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2013

**MICROFINANCE BANKS AND  
EMPLOYMENT GENERATION IN NIGERIA  
(A SURVEY OF SELECTED MFBS IN PORT  
HARCOURT)**

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Available at: [https://works.bepress.com/chukwumah\\_obara/24/](https://works.bepress.com/chukwumah_obara/24/)

**AFRICAN BUSINESS AND FINANCE JOURNAL**  
**SIREN RESEARCH CENTRE FOR AFRICAN UNIVERSITIES**  
PORT HARCOURT, RIVERS STATE,  
NIGERIA.

**VOL.6 NO. 1, APRIL 2013**

MICROFINANCE BANKS AND EMPLOYMENT GENERATION IN NIGERIA (A  
SURVEY OF SELECTED MFBS IN PORT HARCOURT)

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**ABSTRACT**

The study took a cursory look at the Empirical Analysis Of Microfinance Banks And Employment Generation in Nigeria - A Survey of Selected Microfinance Banks in Port Harcourt. A total of 364 sample size was used for the study which was gotten through a probability sampling technique. Research question were analyzed using simple percentage while the hypotheses were analyzed using Analysis of Variance and t - test statistics- a parameter statistical tool. It was found that microfinance banks engender employment generation, wealth creation and poverty reduction among other things. It is concluded that microfinance banks are veritable tools for empowering low

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income earners of our society. It is therefore recommended among other things that Government at all levels should dedicate 5% of their annual budgets to microfinance banks and other poverty reducing agencies like NAPEP, NDE etc.

#### INTRODUCTION

Robust economic growth and employment generation cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of micro-finance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income and create wealth (Brau and Woller, 2004).

Microfinance is about providing services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are:

- i) the smallness of loans advanced and or savings collected.
- ii) the absence of asset-based collateral and
- iii) simplicity of operation (Midgley, 2008).

In Nigeria, the formal financial system provides services to about 35% of the economically active population, while the remaining 65% are excluded from access to financial service. This 65% are often served by the informal financial sector, through non-governmental organization (NGO) Microfinance Institutions, money lenders, friends, relatives and credit institutions. The non-regulation of the activities of some of this institution has serious implications for the central bank of Nigerias (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBNs' would not only enhance monetary stability, but also expand the financial infrastructure frontiers to meet the financial requirements of the Micro, Small And Medium Enterprises (MSMEs). Such a policy would create a vibrant microfinance subsector that would be adequately integrated into the mainstream of the national finance system and provide the stimulus for growth, development, employment generation, poverty alleviation, wealth creation and sustainable development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable microfinance subsector (Nair, 2001; Field and Pande, 2008). A lot of research has been carried out in this subject matter but there still exist a theoretical gap because researchers have not been able to find out if relationship exists between micro-financing and poverty alleviation, wealth creation, sustainable development employment generation etc. This is what this study intends to achieve.

#### Statement of Problem

Hitherto, the Nigerian government and other stakeholders in banking institutions have treated the issue of micro-financing with levity. They do not see the relevance of micro-financing in the 21<sup>st</sup> century. They also believe that the formal banking institutions are able to cater for the generality of the citizens financial needs. The stakeholders do not see the viability of micro-financing in any developing economy. This is because they do not understand the roles micro-financing have done to lift people from the shackles of poverty. This study therefore want to determine if there is any relationship between micro-financing and poverty alleviation, micro-financing and wealth creation, micro-financing and employment generation, micro-financing and sustainable development among others.

#### Objective of the Study

The main purpose of this study is to examine the empirical analysis of micro-financing and employment generation in Nigeria. But the specific objectives will include the following;

1. To examine if micro-financing affects employment generation.
2. To examine if micro-financing affects poverty reduction.
3. To determine if micro-financing affects wealth creation.
4. To determine if micro-financing affects living standards.
5. To examine if micro-financing affects sustainable development.

