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Microfinance Institutions' Credit Strategy and Economic Development – Accountants Perspective

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Abstract: Economic development is an important issue in the 21st Century. The attention has therefore being focused on microfinance institutions and their contributions towards economic development. The main objective of this paper is to sample the opinion of professional accountants on the contribution of Microfinance Institutions credit towards economic development in Nigeria. The study proposes some credit strategies to be adopted by MFIs for them to be able to contribute meaning to the development of the economy. The population of the study comprises of accountants in Ogun State Nigeria, upon which they were stratified in to three (3) strata (sector), viz, Accountants in the Public, Private and Industry sector. One hundred and eighty-four (184) of the population constituted the sample size selected through convenient sampling across each stratum. A combination of descriptive statistics and multiple regression analysis were used to analyze the data collected. The study revealed that credit subsidy by relevant arms of government (0.604) was found to be significant at 1% with a coefficient value of (3.455). This implies that credit subsidy as an adopted credit strategy influence the level of output of economically active individuals and SMEs. Thus, the more MFIs adopt the use of credit subsidy as a credit strategy the likelihood the effect of economy is being suppressed. Other significant parameters are Sourcing for external funds (0.127) significant at 1%, training on proper utilization of credit facility (.035) significant at 10%. The implication of these is that as beneficiaries are trained on the utilization of credit, the less likelihood would the effect of GDP growth be observed. In all, credit subsidies, sourcing for external funds by MFI and training on proper utilization of credit beneficiaries was all found to influence the output of MFI activities as a credit strategy for economic development. The study therefore, recommends that, accountants and Managing Directors of various MFIs should adopt the credit strategies propounded in the study for them to be able to contribute meaningfully towards government efforts and economic development at large.

Keywords: Microfinance Institutions, Credit strategy, Economic Development, Professional Accountants

Introduction

The most important constraint that poor people face to come out of poverty is lack of access to credit to run their own businesses. The Millennium Development Goals (MDGs) document recognizes microfinance as a powerful instrument to alleviate poverty and empower the poor. Peoples Bank of Nigeria (PBN) was commissioned in 1989 to provide loans to prospective entrepreneurs on soft terms and without stringent requirements of collaterals. As an adjunct to the Peoples Bank, Community Banks (now called microfinance bank) were licensed in 1990 for the provision of non-sophisticated and low interest loan to the community to assist in their businesses and by extension improve the standard of living of the people (Okpara, 2010).

According to Olaitan (2001) and Akanji (2001), the tools of microfinance include increased provision of credit, increased provision of savings repositories and other financial services to low income earners or poor households. Similarly, United Nation Development Programme (2001) identified Microfinance as a major tool effective in alleviating poverty and economy. It empowers the financially disadvantaged ones. Morduch and Littlefield (2003) and Alegiemo and Attah (2005) considered microfinance as the financial empowerment of economically active poor through the provision of micro credit as well as other productive asset, it enhances the latent capacity of the poor for entrepreneurship, enabling them engage in economic activities, be self-recant and also enhancing the household income as well as creating wealth. For the purpose of this study, emphasis will be placed on the perceptions of accountants whether Microfinance Institutions (MFI) credit facility can affect the development of an economy by strategically providing credit to relevant stakeholders. This paper therefore considers the concepts of credit strategy to proffer the basic principles for using the credit market, micro-credit Akanji, (2004 in Akanji, 2001) in particular as a strategy for economic development.

Objective of the Study

The general objective of this study is on the impact of Microfinance credit strategy on economic development while specific objectives are stated below;

(i) to investigate available credit strategy (ies) put in place by MFI;

(ii) to determine the effect of MFI on economic development in Nigeria; and

(iii) to assess the perception of accountants whether MFI credit strategy (ies) can influence economic development in Nigeria.

Research Hypotheses

In achieving the objectives of the study, the hypothesis which was formulated and stated in null form would provide a guide to the objective of the research.

- There is no significant effect of microfinance Institutions' credit strategy on economic development of Nigeria.

Empirical Review

Conceptual Framework

Akanji, (2009) in Akanji, 2001 reported that understanding how to alleviate poverty is a central concern of development economies, this is also supported by Bruno, et al (1995) that there are ample evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty. Such program can have a short-run or long- run perspective.

A commonly accepted model of program design for microfinance policy, the cost-minimizing approach, addresses a number of salient features in current debates about transfers to the poor. Moreover, it is consistent with the desire for targeting. It is also a useful first step toward developing a positive theory of transfer to the poor. The model by Besley (1992) and Coate (1995 in Akanji, 2001) makes no pretense at realism. The model is a useful vehicle for clarifying thinking about a number of issues relating to poverty alleviation programs. The model views society as composed of two groups: those who make transfers (the rich) and those who receive them (the poor). The model assumptions are as follows:

- That the rich care only about consumption of the poor and not their utility.
- The rich control government and its objective is to design a poverty alleviation programs that is financed through taxes paid by the rich.
- There must be voluntary participation by the poor in poverty alleviation program, which means that the poor must be willing to take any benefits intended for them.

