

**IMPACT OF MICROFINANCE BANKS ON THE SAVING
HABITS OF RURAL DWELLERS IN IGBESA,
OGUN STATE. NIGERIA
(A STUDY OF LAPO MICROFINANCE BANK, IGBESA
OGUN STATE)**

By

Adu, Cecilia Adurayemi PhD

Department of Accounting and Finance

Crawford University, Igbesa, Ogun State, Nigeria

prepet99@yahoo.com

Abstract

The study investigated the impact of microfinance banks on the banking habit of rural dwellers in Igbesa town in Ogun State, Nigeria. One hundred (100) customers were purposively selected. The sample was taken on a single day to avoid multiple representation of each element. The result of the study showed that microfinance bank services have positive relationship with savings habits of the rural dwellers in Igbesa, Ogun state. Specifically, Microfinance Bank services ($\beta=321$, $p<05$) had significant positive relationship with savings habit of the rural dwellers who operated bank accounts with the microfinance bank. The findings also showed that the availability of Microfinance Bank services could explain 10.3% of the possibility that the rural dwellers (bank account owners with the Microfinance Banks) chances of saving habits. Besides, Microfinance Bank services had a significance positive impact ($F(1,83) = 9.559$, $p<.05$) on saving habits of the rural dwellers in Microfinance Bank customers. Additional Microfinance Banks should be made available in rural communities in order to encourage and improve the savings habits of the rural people. The study recommended that federal government should review the activities of microfinance banks because most microfinance banks have derailed from the core mandate. Services of the microfinance banks should be reviewed and

improved to encourage more rural dwellers to patronize microfinance banks.

Keywords- Saving Habits, Microfinance Banks, Customers, Interest Rate

Introduction

According to the Consultative Group to Assist the Poor (CGAP, 2006 pp 2), microfinance is defined as “a facility that offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance”. In many developing countries, the rural poor are often denied access to financial support because of inadequate infrastructure and banking systems (Babajide, 2012). This may however be overcome where Microfinance Banks are introduced. Formal banking operations started in Nigeria before the nation's independence in diverse forms as a response to rural economic growth and social development (Clancy, Glow and Oberholtzer, 2003). It was strengthened during the post-independence era and to this day, rural banking operation services have become more distinct with the provision of Micro credit to rural dwellers intended to improved small and medium scale investment mainly financed and supervised by commercial banks (Ikpe, 1989)

The collapse of the barter system of exchange before now and subsequent monetization of the economy have motivated the need for some forms of mobilization of savings through either formal or informal method among rural community dwellers to boost socio-economic development (Ashamu, 2014). This led to a type of banking transaction known as rotational saving which ultimately is now common in rural communities and urban centers (Edefiaje, 2011). Also, there was a great concern and gap by the different commercial banks in the country to handle the socio-economic needs of the rural communities and dwellers following the hard financial policies in individual or group assessing of loans and other facilities by the poorer people who are predominantly rural dwellers (Anyanwu, 2004).

Microfinance Banks are fast becoming a household name globally due to their acceptance as a means of reaching those that were not served by the conventional banks to the extent that local and international organizations are exploring the modalities of deriving the best application of microfinance concept to almost every area of economics needs of individuals and organizations over the years (Oluyombo, 2007). Anyanwu in 2004 stated that microfinance is a supplier of loans and other financial services to the rural poor. Microfinance Banks are establishments that are well-known in providing financial services to the poor especially in rural area. However, many intellectuals have attempted to briefly define the concept of rural development in the past. Mabogunje (1980) defined rural development as an enhancement of living standards of the low income population living in the rural areas on a self-sustaining basis through changing socio-spatial structure of their productive activities.

Statement of the Problem

In Nigeria, economy has revealed that about 75% of the people living in rural areas has been deprived access to banking facilities (Apere, 2016). The main reason for establishment of microfinance banks are to alleviate poverty in the nation especially in rural areas and to bring banking services closer to the active poor in rural area. This is also to assist the rural dwellers to gain access to appropriate financial and non-financial services in order to improve their economic activities, increase revenue and create employment opportunities among the rural dwellers(Anyanwaokoro, 2005).