#### Research Questions

Based on the objectives of the study, the following questions will suffice

- i) To what extent does micro-financing affect employment generation?
- ii) To what extent does micro-financing affect poverty reduction?
- iii) To what extent does micro-financing affect wealth creation?
- iv) To what extent does a micro-financing affect living standard?
- v) To what extent does micro-financing affect sustainable development?

#### Research Hypotheses

The following null hypotheses will be tested in course of this research and they are stated below.

H<sub>01</sub>: There is no significant relationship between micro-financing and employment generation.

H<sub>02</sub>: There is no significant relationship between micro-financing and wealth creation.

#### Theoretical Framework

The base-line economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available workforce) Nigerians are employed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed

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services as contained in the strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would assist the SMIs in raising their productive capacity and level of employment generation (Jaja, 2004).

Without the microfinance banks it would be difficult for the poorest of the poor to access funds to build their capacity and raise their standard of living. All over the world, it is the microfinance banks that are at the centre of reaching the poor through access to financing their small and medium scale enterprise.

#### **Justification for the Establishment, of Microfinance Banks**

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

- a) **Weak Institutional Capacity:** The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.
- b) **Weak capital Base:** The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro-entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 has up to ₦20 million shareholders' funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of ₦50.0 billion, has ₦10.0 billion paid up capital and only ₦1.3 billion shareholders funds unimpaired by losses, as at December, 2004.
- c) **The Existence of a Huge Un-served Market:** The size of the un-served market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000 that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading microfinance institutions (MFIs) in Nigeria were reported to have mobilized a total savings of ₦222.6 million in 2004 and advanced ₦2.624 billion credit with an average loan size of ₦8,206.90. This translates to about 320,000 membership based. Customers that enjoyed one form of credit or the other from the eight NGO - MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro facilities in Nigeria account for about 0.2 percentage of GDP and less than one percent of total credit to the economy. The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.
- d) **Economic Empowerment of the Poor, Employment Generation and Poverty Reduction:** The base-line economic survey of small and medium industries (SMIs)

in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers considering the fact that about 18.5 million (28% of the available workforce) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generated employment. Delivering needed services as contained in the strategy would be remarkably enhanced through additional channels which the microfinance banks framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

#### Methodology

The study adopted the survey design approach. The population of the study consisted of 364 employees of Microfinance banks in Port Harcourt, Rivers State. Respondents were asked to rate each of the items on a four point scale as follows; Great extent (GE) 4, Considerable extent (CE) 3, Moderate extent (ME) 2, little extent (LE) 1. The instrument was validated by two experienced research scholars in the field of business administration from Rivers State University of Science and technology, Port Harcourt. A Split half method was used with a pilot group of 15 employees from some organizations in Bayelsa State to derive the reliability coefficient of 0.81 using the Spear Brown Prophecy formula. The researcher administered the questionnaire with a research assistance who was specifically concluded and instrument was to be administered. T-Test and ANOVA were used for the analysis to test the hypothesis with a level of significance of 0.05.

#### Data Analysis

A total of three hundred and sixty four (364) respondents which comprised bank employees and customers were given questionnaire. Each of the banks got 36 questionnaires. A 100% completion of questionnaire were recorded.

Table 1 Questionnaire Administration and Return Rate

Banks	No Distributed	No Retrieved	% Retrieved
Cosmopolitan MFB	36	36	9.89
Neighbourhood MFB	36	36	9.89
First Global MFB	36	36	9.89
Premium MFB	36	36	9.89
Okwuta MFB	36	36	9.89
Maxi Trust MFB	36	36	9.89
Titari MFB	36	36	9.89
Choba MFB	36	36	9.89
RMA	40	40	10.98
Diobu MFB	36	36	9.89
Total	364	364	100

Source: Survey Data 2013

From table (4.1) above, it shows that out of 364 questions distributed to the banks and their customers all of the completed and returned their questions.