In addition to Platteau *et al* (1980), in the private informal credit market, 45 percent of households pledged the ration cards that gave them access to subsidized "fair price" shops. It has been proved by Platteau that households who pledged their coupons gained greater access to capital. Thus transfer can perform two distinct roles. In the first, it helps to reduce poverty while in the second, as collateral, it is like a catalyst changing agents' scope for opportunistic behavior and improving the operation of credit markets.

The literature on economic theory of credit markets and saving decision in economies characterized by incomplete markets and imperfect information is growing. The most current literature after Stiglitz and Weiss (1981) are Alderman and Paxson (1992 in Akanji, 2001) who provided a new theoretical foundation for policy interventions to correct market failure. By studying the institutional arrangements through which financial transactions take place, it showed that credit transactions reflect the economic environment in which they occur. In Africa, the economic environment is largely characterized by risks, with unpredictable variations in income as a result of weather and other exogenous processes. In the absence of complete insurance markets, credit transactions take on a special role in allowing resource transfer in response to income shocks.

Theoretical Framework

Life Cycle Theory

According to the reviewed framework of analysis, most MFIs start out as NGOs with a social vision, funding operations with grants and concessional loans from donors and international financial institutions that effectively serve as the primary sources of risk capital for the microfinance sector. Thus, the literature on microfinance devotes considerable attention to this process of "NGO transformation" as a life cycle model outlining the evolution of a microfinance institution (Helms, 2006). Generally, the life cycle theory posits that the sources of financing are linked to the stages of MFI development. Donor grants and soft loans comprise the majority of the funding in the formative stages of the organization. As the MFI matures, private debt capital becomes available, but the debt structures have restrictive covenants or guarantees. In the last stage of MFI evolution, traditional equity financing has become available Fehr *et al* (2004 in Bismark, 2014).

Micro-credit and Micro-finance

Many scholars to express the same idea have synonymously used the term micro-finance and micro-credit, but in practice it is quite important to draw a line between them because both terms are often indistinct. Their distinct variations lies in their operations and methodology.

Micro-credit, which literally means small credit includes the act of providing loans of small amounts often $100 or less to the poor or other borrowers that have been ignored by the commercial banks (Sengupta, 2008) The notion behind micro-finance goes beyond the provision of small credit to the poor. Micro-finance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks. These services include savings, credit, insurance, remittances, and payments, transfers and others (CGAP, 2014). The word micro-finance came out from micro-credit but now micro-credit is an integral component of micro-finance.

According to (CGAP 2001, p. 2) in Bismark, 2014, micro-finance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers". The World Bank group defined micro-finance as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low-income clients, including the self-employed (World bank, Microfinance Handbook). MIX (2005) defines Microfinance as "an organization that offers financial services to the very poor."

According to Grameen Bank (1997) micro-finance is a programme that extends small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families. To Syngata (2007) Microfinance is that part of the financial sector, which comprises formal and informal financial institutions, small and large, that provide small-size financial services in theory to all segments of the rural and urban population, in practice however mostly to the lower segments of the population. The Asian Development bank defines Microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro-enterprises (ADB, 2000).

Argument against Microfinance credit

Micro-finance programs have the potential to create positive impact for the poor, but in trying to achieve sustainability, they fail to reach the poorest people. However, they are able to serve poor, but 'poorest of the poor' are left out in the process (Copestake, Bhalotra, and Johnson 2001 and Navajas *et al*. 2000). The role of micro-finance, evolve as a determinant of success of entrepreneurial activity, but deep analysis of an entrepreneurial activity shows that finance does not in itself create opportunities rather it is the entrepreneurial nature of the people which lead them to see the various ways in which they can generate income (Christen, 1997). But certainly, credit plays an instrumental role in enhancing the capability of entrepreneur to utilize the available opportunity.

According to Shaw (2004), micro-finance can work well for those who are near the poverty line and can engage in high-value enterprises. He further argued that rural micro-enterprises, relative to urban or semi-urban micro-enterprises, serve to protect current consumption levels but offer limited opportunity for exiting poverty. Furthermore, Shaw (2004) suggests that programs must be complemented by investment in social and physical infrastructure if they are to have any significant impact on rural-sector micro-enterprise development.

Profit-Incentive Theory

In contrast to the life cycle theory, the profit-incentive theory posits that MFI use of commercial funding sources (at any stage of development) will enable MFIs to meet the "microfinance promise." Reliance on commercial funding is beneficial along two dimensions: outreach and efficiency. Since donor funds are limited in amount, reliance on donor funding limits the ability of MFIs to expand to meet rising demand for services. There is also a question as to whether reliance on donor funds allows MFIs to avoid pressures to operate efficiently. Commercially funded MFIs respond to the profit incentive, working to increase revenues and decrease expenses so that they can have revenues sufficient to cover all operating expenses. MFIs with access to donor fund may not respond to these pressures to operate efficiently or deliberately choose outreach over efficiency by serving poorer or rural clients with higher delivery costs (Armendáriz de Aghion & Morduch, 2005).

