Debt Management and Assessment on Micro Finance Institutions in Nigeria (A Study of Oredegbe Micro Finance Bank, Aramoko, Ekiti STATE)

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Abstract

The study focuses on Debt Management and Assessment on Micro Finance Institution in Nigeria" (A study of Oredegbe Micro Finance Bank, Aramoko, Ekiti State). The data for this study were obtained from both primary and secondary sources. The primary sources of data used for the study were oral/personal interview and questionnaire. The secondary source includes research work, textbook, and journal periodicals. The data obtained were tabulated and analyzed by using simple percentage and chi-square (X^2) to test those hypothesis formulated. From the data analyzed and hypothesis tested, it was found that debt management techniques boost economic empowerment of the micro finance institutions and also promote employment generation and poverty reduction for the community. It was recommended that management should enforce the effective and efficient utilization of the entire instrument mentioned in the course of study and to also follow the principle laid down on debt management by the CBN to coach micro finance bank operator in Nigeria in order to enhance their performance.

Keywords: Micro-Finance, Assessment, Hypothesis, Poverty, Employment

Introduction

The dismissal performance of the conventional finance sectors triggered the advocating of micro financing by policy makers. Practitioners and international organizations as a tool for poverty reduction. Since its emergency, the number of micro finance institutions around the world has proliferated at a first pace after the 1970s. Today there are more than 9000 micro-leading organization providing loans to more than 45 million poor individuals around the globe (Mohammed and Hassan 2008); the Nigeria micro finance industry has come a long way. A CBN study identifies, as of 2011, about 200 registered Micro Finance Institutions (MFIs) in Nigeria with aggregate saving worth N99.4 million and outstanding credit of N649.6 million, indication huge business transaction in the sector (Anyanwu, 2004:1) with a population of about 150 million and GDP per capital of $641 (2006), it is estimated that two thirds of Nigerians people are poor. Nigeria has highest number of poor people in the world. Most of these people are dependent on micro and small-scale farm and farm enterprise to their livelihood (UNDP, 2007:1).

One of the challenges microfinance currently faces in Nigeria is for the MFIs to reach a greater number of the poor. The CBN survey indicates that their client base was about 600,000 in 2001, and there were indications that they may not be above 1.5 million in 2003. The existing microfinance in Nigeria serves less than 1 million people out 40 million potential people that need services (CBN 2005). Also, the aggregate of micro facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy. Another challenge is that most of microfinance funding goes to the commercial sector to the detriment of the more vital economic activities, especially agricultural and manufacturing sectors which provide the foundation for sustainable growth and development. Currently, only about 14.1 and 3.5 percent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 percent, funded commerce (Anyanwu, 2004).

About 90% of Nigeria's businesses are considered micro enterprise and these farm or non-farm activities serves as the main income source for the majority of the labour force. Due to the unwillingness or inability of commercial banks to provide financial service to the urban and rural poor coupled with program, most micro entrepreneurs still access financial services from informal sources, including savings and credit associations, trader or money lenders, semi-formal and formal providers of microfinance are small but rapidly growing part of the financial sector in Nigeria with a handful of large, micro credit NGOs and locally owned community banks providing the bulk of services.

Statement of the Problem

The writing of the topic was born out of the problem of debt management techniques on microfinance institutions. The micro-finance institutions also faced a lot of problem to assess the success of debt management in micro-finance institutions and examine the effectiveness of debt management also to determine the impact management on microfinance. There are some challenges that face microfinance institutions are much higher than the prevailing rates in bank which lead most of the borrowers to be able to return the money, which also part of the problem for the management. They do not have collateral to meet the requirements of formal financial institutions and then they remain poor and liabilities to economy instead of being assets.

Objectives of the Study

The objectives of this research work, i.e. the assessment of the impact of debt management techniques on microfinance institutions in Nigeria as Applicable to Oredegbe Microfinance Bank as follows:

i. To assess the success of debt management on microfinance
ii. To examine the effectiveness of debt management instrument
iii. To boost economic empowerment of the poor
iv. To determine the impact of debt management on microfinance

Research Hypotheses

For the purpose of this study the following hypotheses were formulated
H0: That debt management technique does not boost economic empowerment of the microfinance institutions.
Hi: That debt management techniques boost economic empowerment of the microfinance institutions.
H0: That debt management technique does not promote employment generation and poverty reduction.
Hi: That debt management techniques promote employment generation and poverty reduction.
H0: That debt management technique did not increase saving opportunity of microfinance institutions.
H0: That debt management techniques increase saving opportunity of microfinance institutions.

