

Financing Entrepreneurship Business with Micro Finance Bank Loan in Nigeria

Money Udih (Ph.D.)

Lecturer Directorate of General Studies
Federal University of Petroleum Resources
P.M.B. 1221, Effurun, Delta State, Nigeria

Abstract

Entrepreneurship business plays a vital role in the economic and social development in Nigeria with respect to employment creation, utilizing local resources, reducing rural-urban migration and a better spread of business and industrial enterprise. Microfinance banks give loans to entrepreneurship business for their working capital expansion, as such transforming the economic and industrial development of developing countries like Nigeria to developed ones. In this study, questionnaires are administered on entrepreneurial business owners, questionnaires were supported by interview method. Use is made of chi-square statistics to analysed the responses from the questionnaires. The study is not without findings and conclusion; recommendations were given to aid the would be and already existing entrepreneurs.

Keywords: Working Capital, Total assets, Entrepreneurship, Urban areas, rural areas, Business.

Introduction

Entrepreneurship business are major contributors to any nation's Gross Domestic Product (GDP), of course, the power house of every nation's economy. It plays a vital role in Nigerian economy. Entrepreneurship business are treated as backbone for economic development (Money and Odibo, 2016). There are so many benefits provided by entrepreneurship business in Nigeria, with respect to social, economic growth and individual fulfillment (Money and Odibo, 2015). Entrepreneurship business is defined as one with a total asset in equipment plants and working capital less than ₦50,000 and workers less than 50 (fifty) (Aluko 1992). Entrepreneurial business is found everywhere in Nigeria; they are likened to frontline troops in the battle for the country's economic development. They make use of local raw materials very often, and are modern sector in Nigeria. They are very essential to the process of economic growth and development in all developing countries especially Nigeria. The introduction of businesses in Small Communities can help to check the high rate of rural-urban migration in the economy. Entrepreneurship is simply the process of having and running a business of your own; and are grouped into micro, small, medium and large organisation with labour force ranging from less than 10 to more than 100; with a total cost in Naira, ranging from less than a million and more than 200m – two hundred million. (Money, 2016).The entrepreneurs cannot survive and of course, make meaningful contribution to their economy if their operations and dealings are financed from owners savings and loans obtain from friends and family members (www.scorerochester.org/help/funding/sources.Phd) (www.askmehelpdesk) With this in mind, micro finance banks have been paying and always a vital role in the financing of entrepreneurship business. Getting loans from micro finance banks have a lot of challenges because the nature of entrepreneurs to their business, no good record keeping, funds diversification to private use; not able to pay loans as well as interest. However, micro finance banks have also failed in most instances with respect to the monitoring and proper use of loans to customer's, this responsibility is missing.

1.1 Research Problem

Every entrepreneurship business need to be fully improve on future development, as such adequate answers need to be provided for the questions as it concerns the problems and constraints:

- Do government give better support/assistance to micro finance banks?
- Entrepreneurship in urban and rural areas, which of them receives more financing? Is there difference?

— Financing entrepreneurship business, is it affected by critical factors like: -poor management, poor technical skills, poor feasibility study, poor marketing ability, little or no accountability, not responding to loan repayment?

1.2 Research Objective

As a clue from the research problem, the objectives of this work are:

- Micro finance bank role in financing entrepreneurship business in the economy.
- To sought out entrepreneurship business problems and of micro finance banks in financing business in the economy.
- To sought out why entrepreneurs do not visit micro finance banks for loan, is it linked to no information or scaring interest on loans.

1.3 The Scope of the Research Study

This work covers all selected entrepreneurship business in the country. But because of the peculiar nature of micro finance banks attention is given to Green Acres micro finance bank along Warri/Sapele Road, by Hausa quarters in Warri; in the Oil producing areas of Niger-Delta in Nigeria.

1.4 The Significant of the Research Study

Entrepreneurship business in Nigeria has been contributing to its development, as it plays a vital role in the economy. The study will improve the perspective of entrepreneurship and its achievement, its winning over the policies fight against the business. It will also identify the sources by which micro finance banks can finance entrepreneurship business with respect to making funds available and of course, create awareness among entrepreneur's business and the needed requirements to obtain funds. The result will be of great use to all entrepreneurs in Nigeria and beyond, with respect to survival strategies in this economic recession. It will be able to close all information gaps as it relates to the causes of financial problem.

1.5 Research Hypothesis

- No difference exists between total deposit and loans or advances given to entrepreneurs.
- No significant relationship exists between the number of entrepreneurship business being financed by banks in the urban and rural areas.
- There is no positive impact of micro finance bank on entrepreneurship business.