Table 2 Research Question One (1): The Extent Microfinancing Affect Employment Generation

Response Pattern	Frequency	% Response
Great Extent	140	38.46
Considerable Extent	111	30.49
Moderate Extent	80	29.97
Little Extent	33	9.06
Total	364	99.99

Source: Survey Data 2013

From table (4.2) above, it shows that one hundred and forty (140) respondents representing 38.46% said that microfinance banks helped in employment generation to a great extent. One hundred and eleven (111) respondents representing 30.49% said it is to a considering extent. Eighty (80) respondents which represent 21.97% said it is to a moderate extent.

Table 3 Research Question Two (2): The Extent Microfinance Banks Affect Poverty Reduction.

Response Pattern	Frequency	% Response
Great Extent	148	40.65
Considerable Extent	122	33.51
Moderate Extent	60	16.48
Little Extent	34	9.34
Total	364	99.99

Source: Survey Data 2013

From table (4.3) above, it indicates that one hundred and forty eight (148) respondent representing 40.65% said microfinance banks affect poverty reduction to a great extent. While one hundred and twenty two (122) representing 33.51% said it is to a considerable extent. Sixty (60) which represent 16.48% said it is to a moderate extent and thirty four (34) which represent 9.34% said it is to a little extent.

Table 4 Research Question Three (3): The Extent Microfinance Banks Affect Wealth Creation

Response Pattern	Frequency	% Response
Great Extent	148	40.65
Considerable Extent	130	35.71
Moderate Extent	58	15.93
Little Extent	28	7.99
Total	364	99.99

Source: Survey Data 2013

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From table (4.4) above shows that one hundred and forty eight (148) which represent 40.65% said that microfinance banks affect wealth creation to a great extent. One hundred and thirty (130) which represent 35.71% said it is to a considerable extent. Fifty eight (58) which represent 15.93% said it is to a moderate extent.

Hypotheses Testing

Null Hypothesis (H<sub>0</sub>): There is no significant relationship between microfinance Banks and employment generation.

Alternative Hypothesis (H<sub>A1</sub>): There is significant relationship between microfinance banks and employment generation.

Statistical Tool: Analysis of various (ANOVA).

Degree of Freedom: To be Determined.

Rejection Region: Reject H<sub>0</sub> if F-Ratio > F-critical

Level of Significance: 0.05 for our purpose.

Table S: Raw Data for Analysis

SINo	A	B	C
1	8	20	15
2	12	15	20
3	10	15	10
4	10	10	10
5	13	10	8
6	7	30	7
7	14	20	5
8	10	10	8
9	6	15	4
10	10	19	13
Total	100		100

Source: Survey Data 2013

NIB:

- A = Stands for Bank Management
- B = Stands for Bank Employees
- C = Stands for Bank Customers

Table 6: Analysis of Variable for estimating between the Group and within the group Variation

SINo	A	(A)'	B	(B)'	C	(B)'
1	8	64	20	400	15	225
2	12	144	15	225	20	400
3	10	100	15	225	10	100
4	10	100	10	100	10	100
5	13	169	10	100	8	64
6	7	49	30	900	7	49
7	14	196	20	400	5	25



8	10	100	10	100	8	64
9	6	36	15	225	4	16
10	10	100	19	361	13	169
Total	100	1058	164	3036	100	1212

Source: Survey Data 2013

Table 7- Analysis of Variance Table

Source of Variation	Sum of Squares	DF	Mean of Square	F-Ratio	F-Critical
Between group	273.07	2	136.53	5.81	3.35
Within Group Treatment	634	27	23.48		
Total	907.07	29	160.07		

Decision:

The above table shows that the calculated f-value is 5.81, while the F-critical at 0.05 level of significant and the degree of free dom of 2 and 27 is 3.35.

Decision rule reject null hypothesis if F-calculated is greater than the F - critical; otherwise accept.

Conclusion: We therefore conclude that we reject the null hypothesis and accept the alternate which states that there is significant relationship between microfinance banks and employment generation in Nigeria.

Null Hypothesis ( $H_0$ ): There is no significant relationship between microfinance Banks and Wealth Creation

Alternative Hypothesis ( $H_A$ ): There is significant relationship between microfinance banks and Wealth Creation.