Significance of the Study

The study would provide the opportunity for academic communities at large to know the framework of debt management for them to finance the economic activities of low income group and poor. The research is also an eye opener to the researcher as future expert to know the impact of debt management for the purpose of effective and efficient operation.

Literature Review

An Overview of Oredegbe Micro Finance Bank, Aramoko

The Bank (Oredegbe micro-finance Bank) formally known as (Aramoke Community Bank) which was established on the 2nd March, 2001, the established of the bank comes about as a result of the need to tackle poverty in the community of Aramoko and its environment. The banks gives out loan to people based on ability to do what they can do and also on their capital based. As in the case of commercial bank today, Oredegbe micro-credit loans do not required collateral, but their giving out the loans depends on the character of the recipient.

The mode of repayment with the recipients is in short term base i.e. they pay as they sell-trade but not to workers; the money is being deducted from their salary. The micro finance policy was initiated in the year 2006 by the bank on its vision to promote micro banking concept in Nigeria to and encourage and empowered at the rural and urban communities within the largest concept of the nation under which all people have dignity of providing for themselves and their families and the community. (Yahaya.2009:22).

Meaning of Debt Management

Debt management can be seen as those policies which seek to alter the stock composition and the terms on which debt is created with a view to maintain at any given time.

A debt which matures within one year is defined as floating debt. That which matures between one to five years is often regarded as short-term debt. A debt, which due for repayment between five and ten years usually qualifies as medium term while that is mature after ten years is a longtime one. (Babade: 2003:72).

Thus the management of national debt has implication for the money supply level and structure of interest rate in the economy money supply and interest rate are variable of monetary policy. Debt management is necessary when existing debt measure and is refinanced when these is a positive government borrowing requirement which adds to the size of the total national debt. (Oguntade, 2006:15).

Micro Finance Evolution and Challenge

Micro finance is the provision of finance to poor and low income households without access to formal financial institution (Corony, 2003). Microfinance is described also as banking for the poor. Microfinance programmes provide loans, savings other financial services to low income and poor people for use in small business. Originally based on traditional forms of community financing. The microfinance movement began in earnest in the early 1980s in places like Bangladesh and Bolivia and has over the last 20 years captured the interest of multilateral donor agencies and private sector bankers. (Enugu forum, 2006).

Microfinance institutions are essentially needed to serve the poor city dwellers overcrowding in slums or quarter settlements in appalling conditions. They lack access to basic services such as education for children and health care. Their survival lacks skills that are essential to enter the employment mainstream of the economy many of them are women, poorly trained and playing dual roles of providers and caregiver. These people are more exposed to the threats of contamination, bad sanitation, and disease than the rest of the population (Otero, 1999).

Hulme (2000) argues that MFIs are not a cure for poverty; however MFIs could create and provide a broad range of micro finance services that would support poor people in their effort to improve their own prospect and the prospects of their families.

Micro Finance Challenges

There are some challenges that militate against micro financing in Nigeria. The elaborate details are presented below.

A. Rate of Interest

According to Anyanwu (2004), the interest rates in the microfinance institutions are higher than the prevailing rates in the bank. This ranges between 32-48%. During this period the bank are charging between 19.5% and 21.6%. Money lenders at informal sector charge interest rates of 100% or more. Some of the clients when interest by MFIs evaluation bitterly complained about the interest rates being too high.

B. Inequitable Distribution of Wealth and Income

The conventional micro financing in Nigeria aggravates that inequitable distribution of income and wealth in Nigeria. This is due to the fact that while interest rate on borrowing from microfinance institutions ranges from 30% to 100% interest rates on both voluntary and mandatory saving for the clients are between 4.5% and 6% per annum. The poor borrowers pay the amount through group pressure even if it resorts to another borrowing or selling their properties (Oguntade, 2006).

C. Outreaching the Poor

According to central Bank of Nigeria's estimate the unreachable client of microfinance reaches 40 million (CBN, 2004 microfinance specific institutions in Nigeria have not been able to adequately address the gap in term of credit, saving and other financial services required by the micro entrepreneurs. The existence of huge unnerved market over 80 million people (65% of Nigeria's active population). In 2005 the share of micro credit as a percentage of total credit was 0.9%, while it contributed a meager 0.2% of the GDP (Oguntade, 2006:4.7).

Objective of Micro Finance Institution

- To increase saving opportunity
- To promote employment generation and poverty reduction
- To promote regulatory framework of the micro finance institutions
- To protect the local and international communities in micro financing (FAO 1999:4).