Related Literature

2.0 Introduction

Relevant literatures are looked on and the related studies on this topic.

Highlighted in this work are; the features of entrepreneurship business, the sources of financing entrepreneurship business, the importance of micro finance banks; and its criteria to assess loans i.e. the credit assessment criteria by the microfinance banks.

2.1 Entrepreneurship Business: Definition

Entrepreneurship business also referred to as business entrepreneurship is defined as including micro, small, medium and large organization/enterprise. The table below gives a summarized definition of entrepreneurship business with respect to assets, or capital base, employment and turnover.

Table 1. Definition of Entrepreneurship Business

Organization	Labor Force	Total Cost (₦)
Micro	Not More than 10	At least 1m
Small	Between 11 and 25	Between 1m and 40m
Medium	Between 26 and 100	Between 40m and 200m
Large	More than 100	More than 200m

Source: Money (2016).

There is no single accepted definition of entrepreneurship business. However, we have some other definition from various writers and group. Entrepreneurship business is said to be a privately-owned enterprise or franchise that employs up to about fifty (50) people or less in Africa and Europe (Kocic, 2010).

It is also defined as a business that is privately owned and operated with not too large number of employees and relatively low volume of turnover, there are normally and privately owned corporation, partnership or sole traders. (Ekhatator, V.E. 2001). The adopted definition is the reflection of the table above.

2.2 Features of Business Entrepreneurship

Business entrepreneurship is saddled with the following characteristics in Nigeria:

- They have little or no knowledge of bank assistance.
- They have little knowledge and needs of the wider or long distance market.
- The fear and ignorance of having loan from banks (micro).
- It finds it difficult to borrow in micro finance banks.
- Most of them manages, handles and supervises all the managerial functions of the organisation (Akintola, 2008); (Anyanwu, 2008).

2.3 Main Sources of Entrepreneurship Business Financing

Business entrepreneurship have the objective of growth – business continuity, and as such required money from different sources. The sources of financing apart from micro finance banks are: -

- Personal Savings Financing
- Family and Friends Loan
- Private Foundation Grants
- Economic Development Office
- Finance Companies
- Investment Angel
- Doing Business together: Partnership
- Banks – Development and Commercial

2.4 The Importance Microfinance Bank

In Nigeria economy, today, microfinance has a lot of contribution that are meaningful and it includes:

- Providing Financing Services
- Act as a financial Intermediary
- Giver of loan to low income organization
- They are doorstep bankers
- They reach targeted group with funds
- They alleviate poverty in the economy

2.5 Credit Assessment Criteria by Microfinance Banks

Most economy in the world have microfinance banks, these microfinance banks are into credit assessments like the commercial banks but concerns with activities than collateral. Commercial banks in Nigeria give out loan based on the following: Character, Condition, Capacity, Capital and Collateral. It is referred to as the five cees of lending which guide the bankers with respect to credit creation and management among some analytical tools. These five cees help in reducing credit risks to bankers. Apart from making incomes by microfinance bank, microfinance bank has the following social consideration as their objectives: to alleviate poverty, generate employment, to develop real sector and support government development function. Unlike the Commercial banks, the microfinance only considers the three cees, instead of five cees. They consider three cees of lending, and it includes: CHARACTER, CAPACITY and CAPITAL. These three cees are considered before giving out loans. Microfinance bank will decline the would-be customer of loan, if his character is defective; and of course, the other two cees cannot hold sway. The would-be customer should demonstrate having moral, management, technical abilities. Him/her should demonstrate that there is capacity to be successful in project undertaking. The ratio of capital contribution by would-be customer to the required amount (loan). Capital contribution should range from ten to fifty percent depending on the perceived risks, generation of cash flow, its experience in business. The higher the ratio the better for the customer.

Methodology

3.0 This study is concern with the various loan advances from the microfinance banks to the business entrepreneurship from the microfinance banks to the business entrepreneurship from 2014 to 2016 with respect to the level of repayment. Adopted in this study are the research design, sources and type of data, its sources and collection. Percentages and chi-square are used in this study as it relates to the distribution of questionnaire.

3.1 Research Design and Data Collection

In this study, we adopted good process of collection, analyzing and interpretation of observation (Nachmies and Nachmies, 1985), and the management of data is aimed to combine relevant research purposes with economy (Selttiz, 2006), (Selttiz, 1974). We are concern with the use of questionnaire and personal interviews. Data collected are analyzed with percentage and Chi-Square.

4.0 Data Analysis and Hypothesis

4.1Data are obtained through questionnaire, and personal interview, and are presented, analyzed and discussed. Simple percentages were used as well chi-square. The total number of respondents for the research work were forty-eight (48).

