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PERCEIVED EFFECTIVENESS OF MICRO FINANCE BANKS IN PROVIDING FINANCIAL SERVICES TO MSMES IN IMO STATE

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ABSTRACT

The study investigated the perceived effectiveness of micro finance banks in providing financial services to MSMEs in Imo State. One research question guided the study and one null hypothesis was tested at 0.05 level of significance. The study adopted survey research design, with population of 1,001 entrepreneurs who are members of MSMEs and 112 staff of MFBs from the ten rural LGAs in Imo State. Simple random sampling technique was used to draw sample size of 600 (544 entrepreneurs & 56 staff of MFBs). The EMFBSI contained 55 items which were validated by experts. The reliability of the instrument was established using Cronbach Alpha formula, which yielded coefficient value of .87. Mean statistics was used to answer the research question while t-test was used to test the null hypothesis at 0.05 level of significance. Finding revealed that staff of MFBs and MSMEs perceived MFBs as effective in providing financial services. Furthermore, the staff of the MFBs differed significantly in their mean ratings on the effectiveness of the MFBs in providing financial services for rural MSMEs in Imo State. The study recommended that MFBs should diversify financial products and services offered to their client to address evolving needs of MSMEs which may include introducing innovative savings products, affordable credit facilities, and digital financial solutions to enhance accessibility and convenience.

Keywords: Effectiveness, Micro Finance Banks, Financial Services, MSMEs

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Introduction

Micro Finance Bank (MFB) refers to banks that offer financial services to low-income individuals or groups who are mainly excluded from traditional banking. Most Micro Finance institutions focus on offering micro credits to their clients. However, the sizes of the loans are smaller than those granted by commercial banks. Micro Finance Bank (MFB) can be referred to as a key development strategy to alleviate and address the financial needs of the rural people. It is a strategy for promotion of growth and reduction of poverty in the developing countries. This means that, it is an institution specifically empowered by government to render financial assistant to low-income earners. According to CBN (2012), a MFB is licensed by the CBN to carry out business by providing financial services such as savings and deposits, loans, domestic fund transfer, and other financial and non-financial services that are needed by the active poor, and micro, small and medium enterprises (MSMEs) to conduct or expand their businesses. According to World Bank as cited in Ibrahim (2015), MFBs are institutions which serve low-income households, micro enterprises, small farmers and others who lack access to the formal financial system. The Integrated Microfinance Bank (IMFB, 2007) opined that MFBs supply loans, savings and other basic financial services to the poor and unemployed. The IMFB posits that the poor and unemployed need diverse range of financial instruments to start and run businesses, build assets, stabilize consumption and shield themselves against risks. Micro finance banks target groups of persons such as the economically active poor, low-income households, the un-banked and underserved people, particularly vulnerable groups such as women, youths and the physically challenged, informal sector operators, micro-entrepreneurs and subsistence farmers (CBN, 2012).

MFBs were established to provide financial services to the active poor; create employment opportunities, increase productivity and household income of the active poor in Nigeria. Furthermore, they aim at enhancing service delivery to micro, small and medium enterprises and mobilize savings for intermediation and rural transformation (CBN, 2012). By pursuing these targeted objectives, the MFBs become the machinery through which all levels of government promote economic development and growth, as well as provide job opportunities and support small scale businesses particularly in the rural areas. This in turn leads to rural community development, by reducing poverty and unemployment.

The success of any MFB depends on its ability to mobilize savings culture. Odejimi and Edogiawerie (2019), posit that successful savings mobilization of MFBs depends on access and proximity of the banks to customers. This means that the more MFBs are located in the rural areas, the better the chances of mobilizing a large number of depositors. MFBs are established to provide an avenue for MSMEs to keep their savings so that they can build up large sums of money to meet several needs. These needs are met by the savings mobilization

activities of the MFBs. Savings mobilization include rendering services such as MFBs' marketers going to business owners to encourage them to save money with banks, meeting staff and customers of MSMEs daily, weekly or monthly to collect money and deposit for them in the bank, and meeting MSMEs during their meeting days to alert them on their services. Ayodeji and Ogundipe (2018) stated that MFBs' savings mobilization services include opening bank accounts for target customers with zero minimum balance requirements as a way of encouraging them to save, and paying interest on the amount saved. This also implies encouraging customers to save without physical and financial stress.