However, Microfinance Bank in its self is not a magic wand to alleviate poverty. Rural dwellers themselves have a role to play. This could be achieved by enjoining the services of Microfinance Bank in terms of operating a bank account with Microfinance Bank which could afford them opportunities to access other services of Microfinance Bank (Adu, 2013). Savings are very imperative for supporting and developing rural industries. They provide several benefits for rural dwellers. Economics literature has established relationship between economic empowerment and savings habits. Thus, a society that has a better saving habits may have a high propensity to better wealth(Ehigiamusoe, 2008). In this

connection, savings could be regarded a moderating variable of poverty alleviation. By the nature of Microfinance Bank services, customers (rural dwellers) are encouraged to operate an account with them before offering any credit facilities. In this sense, Microfinance Bank services could be seen as stimulus to saving habits of the rural community (Adu, 2013). Savings mobilization for microfinance banks has been described as a good strategy for effective microfinance operations. The success of any microfinance bank depends on its ability to mobilize savings, hence the onus to effectively strategize on the various ways to encourage savings lie with them. According to Abraham and Balogun in 2012, there are certain factors that are sure recipes for successful savings mobilization for Microfinance Banks. Most importantly is the access and proximity to customers, the closer the bank is to the customers the better the chances of mobilizing a large number of depositors (Akanji, 2001).

Conceptual Clarification

Origin of Lift Above Poverty Organization (LAPO)

The institution was founded as a non-profit entity by Mr. Godwin Ehigiamusoe while working as a rural co-operative officer in Delta State, Nigeria. LAPO started its activities in 1987 and was formally integrated as a nongovernmental organization (NGO) in 1993. In Nigeria, LAPO has partnered with the Grameen Bank. In 2010, LAPO transformed its Microfinance activities into a regulated Microfinance Bank, while the remaining activities continued under the LAPO NGO. LAPO focuses on assisting the poor, especially the women, in raising their socio-economic status. It also assists clients in overcoming problems beyond the lack of funds, such as illiteracy and environmental degradation which worsens poverty (LAPO Website, 2019).

Micro Credit and Microfinance

These terms Micro-credit and Microfinance are often used interchangeably, but it is important to state the difference between them. Microcredit includes credit activities only, but Microfinance includes credit as well as noncredit activities like savings, pension, insurance and so on. Micro-credit refers to the provision of credit-services to

low-income clients, usually in the form of small loans for the purpose of micro-enterprise and income-generating activities (Amin, Rai and Topa, 2003). Micro credits are usually given without any collateral and for a short period. It is also seen as a small credit facility provided to the low income earners whose earning ability is little. The loan is provided to the borrowers who are jobless, lacking collateral and whose credit history is not comprehensive (Adu, 2013). Micro credit not only increases the income level of the poor people but also rise their living standard. It provides the financial aid to the extreme poor class of people in rural areas to help them become independent rather than depending on commercial banks for loan with excessive interest rates. The term 'Microfinance' has been given different meaning by diverse banks at the international level (Atchoarena and Gasperini, 2003).

Microfinance Policy

In Nigeria, Soludo (2007) stated that the formal financial system provides services to about 35 % of the economically active population. The populace of rural areas is often served by the informal financial sector, through money lenders, friends, relatives and credit unions (Berger and Frame, 2007). The non-regulation of the activities of some of these institutions has serious implications for the CBN monetary policy. A Microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only improve monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the micro, small and medium enterprises (Abdulraheem, 2000).

Prospects of Microfinance Scheme in Nigeria

Economic Empowerment of Low-Income Earners: The world wide effort to combat poverty by empowering the poor members of the society through the functional micro credit and micro finance scheme, has given the poor the opportunity to advance their talents towards economic growth and development (Soludo,2007).

Poverty Reduction: There is a rising awareness of the potentials of micro finance on poverty reduction, economic growth and development. Micro finance scheme is aimed at developing the rural

poor and providing a wide access to financial services to grow their business (Mukhtar, 2009). Gains from international trade: With available and accessible microcredit, there is probability of contributing to the export of products such as leather garments, cassava, bags, clothes and so on(Elumilade, Asaolu and Adereti, 2006).

Employment Generations: Nigerians are productive and enterprising. The poor who account for over half of the population rely heavily on microfinance institutions for credit (Ikpe, 1989).

Microenterprise Development: It is believed that about 60% of poor people live in the rural areas and 80% of them are farmers and artisans (CBN, 2005). Microfinance Banks have been the main sources of funding to these less disadvantaged groups. Rural people are empowered through Microfinance loans and services and hence small scale agricultural practice and Micro enterprise is development(Jegede, Kehinde and Akinlabi, 2011).

