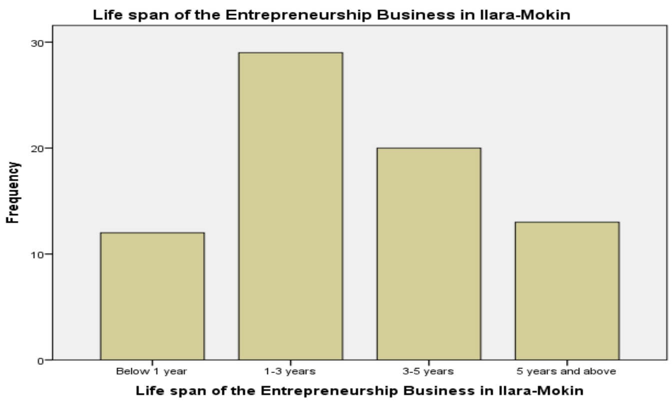

Figure: 1

Figure: 2 below also shows that micro small enterprises in Ilara-Mokin have been recording profits on the daily basis. The results show that larger proportion of the respondents that are entrepreneurs make between # 500 and #1,000 profit on a day; followed by a profit that is below # 2,000 daily; #3, 000, #4,000 and lastly, # 2,500 daily. This shows that the profits that are made by these micro small entrepreneurs are very small compared to medium scale enterprises mostly in the cities, Lagos, Rivers, Abuja etc.

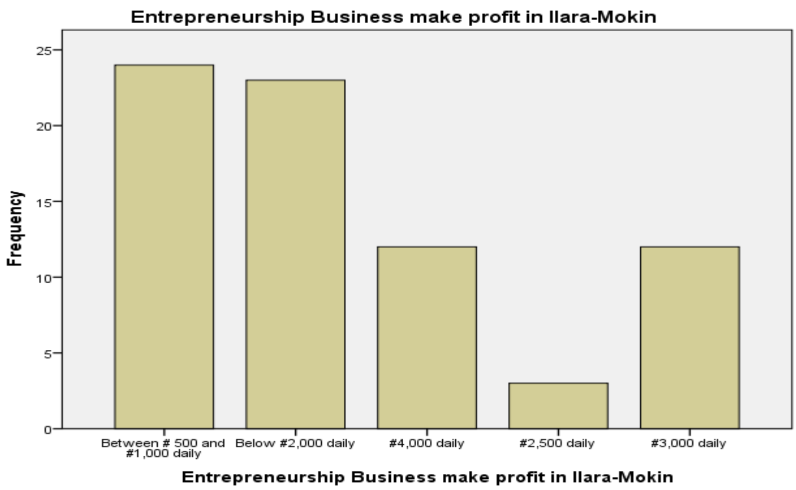

Figure 2: Entrepreneurship Business Make Profit in Ilara-Mokin

Table 3 below shows that microfinance bank has helped to assist in the provision of job opportunities in the town. 38 (51.4%) of the respondents strongly agreed that Shield Microfinance bank has helped entrepreneurs with job opportunities; 24 (32.4%) of the respondents agreed with the opinion; while 11(14.9%) disagreed and 1(1.4%) of the respondents strongly disagreed with the statement.

Table 3: Provision of Job Opportunities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	38	51.4	51.4	51.4
	Agree	24	32.4	32.4	83.8
	Disagree	11	14.9	14.9	98.6
	Strongly disagree	1	1.4	1.4	100.0
	Total	74	100.0	100.0	

Source: Researcher’s Survey Field, 2017

Table 3 above shows that microfinancing has helped to assist in the provision of job opportunities in the town. 38 (51.4%) of the respondents strongly agreed that entrepreneurship helps to provide job opportunities; 24 (32.4%) of the respondents agreed with the opinion; while 11(14.9%) disagreed and 1(1.4%) of the respondents strongly disagreed with the statement.

Test of Hypotheses

Ho_1: There are no profits realised by entrepreneurial businesses via credit assistance of Shield Microfinance Bank in Ilara-Mokin.