MFBs main objective is provision of financial services to the reach of more poor people in rural communities and to help them become financially viable and sustainable through credit provision. This makes the MFBs to enjoy near monopolies in the provision of financial services most especially small credits to the very poor entrepreneurs (Muftau, Afolabi & Muritala, 2016). MFBs provide financial services to the economically active poor in the society and create an environment of financial inclusion to boost the capacity of MSMEs that abound in rural areas of Nigeria (Agbaeze & Onwuka, 2014). Financial services are economic services provided by the finance industry, which encompasses a broad range of businesses that manage money (International Monetary Fund (IMF, 2012).

Financial services are terms used to refer to the services provided by the finance market. Financial Services are also the term used to describe organizations that deal with the management of money, such as banks, insurance companies, credit card companies and stock brokerages. Awunyo-Vitor (2018) stated that financial services provision involves contingent claims relating to future resources for which the claims are determined in the present. The ability of financial service providers to monitor their clients' conduct and credit worthiness depend greatly on the extent of information available to them.

Provision of financial services to rural MSMEs is a key ingredient in the promotion of small scale businesses, and this forms an essential element of any poverty reduction-oriented strategy for future development (Awunyo-Vitor, 2018). Provision of financial services, particularly credit, affects the performance of small scale enterprises via an efficient allocation of resources. It helps MSMEs to overcome credit constraints. These funds can also be used to buy more goods, for example, a study by Awunyo-Vitor (2018) revealed that the low level of small scale business growth in Africa can be attributed to lack of access to financial services by members of MSMEs.

MFBs are referred to as organizations that provide financial services such as credit, funds transfer, insurance, leasing, standing order, bills payment, and pension remittances among others. These financial services that are targeted at low - income households and small scale enterprises in both urban and rural areas, including employees in the public and

private sectors and the self – employed (Muftau, Afolabi & Muritala, 2016). In addition, MFBs provide thrift, credit and other financial services or products in very small amounts which can enable the poor to raise their income levels and improve their standard of living. Such credits are repaid within a short period of time.

Generally, poverty reduction and unemployment in Nigeria can be achieved through increased productivity that requires access to financial services for adoption of new and improved technologies by MSMEs (Chandio, Jiang, Wei & Guangshun, 2017). However, it seems that part of the challenge of the MFBs is ineffectiveness in the provision of financial services. Chandio et al. argued that current-day financing schemes, which are available to MSMEs, particularly in developing countries, are not very effective. Awunyo-Vitor (2018) stated that poverty cannot be alleviated by only giving access to credit alone because in some cases poor individuals who accessed credit become worse-off as a result of the terms and conditions attached to the service.

MFBs can provide their clients with a range of financial services, according to Obi (2015). Microcredit, micro-leasing, micro-insurance, and remittance services are a few of these financial services. Micro-credit Summit as cited by Zhiri (2017) viewed micro-credit as the extension of small loans to entrepreneurs who are too poor to qualify for commercial bank credit. Micro-credit is the provision of cash in kind of loans in smaller amounts to micro, and small entrepreneurs meant to improve their business operations. Zhiri stated that microcredit refers to small loans'. Thus microcredit is a component of microfinance in that it involves providing credit to the poor. Credit provides the basis for increased production efficiency through a specialization function. Microcredit comes in different forms such as Income Generation Loan (IGL) used for income generation and asset development with a repayment fund of 50weeks paid weekly; Mid Term Loan, the same as Income Generation Loan which is available at the middle (week 25) of IGL with 50weeks repayment but paid weekly. The other type of short term loan is the emergency loan for health, funerals, hospitalization, education, and repayment is between 20weeks and 40weeks. The individual loan with repayment of 1 to 2 years is also used for income generation and asset development. All these loans carry different degree of interest rates. The MFBs use the micro-lending and micro-credit products to reach large numbers of poor through the group based lending model and this has enhanced the growth and sustainability of the MFBIs (Muftau, Afolabi & Muritala, 2016).