According to journal of financial management and analysis 2008, by Francis Kehinde Emeni, below table are the estimates and summary of debt management in Nigeria between 2004 to 2011 current years.

The Summary of Estimation Report between Report 2004 to 2011

Year	Public Debt	Rank	Percentage	Date of Information
2004	28.60	91	-	2003 estimated
2005	20.00	96	-30.07%	2004 estimated
2006	11.00	110	-45.00%	2005 estimated
2007	10.40	109	-5.45%	2006 estimated
2008	14.40	107	-38.46%	2007 estimated
2009	14.70	105	-2.08%	2008 estimated
2010	11.80	126	-19.73%	2009 estimated
2011	13.40	119	-13.56%	2010 estimated

Francis Kehinde: 2008

Counter Trade

This is a commercial arrangement which involves trading arrangement between private or government entities by which the seller is obligates to accept as a partial settlements for his export of goods or in some instance, services from the buyer.

Debt Rescheduled

This is the process which enables the debtors to have some temporary relief and reduces the debtors burden making it possible to gradual adjust the balance of payment is equilibrium.

Debt Buy-Back

This involves paying back on existing debt through the offer a substantial discount which enable a country to financing of short-term trade arrears.

Limit on Debt Service Payment

The requirement for setting aside a proportion to export earning to meet debt service obligation to allow for internal development in Nigeria, State Government were require not to utilize than 10% of its revenue for debt servicing in the case of the Federal Government 20% of export earning is allocated for debt servicing. Between 1999 and 2001 Nigeria paid over $6 billion in debt service along. (Oguntade 2006:39).

Debt Pull Over

This principle of debt pullover applies supply of treasuring bills are issued worthily and each issue at each month show that policy of Treasury bill outstanding.

Debt Cancellation

This means that the debt should be canceled or refusal to pay back debt owed to advanced countries Nigeria in consent with other debtor nations has a canvassed for debt cancellation to no avail.

Methodology

Research Design

Research design has given definition by various writers. A research design is the frame work that specifies the type of information to be collected, the source of data and data collection procedure (Taylor, 1983:11). It can also be defined as "a choice among many alternative ways to collect information that will satisfy the research goal. (Koler, 1986:12).

Area of the Study

The area of this study involves the location where the research work was carried out. The area of the study was Oredegbe Micro Finance Bank, Aramoko Ekiti State where the research tries to know the impact of debt management on micro finance institutions.

Population of the Study

Facts and opinions relating to the study where sought from personnel/staff of Oredegbe micro finance Bank Aramoko. The population figure for this research work was made up of 12 which comprised the bank manager, cashier, and other staff of the bank.

Instrument for Data Collection

Questionnaires were the instrument used in gathering data for the study. Questionnaires were on a scale of four (4) points weighted as follows: Seriously Boosted (SB); Boosted (B); Yes (Y); and No (N).

Method of Data Analyses

The chi-square test formula was used on the hypothesis testing. The returned questionnaire was the foundation stone or bed rock upon which analysis and interpretation of the hypotheses was based. The chi-square (X^2) is computed using the formula below:

$$X^2 = I\sum \frac{(F0-Fe)^2}{Fe}$$

Where X^2 = Chi-square

$\sum$ = Summation

F0 = Observation

Fe = Expected frequency

Decision Rule: here, I will accept Hi (Alternative hypothesis) if the value of chi-square calculated is greater than the table value. The H0 (null hypothesis will be rejected if the table is greater than calculated value of chi-square.

Data Analysis and Findings

The data collected through the questionnaire administered to the staff of Oredegbe micro finance bank Aramoko, was presented, and analyzed. The figures were converted into percentages for better understanding before considering them in testing the hypothesis stated. In the presentation and analysis of data, descriptive statistics was used to answer research questions.

Data Analysis

Data were obtain and put in percentage % proper analysis and interpretation thereby providing a clear picture of the nature of data collected which were eventually used to test the hypothesis formulated. The use of tables and percentages in presenting data is significant to the effect that preventing certain variables that were difficult to explain from becoming unwisely with unnecessary details and comprehensives.

Table 1: How well has your Bank Assisted your Clients on Credit Facilities?

Responses	Frequency	Percentage (%)
Very well	7	58.3
Well	4	33.3
Very poor	0	0.0
Poor	1	8.4
Total	**12**	**100**

Source: Administered questionnaire 2015.