Problems of Microfinance Scheme in Nigeria

Alteration of Micro Finance Fund: There have been some cases of fraudulent public officials, diverting credit meant for small scale enterprise (Kasimu, 1997) Occasionally, loans were given out to people in a way that do not suggest that it was meant for commercial purpose. It could be seen that loans are diverted into solving various personal problem(Lepenu and Zeller, 2001).

Insufficient Finance: This is usually the major problem facing micro finance institutions in Nigeria. The necessary funds needed to increase financial services to clients is not adequately available., As a result of the problem of finance, Olowe, Moradeyo and Babalola in 2013 observed that there is an inadequate channeling of fund for real sector development especially agriculture and manufacturing. According to him, only about 14.1% and 3.5% respectively is allocated to these sectors as against 78% funding for commerce(Ogunleye and Akanbi, 2014).

Frequent Changes in Government Policies: Instability has impacted adversely on the performance of primary institutions responsible for policy monitoring and implementation (Yahaya, Osemene and

Abdulkareem, 2011). According to CBN (2004), state owned programmes particularly, those that lack profit incentive, are very vulnerable to political influence. Borrowers were regularly nominated for political reasons rather than because they are qualified.

Low Technical Skills On Micro Financing: Most staff employed in the microfinance institutions, particularly at management level, have little or no experience in microfinance banking and practice (Strauss and Corbin, 1990). Management of micro finance institutions would require a pedigree of knowledge on micro financing to successfully operate in the industry. According to Opué, Anagbogu and Udousoro 2011, the microfinance industry had been confronted with numerous challenges since the launch of the microfinance policy framework in December 2005, a significant number of the microfinance banks were deficient in their understanding of the microfinance concept and methodology for delivery of microfinance services to the target groups. Many of them lost concentration and began to compete with deposit money banks for customers and deposits forgetting their aim and objectives (Onyema, 2006)

High Risk Involved: According to Anyanwu, (2004), about 70% of micro credits given to micro enterprises through government microfinance scheme were not recovered. Some people see the loans as their own share of the national cake and do not repay such loan. The result of this is that it makes loan unavailable for other applicants (Olukotu, 2013)

Methodology

The population of this study comprises of rural dwellers in Igbesa who operate Microfinance Bank during the course of this study. By the nature of Microfinance Bank customers that might have transactions on daily basis Using the rule of thumb, one hundred (100) customers were purposively selected on a Monday business day because it has been observed that Microfinance Banks have largest customers mostly on Mondays. The sample was taken on a single day to avoid multiple representation of each element.

The data required for analysis in this research work was basically the primary data, which were obtained through the use of self-administered questionnaire. Primary data are materials of statistical investigation which were collected by the researcher for a particular purpose. Other source of data made used in this research include Secondary sources of data. These data were collected from textbooks, journals, online and so on.

The variables that were operationalized for this study were covered in this section. The variables included the dependent variable which is saving habits (SH) of the rural customers. The independent variable is proxy by Microfinance bank services (MFBs). Other variables measured in this study were perception of Microfinance bank services by customers (CP), and challenges faced by Microfinance bank customers. These variables were measured using Five (5) point Likert scale.

Linear regression techniques and simple percentage, and mean were employed by the researcher in analyzing various data obtained from the respondents. This method was appropriate for the three objectives designed for this study. The analysis was aided with Statistical Packages for Social Science (SPSS).

Data Presentation, Analysis and Interpretation

A total of one hundred (100) copies of the questionnaire were distributed to customers of LAPO Microfinance bank, Igbesa, Ogun State out of which eighty-four (84) representing about 84% were returned. The returned questionnaire copies were analysed with the aid of the Statistical package for Social Science (SPSS)

This study investigated the impact of Microfinance Bank services on banking habits of rural dwellers in Igbesa, Ogun State. The results revealed that Microfinance Bank services had a positive significant impact on savings habits of rural dweller customers. This result corroborated the findings of Kanu (2005) where it was discovered that Microfinance bank loans have a significant positive impact on short run economics performance of small businesses in Nigeria. It also supported the work of Murad (2017) where it was reported that Microfinance banks

have positive impact on rural dwellers through the provision of loan and advances.

Moreover, the result of this research is also in support of the findings of Alani (2014) where it was stated that microfinance banks have been able to mobilize savings for intermediation and rural development.

Onafowokan (2011), researched on the impact of informal microfinance on rural enterprises. The results showed that members who had access to loan improved their businesses significantly through expansion of business facilities.