MFBs are beginning to experiment with other financial services such as insurance, credit cards and payment services (Obi, 2015) Insurance is a product that will likely be offered more extensively in the future by many MFBs. This will happen when they mature to offer maximum services to clients and customers. Micro-insurance allows rural MSMEs to pool risk by collecting relatively small premiums from a large population and funding relatively large payment to the small portion

of that population that suffered losses from specific risk events (Muftau, Afolabi & Muritala, 2016). These events are common causes of decline in the MSMEs business and they include death, health challenges, property and disability. The micro-insurance product provide succor to MSMEs since they can draw from their premium to mitigate these calamities and focus on their core businesses. Orodje (2012) stated that poor entrepreneurs who are close to poverty line are vulnerable to shocks such as illness, health challenge, theft or other natural disasters. These disasters provide huge claim on the financial resources of the family, and absence of micro-insurance may drive the family much deeper into poverty that it can take years to recover (Muftau, Afolabi & Muritala, 2016).

Micro-leasing is another financial service on the menu list of MFBs. The banks use this service to raise fund for rural farmers and MSMEs who want finance for capital equipment. This service allows the MFBs to go into long-term finance and also provide finance for short and medium term capital for fixed assets (such as equipment, agricultural machinery or vehicles) especially for those who cannot pay at full costs or even meet down payment and lease terms (Muftau, Afolabi & Muritala, 2016). There are three types of lease namely: capital or finance lease (or full payer lease), operating lease and hire-purchase lease. The finance lease is a medium – term lease agreement between the leasee (user of the asset) and the leasor (owner of the asset or provider of the finance i.e. the MFBs). The leasee ensures that the lease payment during the primary period covers the full cost of the asset and a finance charge (to give the leasee a suitable return on the investment). Finance leases are also known as full-payment leases, since payment term amortize the leasee's total purchase costs. The client (leasee) makes a down payment up to 30% of the cost of the assets to the institution (leasor), and the institution buys the asset for the clients. The operating lease is a short-term cancelable lease between the leasor and the leasee. The lease term does not cover most of the useful economic life of the asset. The leasee is responsible for the upkeep, insurance, servicing and maintenance of the asset (Olowe, 2014). The hire-purchase lease is a credit sale agreement used for retail or individual training of items such as motorcycle, sewing machine, refrigerators among others. Under the three lease arrangement, most especially the finance and hire purchase leases, the clients must have established a credit history with the MFBs, and the institution will spread the cost of the assets, the interest charges and risk over the lease term. (Amenbal & Halladay as cited by Muftau, Afolabi & Muritala, 2016).

Generally, a microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, women, senior citizens and non-salaried workers in the formal and informal sectors. The said loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household. Ordinarily, the tenure of

microfinance loans is six months. However, in the case of crops with longer gestation period, a maximum tenure of 12 months may be permitted. Microfinance loans may require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly or monthly basis in accordance with amortization schedule in the loan contract.

Additionally, CBN (2012) stated that MFBs are expected to engage in the provision of the following financial services to her clients:

a. provision of micro-credit to its customers, including formal and informal self-help groups, individuals and associations,
b. promotion and monitoring of loan usage among its customers by providing ancillary capacity building in areas such as record keeping and small business management,
c. issuance of redeemable debentures to interested parties to raise fund for active poor and MSMEs with approval of the CBN,
d. provision of payment services such as salary, gratuity, pension for the various tiers of government,
e. encouragement of investment in cottage industries and income generating projects for poor persons as may be prescribed by the CBN,
f. provision of services and facilities to customers to hedge various risks relating to microfinance activities, and others.