Table 2: Total amount deposited by the owners of the business, from 2014 to 2016.

Year	Range in Amount (₦)	Respondents	Percentage
2014	2,000,000 – 6,000,000	8	16
2015	6,000,000 – 8,000,000	20	42
2016	8,000,000 – 10,000,000	20	42

Source: Survey work, (2017).

Table 3: Total amount of loan given to owners of the business, from 2014 to 2016.

Year	Amount(₦)	Respondents	Percentage
2014	20,000,000	8	16
2015	25,400,000	20	42
2016	30,400,000	20	42
	75,800,000	48	100

Source: Survey work, (2017).

Table 4: Financing by Microfinance Bank in Urban and rural area, is Urban more than rural?

S/N	Options	Respondents	Percentage
1	Yes	36	75
2	No	12	25
	Total	48	100

Source: Survey work, (2017).

4.2 Hypothesis

Use is made of chi-square to test three hypotheses at five percent level of significance.

First Hypothesis:

H_0 : There is no significant difference between total deposit and the amount of loans given to entrepreneurship business over the years.

Table 5: Does microfinance bank find it hard to give loans to Entrepreneur due to poor repayment of loans and advances?

S/N	Options	Respondents	Percentage
1	Yes	8	17
2	No	40	83
	Total	48	100

Source: Survey work, (2017).

Table 5: Chi-Square Table: Computation(X^2)

Fo	Fe	(Fo-Fe)	(Fo-fe) ²	$\frac{(Fo-fe)^2}{Fe}$	X^2
8	24	-16	256	$\frac{256}{24}$	10.666
40	24	16	256	$\frac{256}{24}$	10.666
					21.333

Source: Money’s Computation, (2017).

DF = 2 – 1 = 1 Tested at 5% level of significance = 3.841 Tabulated value = 21.333.

We reject the null hypothesis (H_0), since the tabular value i.e. 21.333 > 3.841. Therefore, we accept the alternative hypothesis’s that there is significant difference between total deposit and the amount of loans and advances given to entrepreneurship business over the years.

Second Hypothesis:

H_0 : There is no meaningful relationship between the number of entrepreneurship business being finance by microfinance banks in the urban and rural areas.

Table 7: Microfinance bank financing, is it more in urban than rural areas?

S/N	Options	Respondents	Percentage
1	Yes	36	75
2	No	12	25
	Total	48	100

Source: Survey work, (2017).

Table 8:

Fo	Fe	(Fo-Fe)	(Fo-fe) ²	$\frac{(Fo-fe)^2}{Fe}$	X^2
36	24	12	144	$\frac{144}{24}$	6.000
12	24	-12	144	$\frac{144}{24}$	6.000
					$X^2 = 12.000$

Source: Money’s Computation, (2017).

Since the tabular value is higher than the critical value (12.000 > 3.841), we reject the null hypothesis and accept the alternative hypothesis, thus, there is meaning relationship between the number of entrepreneurship business being finance by microfinance banks in the urban and rural areas.

Third Hypothesis:

H_0 : There is no positive impact of microfinance banks on entrepreneurship business.

Table 9: Services available in microfinance banks

S/N	Options
1.	Retail Banking
2.	Project Financing
3.	Funding of Enterprises
4.	All three above

Source: Survey work, (2017).

Table 10: Chi-Square Table: Computation(X^2)

Fo	Fe	(Fo-Fe)	(Fo-fe) ²	$\frac{(Fo-fe)^2}{Fe}$	X^2
14	24	-10	100	$\frac{100}{24}$	4.167
10	24	-14	196	$\frac{196}{24}$	8.167
4	24	-20	400	$\frac{400}{24}$	16.667
20	24	-4	16	$\frac{16}{24}$	0.667
					$X^2 = 29.668$

Source: Money's Computation, (2017).

Degree of freedom (n-1) → n is number of option.

$D = 4 - 1 = 3$ (Agbadudu, 1994).

At 5% level of significance, we have 9.488

Tabular value = 29.668

Since the tabular value is higher than the critical value i.e. ($29.668 > 9.488$), we reject the null hypothesis (H_0) and accept the alternative (H_1); which means that microfinance banks have positive impact on entrepreneurship business in Nigeria.

4.3 Findings

The major challenges facing entrepreneurship business in Nigeria are financial constraints, inefficient management, technological standstill, market planning is narrow as well as strategies, inadequate infrastructure communal clashes. Risk of fund diversification, beneficiaries, not able to pay back, changes in government policies, lack of financial resources and cost of operation of these services to entrepreneurship business is high. Most of the loans and advances to entrepreneur's end-up in bad and doubtful debts.

