



## **Influence of Micro-Finance Banks on Socio-Economic Development of Rural Communities in Rivers State**

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### **ABSTRACT**

This study examined Influence Of Micro-Finance Bank on socio-economic development of rural communities in Rivers State. The study employed descriptive survey research design. The study used a sample of 402 respondents that comprise 106 Micro-Finance Bank staff and 296 community residents. Two research questions were answered with corresponding hypotheses that were tested at 0.05 level of significance. For data collection, a structured questionnaire which was validated by two experts in Measurement and Evaluation was used which was designed after Likert-4-point rating scale of agreement. A reliability coefficient of 0.88 was established for the instrument which was used for the study using Cronbach Alpha coefficient reliability method. For statistical analysis, mean and standard deviation were used to answer research questions while z-test was used to test the hypotheses. The result of the study revealed among other things that Micro-Finance Banks have not contributed to social development in communities in Rivers East Senatorial District of Rivers State. Based on the findings of the study, it was recommended among others that the management of Micro-Finance Banks should intensify efforts to extend their services to other rural communities for economic development of the people. This will help to reduce poverty among the host communities and beyond. Micro-Finance Banks should ensure the provision of basic and social amenities to communities as part of their corporate social responsibility. This will in a way attract more customers from within the catchment zone.

**Keywords:** Micro-finance Banks, Community Development, corporate social responsibility

### **INTRODUCTION**

The idea of self-help is one of several distinguishing features of rural community development theory, practice and ideology. It is based on the premise that people can, will and should collaborate to solve community problems. In addition to the practical problem-solving utility of this perspective, self-help builds a strong sense of community and a foundation for future collaboration. It embodies the notion that a community can achieve greater self-determination within constraints imposed by the larger political economy in which it is imbedded. In community development practice, it is rudimentary that the solution to community problems is sought first within the community and its resources and capabilities.

The importance of community development in contemporary Nigerian society cannot be overemphasized, as much as it cannot be relegated to the background. Its its significance stems from its recognized role in the process of achieving the improvement of economic, political, social and cultural conditions of the communities. As a strategy, community development ensures rapid national development hence Ugwu (2009) asserts that community development is one of the major planks upon which national developmental policies and their implementation are hinged. Mabogunje (2000) defines community development as an improvement of the living standards of the low income population living in the rural areas on a self sustaining basis through transforming socio-spatial structure of their productive activities. Adedayo (2013) also describes community development as the improvement and transformation of the rural space in order to enhance the quality of life of the inhabitants. Community development can be achieved through the empowerment of its dwellers for sustainability and survival. It is well established that empowerment is closely related to development

as it connotes an increase in economic strength of a people. Community development and empowerment are therefore critical ingredients for alleviating poverty and ensuring a society's economic growth and transformation. Economic development is about people and their welfare. It is argued that rural dwellers require empowerment to awake and enhance their enterprise and thus make them commercially viable and sustainable. In line with the above and for community development to be enhanced, the people must be economically viable.

The basis for employment generation and community development in rural areas, therefore, is to enhance the improvement of the living condition of the people. It is no longer a gainsaying that the small and medium scale entrepreneurs in rural areas lack the necessary financial services, especially credit from the banks; this is because they are considered not credit worthy. Consequently they depended on families, friends and other informal sources of funds to finance their businesses for survival. Successive governments have come up with special rural programmes whose principal targets is the overall development of rural enterprises with special consideration on small and medium scale enterprises and also to empower rural dwellers. These programmes range from Agricultural Development Projects (ADPs), the establishment of Agricultural Credit Banks to Better Life Programme for Rural Women and the like (Mustapha, 2009). Unfortunately most of the programmes failed to achieve the desired result. This led to the emergence of microfinance banks aimed at extending credits to micro-enterprises and encouraging entrepreneurship especially in semi urban and rural areas.

The operation of microfinance institutions date back to the pre-independence period in Nigeria when traditional thrift saving system and activities of the traditional group networks served as proprietors of financial exchange led by traditional money lenders which could not handle the growing expansion and needs of people in rural communities (Apere, 2016). The failure of conventional banking in Nigeria to meet the socio-economic complexities (needs) of the rural communities that consequently experience rapid growth and changes as well as government desire to reach rural areas with development gave rise to the emergence of community banks (now microfinance banks) as a way of providing financial answers to the low income earners or people so as to finance and improve their income generating activities (Oyinpreye, 2017). Microfinance banks can be seen as an economic growth method intended to advantage the low income class of a given country like Nigeria, both rural and urban poor.