However, financial services of MFBs can be in form of providing micro loans for MSMEs to buy raw materials, providing funds transfer for MSMEs to buy stock, providing small loans for MSMEs to enable them maintain new and improved technologies, offering emergency loan to MSMEs to cover production expenses, providing micro-insurance for MSMEs to cover for losses suffered from fire disasters, providing payment services such a s pension for MSMEs who maintain deposits with the bank, Provide capital for MSMEs to enable them finance capital equipment necessary for their businesses, offering hire-purchase lease to MSMEs to enable them purchase vehicles necessary for their businesses, monitoring loan usage among MSMEs to ensure they are judiciously utilized for business purposes, Offer soft loan to members of MSMEs to expand their businesses, and paying interests as agreed to MSMEs who maintain deposits with the bank in accordance with existing guidelines

According to Obi (2015), MFBs have not been effective in the provision of financial services to rural MSMEs due to constraints such as high operating costs, problem of clients defaulting refunding loans which pose great challenges to the MFBs sustainability, inexperienced credit staff, lack of re-financing facilities and clients apathy. Obi (2015) asserts that due to ineffective financial service delivery, customers now dropout. Therefore, it is observed that microfinance institutions lose up to 20% client base annually due to ineffectiveness. Similarly, Kanu and Isu (2015) posited that MFBs should enhance the capacity of the poor for entrepreneurship

through the provision of financial services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth. Kanu and Isu however regretted that MFBs financial services have not been as effective as expected evidenced by the fact that many rural MSMEs still find it difficult to access micro-finance credit facilities.

Furthermore, Acha (2012) pointed out that Nigeria's population is large and the country is endowed with abundance of resources. This therefore, necessitates the need for MFBs to be effective in the provision of financial services as it would enhance fair distribution of the country's resources by eliminating poverty and sustaining the active poor to be self-reliant. To buttress this point further, Acha (2012) said that large number of Nigerians in rural areas still live in poverty. Adamu (2018) found out that only a fraction of financial services were offered to MSMEs by MFBs across Nigeria. Orodje (2012) asserts that the benefits of the financial services provided by MFBs to MSMEs are considered a failure. Orodje further stated that this could generally be due to the lack of considerable differences between the type of interest rates and credit access requirements of MFBs in Nigeria when compared to those attainable from larger commercial financial institutions. It is believed that such factors discourage MSMEs from either soliciting the services of MFBs or returning after a first experience. There could be a lot more needed to be done in order for MFBs to effectively provide financial services for MSMEs.

In Imo State, there are many MFBs established to provide financial services to MSMEs and other citizens in both urban and rural areas. The study comprises of MSMEs entrepreneurs and staff of MFBs in rural areas in Imo State. The MSMEs and staff of MFBs may differ in their responses on the effectiveness of MFBs in providing financial services to MSMEs in Imo State. This is because the MFBs render services while MSMEs are their clients who receive such services. It is therefore necessary that the opinions of the two groups are sought-for in this study for determination of necessary gaps for improvement. Based on this back drop, this study sought to determine perceived effectiveness of micro finance banks in providing financial services to MSMEs in Imo State.

Statement of the Problem

MFBs can be regarded as pivot on which the overall financial well-being of the active poor population in the rural areas revolve. MFBs were established to provide diversified micro finance services for the underserved particularly MSMEs in the rural areas. Such services were meant to reduce poverty, enhance employment, improve standard of living and promote resilient enterprises through ensuring quality financial literacy education and promotion of savings culture among the rural dwellers.

However, it is quite disheartening that statistics and observations from the rural

areas still portray glaring decline of MSMEs, social ills of poverty, unemployment, decline in starting of MSMEs and poor financial conditions among rural dwellers (Obayagbona, 2018). According to Okunola (2016), rural dwellers feed on less than one dollar per day. Ogundinma (2015) revealed that MFBs have been unsuccessful at reaching the vulnerable poor while Murad and Adewele (2017) noted that MFBs are enhancing the economic stability of the country. Various views are held by different authors on the effectiveness of MFBs, hence, the researcher deems it quite imperative to determine using empirical evidence the effectiveness of MFBs in providing financial micro services to MSMEs in Imo State because it is in doubt whether they are achieving their stated objectives. This will provide evidence for decision taking, planning and policy making on improvement of MFBs services in respect of MSMEs for general economic growth and sustainability in rural communities in Imo State.