5.0 Conclusion and Recommendation

5.1 Conclusion

This paper attempts at assessing how entrepreneurship business is financed by microfinance banks in Nigeria. Several factors are militating against entrepreneurship business, there are: lack of financial resources, management deficiency, infrastructure constraints and problem of technology. Despite the challenges, this sector of the economy has played a lot of role like providing for basic needs, encourages citizen/people to purchase locally made goods, it improves the standard of living and add to revenue of both Federal and State government; and providing employment. Microfinance banks in the state have performed credibly well with respect to financing entrepreneurship business, because of their contribution to economic development, notwithstanding the various policies of government. Microfinance banks decisions as it relates to issue of loans and advances are truly supported all the results and hypothesis; government need to raise the relationship between microfinance banks and loans and advances.

5.1 Recommendations

This recommendation is geared towards improving the business operations, its weaknesses, entrepreneurship business, and the microfinance banks; thus, the relationship between them are more gainful.

- Microfinance banks should only, as matter give loan to the owners of entrepreneurship business, who have proven characteristics and behavior together with business viability and authenticity. They should assess the feasibility study of the business; reasons should be available to reduce bad and doubtful debts.
- The precaution of microfinance banks to give out loans and advances Should not be the end, there should all the time key an eye on the beneficiary's ability to pay back loans as at when due. There should be time to carry out this monitoring exercise, to trace diversion of loans for individual use or not putting it in required business for which the loan was granted.
- The time to repay the loan should not be too short, so that the real meaning can be kept. In fact, a month is too short to repay loans.
- To be able to ascertain at any time the financial position of the business by using correct financial records. Thus, training and education of staff is required; government should be involved in all the processes.
- Government should assist entrepreneurship business to bear cost of modern equipment and technology. This will make their goods and services compete with quality goods and services. Also, there should be more effective and efficient marketing plans and strategies.
- Government should be able to handle infrastructural problems with respect to urban and rural areas. They should step into electricity and water supply, to reduce operational cost.
- The government should be more purposeful and consistent in its policies and objectives as it relates to entrepreneurship business. They should assist microfinance banks and in turn, microfinance bank to assist entrepreneurship business. Also, government should intensity its efforts to reduce communal crises, thus, making the environment better for business activities.
- With high inflation in the economy, entrepreneurs find it difficult to repay loans, as such government should stabilize the country's currency. The interval for loan repayment should be increased.

- The government should always stand behind the microfinance banks legally or not, when beneficiaries fail to meet-up with loan repayment.
- Microfinance banks should rely heavily on simplest level appraisal methods for analyzing entrepreneurship business loan application rather than higher level appraisal techniques.
- Microfinance banks should be very supportive to the entrepreneurship business, so that entrepreneurship business to be successful and profitable. Thus, microfinance banks should be more practical than theoretical.

References

- Agbadudu, A. B. (1994) *Statistics for business and the social sciences*, Uri Publishing Limited, Benin City, Nigeria.
- Akintola, Ajibade (2008) Why it is difficult to obtain loans from Microfinance Banks. December 1st 2008.
- Aluko, S. A. (1992), 'The Education as entrepreneurs' in small scale industries in Nigeria problems and prospectus (Industrial Research Units, University of Ife).
- Anyanwu, (2008), Major sources of Funds for Microfinance Institutions.
- Ekahator, V. E. (2001), "The role of small and medium scale enterprises in the Nigeria Economy" *The Enterprise Quarterly journal* October – December 2001. Vol 3 No. 4. Funding sources for Small "Business March 14, 2006. www.scorerochester.org/help/funding/sources.Phd; www.Africa.com. Nigeria Microfinance Banks.
- Kocic, A. (2010), Definition of small scale business, (published in E-magazine, September 6, 2010).
- Nachmies, C. F. Nachmies (1996), 'Research methods in the social science and 185 contributions to small scale enterprise.
- Money, U. (2016), "Entrepreneurship" courses in General Studies: An Introduction, Lagos, Nigeria.
- Money, U and Odibo, E. E. (2015), Nigeria Small and Medium business management: and effect of entrepreneurship skills. *Indian Journal of Commerce and Management studies*. Vol. VI, Issue 3. www.scholarship.net
- Money, U and Odibo, E. E. (2016). 'The Impact of Entrepreneurship Growth in the Development of Nigeria Economy. *British Journal of Economics, Management and Trade*.
- Seltiz Johoda, (1974), *Self-Help housing on rural America's Bootstrap*.
- Seltiz Johoda, (2006), *Managing Human Capital (HC) in a privately owned public hotel chain*.