Table 4: Analysis of Variance between Entrepreneurship Business and Profit Realised in Ilara-Mokin

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	34.494	3	11.498	7.361	.000
Within Groups	109.344	70	1.562		
Total	143.838	73			

Source: SPSS Computation, 2017

To assess the statistical significance of the results as explained in table 4 above. From the table, the F-Statistics (7.361) is high and the P-value (0.000) is less than 0.05 which all together indicates that the null hypothesis must be rejected. Therefore, it can be concluded that there are profits realised by entrepreneurial businesses via credit assistance provided by Shield Microfinance Bank in Ilara-Mokin.

Ho_2: There are no factors that boost entrepreneurship development.

Table 5: One-Sample Statistics on entrepreneurship Development in Ilara-Mokin

	N	Mean	Std. Deviation	Std. Error Mean
There are factors that assist entrepreneurship development	74	1.99	1.066	.124

Source: SPSS Computation, 2017

Table 6: One-Sample Test on entrepreneurship Sustainability and Development in Ilara-Mokin

	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
There are factors that assist entrepreneurship development	16.027	73	.000	1.986	1.74	2.23

Source: SPSS Computation, 2017

Considering results in tables 5 and 6 above in 4 – point rating scale; the mean shows that all responses of the respondents were exactly the mean value (1.99), while individual responses that deviate from the mean is at 1.07; this shows that the individual responses is below average, standard error at 0.124 is an indication that the sample mean is a more accurate reflection of the actual population mean. Recall, larger sample size will normally result in a smaller standard error. Furthermore, table 5bshows that‘t’-statistics (16.03) is high than the P-value (0.000), which is less than 0.05; though, when p>0.05, the null hypothesis must be sustained. This means that the null hypothesis must be rejected. Conclusively, there are factors that boost entrepreneurship development in Ilara-Mokin.

DISCUSSION OF FINDINGS

- Access to fund and literacy level have significant impact on entrepreneurship empowerment in Ilara-Mokin. This implies that entrepreneurship development will not be able to bring about empowerment in the absence of adequate access to fund and literacy within the society.
- Entrepreneurs are faced with various challenges such as capital, lack of technological initiatives and innovations etc.

- Shield Microfinance bank makes funds available to entrepreneurs at a reduced interest rate.
- To achieve sustainable business development in Ilara-Mokin, entrepreneurship initiatives (i.e. entrepreneurial networking, mentoring programmes, training and re-training etc.) of entrepreneurs must continuously be encouraged by government agencies and ministries, such that cost of funds is not high.
- Entrepreneurship creates employment opportunities in Ilara-Mokin.
- Entrepreneurs involve in different businesses (i.e. selling of food items; operating petty shops; cottage, fishing, tailoring etc.).
- Shield Microfinance bank provides credit facilities to entrepreneurs, who meet the lending criteria in Ilara-Mokin.

CONCLUSION AND RECOMMENDATIONS

This paper examines the contributions of microfinance bank to the entrepreneurship development in Ilara-Mokin. The study concludes that, issue is not about starting entrepreneurship business in the town, but ability to raise finance. Though, Shield Microfinance bank has been providing credit assistance, but some entrepreneurs still could not benefit due to the high level of illiteracy, high cost of funds, strict lending conditions, lack of technological initiatives and innovations. In overall, microfinancing has a great impact on entrepreneurship development in Ilara-Mokin on empowerment and creating opportunity to access fund. Having considered the findings, the following recommendations are made:

- Government regulatory agencies (e.g. Central Bank of Nigeria and Nigeria Deposit Insurance Corporation, Federal Ministry of Finance etc.) should ensure that interest rate charged by Microfinance banks is reduced to a single digit in order to encourage entrepreneurs' development and other investors.
- There should be free transaction cost for every micro small enterprise owner(s).
- Increase in the patronage of Nigerian made products (e.g. proudly Nigerian) in order to develop local industries.
- Government should create a conducive business and economic via a stable and moderate foreign exchange rate; low inflation and interest rates etc.

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