Microfinance according to the Central Bank of Nigeria (2005) is about providing financial services to the poor who largely constitute the 65% excluded from access to financial services of conventional banks. More so, lack of access to credit has been identified as the reason behind the growing level of poverty in many developing countries. This further emphasizes the crucial role microfinance institutions play in economic growth, social, educational and cultural development of the communities in Port Harcourt metropolis especially in their service to help meet economic development objectives which is poverty reduction. Also, Microfinance Bank create employment, help existing businesses to grow or diversify their activities, empower women and other disadvantaged groups and even encourage the growth of new businesses (Khander, 2003).

Community banks which have been transformed into microfinance banks were developed as self-sustaining financial institution owned and managed by local communities such as community development associations, town unions, cooperative societies, farmer's groups, cooperative societies, social club whose sole aim or objective is to promote community development and enhance economic growth as well economic development at the grassroots level by improving and promoting the saving habits of the people (Ayodele & Kayode, 2014). Microfinance banks serves as part of the veritable vehicles for channeling funds for community development.

Micro-Finance is defined as the provision of a small range of financial services to the poor to help them take up new opportunities and engage in productive ventures. According to the training programme for non-executive directors of microfinance banks in June, 2013, a Micro-Finance Bank (MFB) is defined as a company licensed to carry on the business of providing microfinance services such as loans, domestic fund transfers and other financial services to the economically active populace and other small and medium enterprises in need of financial services to expand their businesses in rural areas to promote community development. According to Lepenu and Zeller (2001), microfinance is defined as a form of services for entrepreneurs and small businesses lacking access to banking and related services.

Also, the rural dwellers, the poor and low income families need empowerment to fund their lifecycle needs, through improved healthcare needs, educational needs of their children, better housing, and increase choices in dietary needs and improvement in their knowledge and methods of enterprise. They equally need empowerment to provide rural infrastructure and substitutes amenities that government is yet to provide. They need empowerment to fund their social activities such as weddings, funerals and of course, disaster relief during the incidence of flood, pestilence, drought and other disasters. To achieve all these, the provision of funds through microfinance banking is considered as the best option available as one of the objectives of Microfinance towards community development. Microfinance banking is the provision of a broad range of financial services such as deposits, loans, money transfers and insurance to the poor and low income household and their micro enterprises at affordable cost (Ehigiamusoe, 2011). It is a system of financial intermediation that addresses the multi-faceted challenges of the rural dwellers and low-income households and is arguably adapted to their situation and needs.

Microfinance Bank can contribute and promote community development through direct provision of infrastructures such as hospitals, health care services, water supply systems, renovation of schools, building of markets etc. Also, it can be done through empowering the people by way of rendering political, economical, educational, social, cultural and religious assistance to an individual or the community at large. From the above, Micro-finance banks are generally seen as agents of economic development especially in the rural communities. They provide small capital units to boost economic activities in the interior areas which will promote community development.

### **Statement of the Problem**

Rural community development is all about seeking to bring about improvement in the living condition of the farmer, the artisan, the tenant and the landless within the simple and achievable economies of the country. The basis for employment generation and individual development in rural areas, therefore, is to enhance the improvement of the living condition of the people through petty trades or small scale businesses. The small and medium scale entrepreneurs in rural community lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Consequently they depended on families, friends and other informal sources of funds to finance their businesses. Successive governments have come up with special rural community programmes, whose principal targets is the overall development of rural enterprises with special consideration on small and petty trades and also to empower rural dwellers. These programmes range from Agricultural Development Projects (ADPs), the establishment of Agricultural Credit Banks to Better Life Programme for Rural Women and the like. Unfortunately most of the programmes failed to achieve the desired result. This failure led to the emergence of microfinance banks which is aimed at extending credits to microenterprises and encouraging people especially in rural areas to be productive and self reliant. Micro-Finance Bank was introduced to salvage the failure of other banks and for the development of people in rural communities. The question is have Micro-Finance Banks achieve their aims and objectives of its introduction in areas of community development? In attempt to provide answer to this question, this study was undertaken examine the influence of Micro-Finance Banks on the promotion and development of communities of rural communities in Rivers State.

### **Purpose of the Study**

The purpose of this study was to examine the influence of Micro-Finance Banks on socio-economic development of rural communities in Rivers State. Specifically, this study sought to:

1. Determine the influence of Micro Finance Bank on the economic development of rural communities in Rivers State.
2. Determine the influence of Micro Finance Bank on the social development of rural communities in Rivers State.

### **Research Questions**

1. How do Micro-Finance Banks influences economic development of rural communities in Rivers State?
2. How do Micro-Finance Banks influences social development of rural communities in Rivers State?

**Hypotheses**

- H<sub>01</sub>:** There is no significant difference in the mean responses of Micro-Finance Banks’ Staff and Community Residents on how Micro-Finance Banks promote economic development of rural communities in Rivers State.
- H<sub>02</sub>:** There is no significant difference in the mean responses of Micro-Finance Banks’ Staff and Community Residents on how Micro-Finance Banks promote social development of rural communities in Rivers State.