Purpose of the Study

The purpose of this study was to determine the perceived effectiveness of micro finance banks in providing financial services to MSMEs in Imo State.

Research Question

A research question guided the study.

1. How effective is MFBs in providing financial services to MSMEs in Imo State?

Research Hypothesis

A null hypothesis was tested at 0.05 level of significance;

HO: Staff of MFBs and micro, small and medium scale entrepreneurs will not differ significantly in their mean ratings on the effectiveness of MFBs in providing financial services to rural MSMEs in Imo State.

Research Method

The design adopted for the study was descriptive survey design. The area of the study was Imo State. The population of the study consisted of 1001 respondents. The respondents were 600in number (544 entrepreneurs and 56 staff MFB). They were sampled using simple random sampling technique. The instrument used for the study was researcher made questionnaire, titled "perceived effectiveness of Micro Finance Bank scale (PEOMFBS). The PEOMFBS has 11 items structured on a 4–point rating scale of very Effective 4 points, Effective 3 points, Slightly Effective 2 points, and Ineffective 1 point. The respondents were asked to indicate their level of agreement or otherwise of the items by ticking on the weighted 4 point scale. The instrument was validated by three experts, two from the Department of Adult and Continuing education and one from Measurement and Evaluation Unit of Department Educational Foundation, all from Nnamdi Azikiwe University, Awka. Cronbach Alpha coefficient formular was used to determine the reliability coefficient of PEOMFBS, which stood at 0.83. A total of 600 copies of questionnaire were produced and distributed

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to the respondents. Only 496 copies were completed and returned, representing 82.6%. The data analysis was, therefore, based on 496 completed and returned copies of the questionnaire. Mean statistics was used to analyze the research questions while t-test was used to test the null hypothesis at 0.05 level of significance. Nworgu (2015) affirmed the use of t-test to test hypothesis about the difference between two population means. Therefore, the use of t-test for this study was deemed fit. The decision rule for research questions were determined using true limits of numbers in a 4-point rating scale response category. 2.50 mean points and above were regarded as Effective while 2.49 and below were interpreted as Ineffective. The null hypothesis was accepted at 0.05 level of significance if the t.cal is less than the P.value, otherwise the null hypothesis was rejected.

Analyses of the Research Question

Research Question: How effective is MFBs in providing financial services to MSMEs in Imo State?

Table 1: Mean Ratings of the Respondents on the Perceived Effectiveness of MFBs in Providing Financial Services to MSMEs in Imo State; N = 496

S/N	Items on Financial Services	SMFB (*N* = 56) $\bar{X}$	MSME (*N* = 440) $\bar{X}$	Total Mean $\bar{X}$	Remark
1	Provision of micro loans for MSMEs to buy raw materials	3.51	3.33	3.35	E
2	Provision of funds transfer for MSMEs to buy stock	3.47	3.21	3.24	E
3	Provision of small loans for MSMEs to enable them acquire new technologies	3.27	2.89	2.93	E
4	Offering emergency loan to MSMEs to cover production expenses	3.15	2.73	2.78	E
5	Provision of micro-insurance for MSMEs to cover for losses suffered from disasters	2.35	2.45	2.44	IE
6	Provision of payment services such as pension for MSMEs who maintain deposits with the bank	2.09	2.20	2.18	IE
7	Provision of capital for MSMEs to enable them procure capital equipment necessary for their businesses	2.87	2.81	2.82	E
8	Offering car loans to MSMEs to enable them purchase vehicles necessary for their business.	2.49	2.36	2.38	IE
9	Monitoring loan usage among MSMEs to ensure they are judiciously utilized for business purposes	3.27	3.28	3.28	E
10	Offering soft loan to members of MSMEs to expand their businesses	3.51	3.41	3.42	E
11	Paying interests as agreed to MSMEs who maintain deposits with the bank in accordance with existing guidelines	3.49	3.03	3.08	E
	Total Mean Score			2.90	E

Note: IE = Ineffective, SE= Slightly Effective, E= Effective, VE = Very Effective

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Based on the decision rule, Table 1 reveals that MFBs are ineffective in three items but they were effective in eight items. The total mean score was 2.90. This justifies MFBs as effective in providing financial services to MSMEs in Imo State

Test of Hypothesis

HO: Staff of MFBs and micro, small and medium scale entrepreneurs will not differ significantly in their mean ratings on the effectiveness of MFBs in providing financial services to rural MSMEs in Imo State.