Statistical Tool: (ANOVA).

Degree of Freedom: To be Determined.

Level of Significance: 0.05 for our purpose.

Rejection Region: Reject  $H_0$  if F-Ratio > F-critical

Table 8 Raw Data Table

SINo	A	B	C
1	8	16	17
2	12	19	20
3	12	13	7
4	8	12	10
5	11	12	8
6	9	28	7
7	13	18	5
8	11	12	8
9	4	14	4
10	12	20	13
Total	100	164	100

Source: Survey Data 2013

Table 8 Analysis of Variance for MB and WC

SINO	A	(A)'	B	(B)'	C	(C)'
1	8	64	16	256	17	289
2	12	144	19	361	20	400
3	12	144	13	169	8	64
4	8	64	12	144	10	100
5	11	121	12	144	8	64
6	9	81	28	784	7	49
7	13	169	18	324	5	25
8	11	121	12	144	8	64
9	4	16	14	196	4	16
10	12	144	20	400	13	169
Total	100	1068	164	2922	100	1240

Source: Survey Data 2013

Table 9 Analysis of Variance and Decision Taken

Source of Variation	Sum of Squares	OF	Mean of Square	F-Ratio	F-Critical
Between group Treatment	273.07	2	136.53	6.79	3.35
Within Group Treatment	540	27	20.1		
Total	813.47	29	156.54		

Decision

The table (4.12) above shows that F-calculated is 6.79 while F-critical is 3.35 at the level of significance of 0.05 and at 2-27 degree of freedom.

Decision Rule: We therefore reject the null hypothesis since F - calculated (6.79) > F - Critical (3.35) and accept the alternative which is there is significant relationship between microfinance banks and wealth creation .

Null Hypothesis (H<sub>03</sub>): There is no significant relationship between microfinance Banks and poverty reduction.

Alternative Hypothesis (H<sub>A3</sub>): There is significant relationship between microfinance banks and poverty reduction.

Statistical Tool: t - test

Degree of Freedom: N - 1

Level of Significance: 0.05 for our purpose.

M	E	Dm= M -Mm	DE =E -ME	(Om)'	(DE)'
8	16	-2	0.4	4	0.16
12	19	2	2.6	4	6.76

12	13	2	-3.4	4	11.56
8	12	-2	-4	4	16
11	12	1	-4	41	16
9	28	-1	11.6	1	134.56
13	18	3	1.6	9	2.56
11	12	1	-4	1	16
4	14	-6	-24	36	5.76
12	20	2	4.4	4	19.36
				68	228.66
<b><math>\Sigma_{xm}=100</math></b>	<b><math>\Sigma_{xE}=164</math></b>				
Mm= $\frac{100}{10}$ =10	ME = $\frac{164}{10}$ =16.4				

Decision Rule: We reject the null hypothesis hence the t- computed is greater than t – critical. That is there is significant relationship between microfinance banks and poverty reduction in Nigeria.

#### Conclusion

The findings of this research is in tandem with the work of Nwekeala (2006) which states that microfinance banks have helped in three major areas, employment generation, poverty reduction and wealth creation. Also, Midgley (2008) corroborates with our findings when he said that the essence of microfinance banks in any society is to reduce poverty, entrench good living standard, improve access to wealth etc. These allusions are apt with our findings and that is to say our findings did not go outside the findings of these authors

#### Recommendations

Based on the findings from the study, the following recommendations are necessary.

1. Microfinance banks should increase access to micro facilities to the low income earners.
2. They should create more entrepreneurs through creation of SMEs.
3. They should increase their grants and subsidies to these low income earners to have more inputs in their kitty.
4. They should train and retrain the low income earner on how to presently utilize these grants and loans.
5. They should also consult experts to teach the beneficiaries on the new ways of doing things.
6. Government should devote up to five percent of their annual budget to the development of microfinance banks to that the poor can be reached.

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