**METHODS AND METHODS**

The study adopted a descriptive survey design with a population of 2082 respondents from 11 communities and 15 Microfinance Banks of rural communities in Rivers State. The sample size for the study was 402 respondents (Microfinance Staff = 106; Residents = 296). Purposive random sampling technique was adopted in selecting the 296 respondents from 11 communities based on indigenes and not residency while census population was used for Micro-Finance Bank Staff due to its small population size of 106. This gives a percentage of 19% of the entire population. The instrument for the study was a self-constructed questionnaire title “Influence of Microfinance Banks on the Promotion of socio-economic Development Questionnaire (IMBPSDQ)”. The instrument was validated by two experts in Measurement and Evaluation. The reliability of the instrument was established using Cronbach Alpha Reliability Coefficient method for a measure of internal consistency of the instrument. A reliability coefficient value of 0.88 was obtained and used for the study. Copies of the instrument were administered directly to the respondents by the researcher and three research assistants that were trained by the researcher. Mean and Standard Deviation were used to answer the research questions while z-test was used to test the null hypotheses at 0.05 level of significance.

**RESULTS**

**Research Question 1:** *What are the influences Micro-Finance Banks on the economic development of rural communities in Rivers State?*

**Table 1: Mean Scores of Respondents on the Promotion of Economic Development of Communities by Micro-Finance Banks**

S/NO	Item Statement	MFB Staff (N106)			Residents (N=296)		
		$\bar{X}$	SD	RMK	$\bar{X}$	SD	RMK
1	Through provision of vocational training centers.	2.16	0.90	DA	1.53	0.62	DA
2	Giving of loans at a reduced rate of interest.	3.22	1.04	A	3.66	0.76	A
3	Provision of job opportunities.	3.62	0.87	A	3.01	0.66	A
4	Through Provision of loans without collateral.	3.70	0.51	A	3.90	1.11	A
5	Offering financial intermediation for low income members.	2.53	1.22	A	3.20	0.73	A
6	Training of small scale business owners on financial management.	3.85	0.82	A	3.57	0.69	A
7	Through Giving of grants to members and its communities.	2.21	0.72	DA	2.34	0.91	DA
8	Open access to credit facilities.	2.33	1.03	DA	1.90	0.50	DA
9	Provision of agricultural facilities for farmers.	1.63	0.89	DA	1.47	0.75	DA
10	Empowerment of the orphans.	2.22	0.71	DA	1.40	0.59	DA
<b>Average Mean/SD</b>		<b>2.75</b>	<b>0.87</b>	<b>A</b>	<b>2.60</b>	<b>0.73</b>	<b>A</b>

Table 1 shows how Micro-Finance Banks promote community development in terms of economic development of rural communities in Rivers State. The result revealed that Micro-Finance Banks have

promoted community development economically in rural communities in Rivers State base on the response of Micro-Finance Bank (MFB) staff and the people of the communities. The result shows that the respondents agree to all the items listed as a way through which Micro-Finance Banks have developed the communities through economic empowerment. Further, the respondents disagreed on item 7 that given of grants to community members does not develop the community economically.

**Research Question 2:** *What are the influences Micro-Finance Banks on the social development of rural communities in Rivers State?*

**Table 2: Mean Scores of Respondents on the Promotion of Social Development of Communities by Micro-Finance Banks**

S/N	Item Statement	MFB Staff (N=106)			Residents (N=296)		
		$\bar{X}$	SD	RMK	$\bar{X}$	SD	RMK
11	Provision of health services	2.30	0.83	DA	1.04	0.71	DA
12	Provision of water supply system	1.21	0.90	DA	2.01	0.58	DA
13	Provision of electricity	1.49	0.51	DA	1.26	0.72	DA
14	Provision of central market	2.19	0.78	DA	1.05	0.88	DA
15	Rehabilitation of dilapidated schools	1.52	1.11	DA	1.52	0.64	DA
16	Construction of low cost houses	2.10	0.83	DA	2.18	0.62	DA
<b>Average Mean/SD</b>		<b>1.80</b>	<b>0.83</b>	<b>DA</b>	<b>1.51</b>	<b>0.69</b>	<b>DA</b>

Table 2 shows how Micro-Finance Banks promote community development in terms of social development of rural communities in Rivers State. The result revealed that Micro-Finance Banks have not promoted community development socially in Rivers State base on the response of Micro-Finance Bank (MFB) staff and the people of the communities. The result shows that the respondents disagree to all the items listed that Micro-Finance Banks have not developed the communities in terms of social development. This was shown in the mean response with a score less than 2.50 which is the cut off mark for acceptance.