Summary of Findings, Conclusions and Recommendations

Summary of Findings

The main purpose of this research was to investigate the effect microfinance bank services on savings habit of the rural dwellers. To achieve this, primary data were collected through the administration of structured questionnaire to one hundred (100) rural dwellers who were operating a bank account with Microfinance Bank in Igbesa. The administration of the questionnaire was carried out purposively. The analysis of the data and discussion of findings were in accordance with the objectives of the study as well as the formulated hypothesis. The result of the study showed that microfinance bank services have positive relationship with savings habits of the rural dwellers in Igbesa, Ogun state. Specifically, Microfinance Bank services ($\beta=321$, $p<05$) had significant positive relationship with savings habit of the rural dwellers who operated bank account with the microfinance bank.

Recommendations

Based on the findings of the research, the following recommendations are made:

Additional Microfinance Banks should be made available in rural communities in order to encourage and improve the saving habits of the rural people. This study also recommends that federal government should review the activities of Microfinance institutions because most Microfinance Banks have derailed from the core mandate. Services of the Microfinance Banks should be reviewed and improved to encourage more rural dwellers to patronize Microfinance Banks.

References

- Abdulaheem, A. (2000). Rural banking and savings mobilization in Nigeria: A case study of Asa local government area of Kwara State, Nigeria. Ilorin. *Journal of Business and Social Sciences (IJBSS)*, 7(1), 79-90.
- Abraham, H., & Balogun, I. O. (2012). Contribution of microfinance to GDP in Nigeria. *International Journal of Business and Social Science*, 3(17), 167-176.
- Adu, C.A (2013). Small and medium scale enterprises funding in Nigeria: Prospects and challenges. *Crawford Journal of Business & Social Sciences*, 3(1):17-23
- Akanji, O.O (2001). "Microfinance as a strategy for poverty reduction". Central Bank of Nigeria Economic and Financial Review, 39(4).
- Akinboyo, O. L., (2007). "Microfinance banks: Unlocking the potentials of micro-business activities of the Nigerian rural economy". Central Bank of Nigeria Bullion, 31(1),23-29.
- Amin, S., Rai, A.S., Topa, G. (2003). Does microcredit Reach the Poor and Vulnerable? Evidence from Northern Bangladesh. *Journal of Development Economic*, 70 (1),59- 82.
- Anyanwu, C. M. (2004). "Microfinance institutions in Nigeria: Policy, Practice and potentials. Paper" presented at the G24 workshop on constraints to growth in Sub-Sahara Africa, Pretoria, South Africa, November 12.
- Anyanwaokoro, M. (2005). Credit Institution as a Vehicle for Poverty Alleviation in the Nigeria Rural Sector: A case study of Nenwenta Community of Enugu State. *ESUT Journal of Management Sciences*, 1(1).

- Apere; (2016). Impact of Microfinance banks on Economic Growth in Nigeria. *International Journal of Academic research in economics and management science*, 5(4), 12-17.
- Ashamu, S. O. (2014). The impact of micro-finance on small scale business in Nigeria. *Journal of Policy and Development Studies*, 289(1849), 1-15.
- Atchoarena, D & Gasperini, L (2003). "Education for rural development": towards new policy Responses, UNESCO and FAO.
- Babajide, A. (2012). Impact of Microfinance banks in Nigeria. *International Journal of Economics and Finance*, 3(4), 217223.
- Berger, A. N., and Frame, W. F. (2007), Small Business Credit Scoring and Credit Availability. *Journal of Small Business Management*, 45(1), 5-22.
- CBN (2005). "Regulatory and Supervisory Framework for microfinance Banks in Nigeria", CBN, Abuja. CBN, August 2nd
<http://www.businessdayonline.com/analysis/comments4s25/htm/>
<http://www.en.wikipedia.org/wiki/micro-credit>.
- Central Bank of Nigeria (2004): Microfinance policy, regulatory and supervisory framework, policy guideline, December, 2006, (16)
- Clancy, K., Grow, S. & Oberholtzer, L. (2003). Agriculture as a Tool for Rural Development: Workshop Proceedings, Workshop Held in Collaboration with the National Rural Development Partnership
- CGAP/IFAD (2006). Managing risk and designing product for agricultural microfinance: features of an emerging model. Occasional paper 1