Table 2: t-test Summary on Mean Ratings of Staff of MFB and Micro Small and Medium entrepreneurs on the effectiveness of MFBs in providing financial services to rural MSMEs in Imo State

Variable	N	Mean	SD	t-value	Df	p-value	α-level	Decision
SMFB	56	3.06	.40	2.465	493	.014		
MSMEs	439	2.88	.50				0.05	Significant

Table 2 shows that the Staff of MFB (M = 3.06, SD = .40) had a significant higher mean score on perceived effectiveness of MFBs in providing financial services to rural MSMEs in Imo State than MSME (M = 2.88, SD = .05), t (493) = 2.465, p <.05. Hence, the hypothesis that there is a significant difference between the mean ratings of SMFB and MSME on the effectiveness of MFBs in providing financial services to rural MSMEs in Imo State is rejected.

Discussion of Findings

The result of the analysis revealed that the MFBs were effective in providing financial services to MSMEs in Imo State. This finding was in agreement with Joseph et al. (2017) who reported that most MFBs in Nigeria provided financial services to entrepreneurs. This is in line with earlier finding of Agbaeze and Onuwka (2014) which revealed that provision of financial services to the economically active poor in rural communities and creating an environment of financial inclusion to boost the capacity of MSMEs are major roles performed by MFBs. Furthermore, Akosile and Ajayi (2014) observed that financial services provided by the MFBs enables the poor, low-income group and MSMEs to embark in economic activities which improve their income, create wealth, boost self-reliance and reduce poverty. Acha (2012) pointed out that Nigeria's population is large and the country is endowed with abundance of resources. This, therefore, necessitates the need for MFBs to be effective in the provision of financial services as it would enhance fair distribution of the country's resources by eliminating poverty and sustaining the active poor to be self-reliant. In the view of Acha (2012) large number of Nigerians in rural areas still live-in poverty. Nevertheless, Adamu (2018) affirmed that only a fraction of financial services was offered to MSMEs by MFB across Nigeria.

The corresponding hypothesis revealed that there was a significant

difference between the mean ratings of staff of MFBs and MSMEs on the effectiveness of MFBs in providing financial services to rural MSMEs in Imo State. This difference in opinion between the two groups could be due to the fact that MSMEs may have varying expectations from the staff of MFB and because MFBs are the providers of the services while MSMEs are the receivers of the services.

Conclusion

The study concluded that the MFBs were effective in providing financial services for MSMEs in Imo State. Staff of the MFBs and members of MSMEs differed significantly in their mean ratings on the effectiveness of the MFBs in providing financial services for rural MSMEs in Imo State.

Implications of the Study

The findings of this study have several implications for both MFBs, MSMEs in rural areas, government and rural communities: The finding suggests that the MFBs are effective in providing financial services to MSMEs. However, practical real life situation shows that there is still multi-dimensional poverty in the rural areas which affects setting up of micro, small and medium enterprises. This implies that more efforts need to be made by the MFBs to reach the grassroot with their financial services particularly to the MSMEs who are struggling to strengthen the poor economic situation of the country.

Recommendations

Based on the findings of the study, the following recommendations were made;

1. MFBs should continuously assess and diversify financial products and services which they offer in order to address evolving needs of MSMEs. This may include introducing innovative savings products, affordable credit facilities, and digital financial solutions to enhance accessibility and convenience.
2. The Federal Government of Nigeria should raise the Capital Base of MFBs from 1 billion to 10 billion in Nigeria so that they will adequately provide financial services to the rural poor.
3. MFBs should upgrade and invest in technological infrastructure to enhance the efficiency and effectiveness of MFB operations. This includes adopting digital banking solutions, implementing secure online platforms, and leveraging technology to streamline financial services.

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