From table 1, 7 staff representing 58.3% of the staff stated-very well and 4 staff representing 33.3% of the staff stated well. They gave the impression that the bank assisted its clients on credit facilities very well. While only one of the respondents responded to it.

Table 2: Does the Bank have Policy on Micro Credit Finance?

Responses	Frequency	Percentage (%)
Yes	12	100.0
No	0	0.0
Total	**12**	**100**

Source: Administered Questionnaire 2015.

In response to the question, “Does the bank have policy on micro credit finance? 12 staff representing 100% of the staff agreed that their bank have policy on micro credit finance while none of the respondents objected to it.

Table 3: What is the Sectorial Distribution of the said Loan?

Responses	Frequency	Percentage (%)
Manufacturing	0	0
Agriculture	12	100
Fashion design	0	0
Building	0	0
Live stock	0	0
Others	0	0
Total	**12**	**100**

Source: Administered Questionnaire 2015.

From table 3 above, show 12 staff representing 100% of the staff agreed that the sectorial distribution of their loan is usually directed to Agriculture sector while none of the respondents kicked against it.

Table 4: Does the debt Management Techniques Increase Saving Opportunity of Micro Finance Institutions?

Responses	Frequency	Percentage (%)
Yes	10	83.3
No	2	16.7
Total	**12**	**100**

Source: Administered Questionnaire, 2015.

The above shows that the question raised agreed with 83.3% in support while only 16.7% objected to it, which constituted 2 respondents out of 12 respondents.

Table 5: Does the Debt Management Techniques Boost Economic Empowerment of the Micro Finance Institutions?

Responses	Frequency	Percentage (%)
Seriously boosted	8	66.7
Boosted	3	25.0
Fairly boosted	1	8.3
No effect	0	0.0
Total	**12**	**100**

Source: Administered Questionnaire 2015.

Table 5 shows clearly that 917% of the respondents were of the opinion that debt management techniques boost economic empowerment of the micro finance institutions while 8.3% respondents objected to it.

Hypothesis 1

H0: That debt management technique does not boost economic empowerment of the micro finance institution.
Hi: That debt management techniques boost economic empowerment of the micro finance institution.

Table 6: Does the debt management techniques boost economic empowerment of the micro finance institutions?

Responses	Frequency	Percentage (%)
Seriously boosted	11	91.7
No effect	1	8.3
Total	**12**	**100**

Table 7: Table for observed frequency

Responses	F0	Fe	F0-Fe	(F0-Fe)2	(F0-F2)$^{2/Fe}$
Seriously boosted	11	6	4	16	3.2
No effect	1	6	-4	16	3.2
Total	**12**	12			6.4

Thus, $X^2 = \frac{\sum(F0-Fe)^2}{Fe}$

X^2 calculate = 6.4
Whereas X^2 tab value = 3.84
Degree of freedom = 3.84
And the level of significance = 0.05% or 5%

Decision Rule

Since X^2 cal is greater than X^2 tab value of 3.84 therefore, I reject (H0) null hypothesis and accept (Hi) alternative hypothesis by concluding that debt management technique seriously boosted economic empowerment of the Micro Finance Institutions.

Hypothesis 2

H0: That debt management technique does not promote employment generation and poverty reduction.
Hi: That debt management techniques promote employment generation and poverty reduction.

Table 8: **Does a debt management technique promote employment generation and poverty reduction in the community?**

Responses	Frequency	Percentage (%)
Seriously boosted	11	91.7
No effect	1	8.3
Total	**12**	**100**

Table 9: Table for observed frequency

Responses	F0	Fe	F0-Fe	(F0-Fe)2	(F0-F2)$^{2/Fe}$
Seriously boosted	11	6	4	16	3.2
No effect	1	6	-4	16	3.2
Total	**12**	12			6.4

Thus, $X^2 = \frac{\sum(F0-Fe)^2}{Fe}$

X^2 calculate = 6.4
Whereas X^2 tab value = 3.84
Degree of freedom = (c-1) (r-1) = 2-1 =1
And the level of significance = 0.05% or 5%

Decision Rule

Since X^2 cal is greater than X^2 tab value of 3.84 therefore, I reject (H0) null hypothesis and accept (Hi) alternative hypothesis by concluding that debt management technique promote employment generation and poverty reduction.

Recommendations

It is our considered opinion after the data analysis to make the following recommendations for the progress and prosperity of any nation that: Organization should embark on techniques making in designing the appropriate policy for debt management programme and to encourage people to save their money where access to loan could be made possible i.e. Bank.

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