- Edefiaje, A.L., (2011). Impact assessment of the role of microfinance banks in financing small scale enterprises in Delta Nigeria. *International Journal of Economic Development Research and Investment*, 2(3), 109-113.
- Ehigiamusoe G. (2008). “The role of microfinance Institutions in the Economic Development of Nigeria, Bullion Publications of the central Bank of Nigeria”, 32(1)
- Elumilade, D.O., Asaolu, T.O., and Adereti, S.A. (2006). Appraising the Institutional Framework for Poverty Alleviation Programmes in Nigeria. *International Research Journal Finance and Economics*, 3(2), 67-79.
- Ikpe, K.I. (1989). “Financing Small Business in Nigeria under the Structural Adjustment Institutions in Africa, Asia and Latin America”. FCND Discussion, 114.
- Jegede, C.A., Kehinde, J., and Akinlabi, B.H., (2011). Impact of microfinance on poverty alleviation in Nigeria. *European Journal of Humanities and Social Sciences*, 2(1), 97-111.
- Kasimu, S.U (1997): Banking on micro-enterprises: Innovative lending and credit programmes, NIDB News letter, October.
- Lepenu, C. & Zeller, M. (2001). Distribution, growth and performance of microfinance Institutions in Africa, Asia and Latin America. FCND Discussion, 114.
- Lift Above Poverty Organization Retrieved from https://en.wikipedia.org/wiki/Lift_Above_Poverty_Organization on the 25th June, 2019 London.
- Mabogunje, A. L. (1980). “The Development Process”: A Spatial Perspective, Hutchinson. London.

- Marx, M.T (2001). Nigerian Rural and microfinance: Rural Microfinance Option, report on formation mission by IFAD/c World Bank/CBN.
- Musa, G. & Aisha, U (2012). Financing small and medium enterprises: A challenge for entrepreneurial development in Gombe State. *Asian Journal of Business and Management Science*, **2(9)**, 17-23.
- Mustapha M. (2009). The role of micro finance banks in the promotion and development of entrepreneurship in semi- urban and rural area of Nigeria, *Bayero University Journal of Economics*, **2 (4)**, 52-60.
- Nwankwo, O. (2007). Micro credit finance and poverty reduction: challenges and prospects. *Journal of Banking, Finance and Development*, **1(1)**, 6670.
- Ogunleye, A.G., & Akanbi, B. E. (2014). Are microfinance banks important in deposit mobilization in Nigeria? *Research Journal of Finance and Accounting*, **5(9)**, 53-59.
- Okorie, A., 1988. Rural banking in Nigeria: Lessons from other developing countries. *Agric. Adm. Ext.*, **28**: 147-159.
- Olowe, F.T., Moradeyo, O.A., & Babalola, O.A. (2013). Empirical study of the impact of Microfinance Bank on small and medium growth in Nigeria.
- Olukotu G.A (2013). Impact of Microfinance Banks on rural transformation in Nigeria. Retrieved on 20th December, 2018 from www.ijcbem.com.
- Oluyombo, O. O. (2007). Developing Microfinance Banking in Nigeria. *Babcock Journal of Management and Social Sciences*, **6(1)**, 126134

- Onafowokan, O. (2011). Impact of Informal Microfinance on Rural Enterprises. Retrieved from www.ajol.info/journals/jorind on 20th Feb. 2019.
- Onyema, M. E. (2006). Transformation of the Nigerian Economy through the Microfinance Initiatives: Operators and Entrepreneurs Perspectives, Nigeria.1-5.
- Opue, J. A., Anagbogu, G. E., & Udousoro, A. U. (2011). The Role of Microfinance Banks in the Socio-Economic Development of Rural Communities in Cross River State. *Global Journal of Applied Sciences, Management and Social Sciences*,**1(1)**, 45-55.
- Pulse N.G (2019).What roles have they played in Nigeria? Retrieved from Retrieved on 20th December, 2018 from www.ijcbem.com.
- Robinson, M. (2001). *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington DC: World Bank.
- Soludo, Chukwuma A. (2007). Nigerian Economy: Can We Achieve the Vision 2020? Governor, Central Bank of Nigeria (CBN),8th January.
- Strauss, A. and Corbin, J. (1990). "Basics of Qualitative Research: Grounded Theory "Sustainable approach for women empowerment through Microfinance:
- Teki, S. (2011). *Role of public administration and microfinance in alleviating the poverty through Participation and empowerment of people. Journal of Public Administration and Policy Research*, 3(1), 98-107.
- Yahaya, K.A., Osemene, O.F., and Abdulraheem, A. (2011). *Effectiveness of microfinance banks in Alleviating Poverty in Kwara State Nigeria. Global Journal of Management and Business Research*, March, 11(4), 12-21