**Test of Hypotheses**

1. There is no significant difference in the mean response of Micro-Finance Banks’ Staff Community Residents on how Micro-Finance Banks promote community development economically of rural communities in Rivers State.

**Table 3: z-Test on Economic Development of Communities by Micro-Finance Banks**

Groups	N	$\bar{X}$	SD	df	Zcal	Zcrit	Remark
MFB Staff	106	2.75	0.87	400	1.34	1.96	Accepted
Residents	296	2.60	0.73				

Source: Researcher’s Result, 2019

The null hypothesis was accepted because the calculated value of z (Zcal) which is equal to 1.34 is less than that of the critical value of z (Zcrit) of 1.96 at 0.05 level of significant. This means that there was no significant difference in the mean response of Micro-Finance Banks’ Staff Community Residents on how Micro-Finance Banks promote community development economically in rural communities in Rivers State.

2. There is no significant difference in the mean response of Micro-Finance Banks’ Staff and Community Residents on how Micro-Finance Banks promote community development socially in rural communities in Rivers State.

**Table 4: Z-test on Social Development of Communities by Micro-Finance Banks**

Groups	N	$\bar{X}$	SD	df	Zcal	Zcrit	Remark
MFB Staff	106	1.80	0.83	400	2.72	1.96	Rejected
Residents	296	1.51	0.69				

Source: Researcher’s Result, 2019

The null hypothesis was rejected because the calculated value of z (Zcal) which is equal to 2.72 is greater than that of the critical value of z (Zcrit) of 1.96 at 0.05 level of significant. This means that

there was a significant difference in the mean response of Micro-Finance Banks' Staff Community Residents on how Micro-Finance Banks promote community development socially in rural communities in Rivers State.

## **DISCUSSION OF FINDINGS**

### **How Micro-Finance Banks Promote Community Development in Areas of Economic Development of rural communities in Rivers State**

The result from Table 1 revealed that Micro-Finance Banks have contributed towards the promotion of community development in the areas of the economy. The findings from the study found that Micro-Finance Banks contributed towards the economic development through provision of vocational training centers, giving of loans at a reduced rate of interest, offering financial intermediation for low income members, training of small scale business owners on financial management and provision of job opportunities among others. This finding is in agreement with that of Emmanuel and Ikenna (2015) who indicate that a unit increase in advisory services increases the level of performance for medium firm operators. Also, the result on pre-loan training was found to be positively correlated with business performance.

This according to Emmanuel and Ikenna (2015) will boast the economic strength of small and medium enterprises in Nigeria. The result revealed that an increase in pre-loan training brings about increase in business performance for the small firm sample and for the medium firm sample. The finding of this study was also supported by Apere (2016) who showed that the activities of microfinance bank have the capacity to influence the entire economy if it is well coordinated. The results of the study indicate that microfinance bank loans and domestic investment significantly and positively affect the growth of Nigeria's economy based on the magnitude and the level of significance of the coefficient and p-value and, there is a long-run relationship between microfinance bank loans, investment and economic growth in Nigeria.

### **How Micro-Finance Banks Promote Social Development of rural communities in Rivers State**

The result from Table 2 revealed that Micro-Finance Banks have not contributed towards the promotion of community development in the areas of social development. The findings from the study showed that Micro-Finance Banks have not contributed towards the economic development through provision of health services, provision of water supply system, rehabilitation of dilapidated schools, construction of low cost houses and provision of electricity among others. This finding disagree with that of Udu and Onwe (2016) who revealed that financial institutions like Micro-Finance Banks are rated high in the provision of basic social amenities such as rural electrification, water supply and other micro-projects to the rural communities.

### **Summary of the Findings**

The findings of the study are summarized as follows:

1. That Micro-Finance Banks have contributed to economic development in rural communities of Rivers State in empowering the people economically through provision of vocational training centers, giving of loans at a reduced rate of interest, offering financial intermediation for low income earners, training of small scale business owners on financial management and provision of job opportunities among others.
2. That Micro-Finance Banks have not contributed to social development of rural communities in Rivers State.

## **CONCLUSION**

Based on the findings of the study, it was concluded that activities of Micro-Finance Banks impact significantly on the social and economic life of people in rural communities. This is done through the provision of vocational training centers, giving of loans at a reduced rate of interest, offering financial intermediation for low income earners, training of small scale business owners on financial management and provision of job opportunities among others.

## **RECOMMENDATIONS**

1. That the management of Micro-Finance Banks should intensify to extend their services to other rural communities for economic development of the people. This will help to reduce poverty among the host communities and beyond.

2. Micro-Finance Banks should ensure the provision of basic and social amenities to these communities as part of their corporate social responsibility. This will in a way attract more customers from within the catchment zone.

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