Concerns over the dangers of excessive subsidization in microfinance have been prevalent since the 1980s, and as a result, the goal of serving the poor has been twinned with the goal of long-term financial self-sufficiency for some time (Morduch, 2005). By enabling MFIs to link directly with investors and commercial banks, these types of organizations strive to help MFIs become independent of donor funds. For example, over the past decade, ACCION has been highly influential in encouraging donors to subsidize start-up costs only and pushing for MFIs to have a commercial focus (Armendáriz de Aghion & Morduch, 2004).

Approaches to Institutional Lending

Part of Microfinance goal was to build financially self-sufficient institutions. This goal is consistent with what has been termed the financial systems approach to microfinance. Robinson (2001) describes:

The financial systems approach…emphasizes large-scale outreach to the economically active poor—both to borrowers who can repay microloans from household and enterprise income streams, and to savers. The financial systems approach focuses on institutional self-sufficiency because, given the scale of the demand for microfinance worldwide, this is the only possible means to meet widespread client demand for convenient, appropriate financial services (pp. 22).

There is an alternative approach to lending called the poverty lending approach: The poverty lending approach concentrates on reducing poverty through credit, often provided together with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition, family planning, and the like. Under this approach donor- and government-funded credit is provided to poor borrowers, typically at below-market interest rates. The goal is to reach the poor, especially the extremely poor—the poorest of the poor—with credit to help overcome poverty and gain empowerment (Robinson, 2001, pp. 22).

Criticism of Microfinance

There is a relatively large argument in the microfinance literature that microfinance is a method of capitalistic accumulation. As Keating, Rasmussen, and Rishi (2010, pp. 153) explain, capitalistic accumulation is "a set of processes by which new subjects are brought into the structure of capitalism in exploitative and often violent ways." As neoliberal policies, structural adjustment policies, for example, became pervasive women were disempowered and moved into the precarious informal sector. More so, microfinance appeared to be a movement that focused uniquely on serving women. Fernando (2006a, pp. 24) explains, "The framing of gender relations in the discourse of empowerment through microfinance appeared as a sound compromise for feminists concerned with both gender inequalities and capital to achieve their respective goals" and, "… microcredit proved to be an instrument of building worldwide consensus between not only between feminists with different ideological perspectives on empowerment, but also between them and the governments, World Bank, and commercial banks." However, this harmonizing of feminization and development institutions was ill fated if women have not been empowered.

The notion of empowerment that microfinance promotes "rests on the capitalist and masculinist assumption that the market is an arena of free action, whereas the compulsory nature of work and the tendency of that work to be physically and mentally draining means that many women experience the market as coercive" (Keating et al., 2010, pp. 156). Also, Brigg (2006, pp. 77) identifies a statement made by Muhammad Yunus as evidence for a neoliberal approach to development. Yunus states, "Grameen literally runs after poor women who are terribly alarmed at the very suggestion of borrowing money from the bank… Grameen tries to convince them that they can successfully run a business and make money." This statement, according to Brigg, illustrates the creation of demand for loans as local people needed to be convinced of their need for credit. Furthermore, microfinance makes the poor responsible for their poverty and reduces the use of redistributive approaches (Brigg, 2006, pp. 79). Microfinance has contributed to an increase of poor women as debtors, laborers, and consumers.

MFIs offer credit to poor women "under conditions that few affluent individuals would find acceptable" and they do so on a long-term basis (Keating et al., 2010, pp. 158). Microfinance expands the reach of the financial services industry, for although microfinance was started with the claim of going outside the formal sector, microfinance is a formal sector in itself. The work of women is often in vulnerable, informal sector work, and "microcredit lending programs have, in many cases, reinforced traditional gender structures in spite of shifting economic relationships within households" (Keating et al., 2010, pp. 166). Women are often expected to be rational economic actors while still maintaining their traditional role in the household.

Credit Subsidy

Providing loans below the market rates is in essence a distortion to the markets. Interest rates are ideally a way of credit rationing such that only those with viable projects are the ones willing to pay for it. Given subsidies the cost of credit is driven below market rates and the rationing is likely to break down creating an excess demand for loans. When interest rates are not allowed to reflect the costs of financial intermediation due to government subsidies, wealth and political power are likely to replace profitability as the basis of loan allocation (Aghion and Morduch 2005).

Many writers argue that even with subsidized credit, the poor rural small scale entrepreneurs were excluded from the credit markets (Morduch 2000). Diverting loans to wealthier persons may not have been necessarily a bad thing to do. From efficiency point of view, efficiency is only achieved if loans are given to those who can invest them wisely and get the most returns out of them. It is not efficient to give loans to simply anybody based on their socio economic background, because then returns from investments may not be maximized. In reality, the major problems with the state backed programmes arose because of the political nature that surrounded them. Many borrowers especially the rich and well politically connected individuals defaulted and soon most borrowers were defaulting. Braverman and Guasch (1986) conclude that credit default rates in countries within Africa, Middle East, Latin America, South Asia, and South East Asia were between 40 to 95%. The programs either ran out of money or they drained government accounts (Morduch 2000). Not surprising that subsidized credit failed almost universally. Experts argue that the costs of government subsidies were so high that they nearly swamped whatever economic benefits realized: if any (Khandker *et al* 1993).

Research Methodology

The design is a survey and correlation research through administration of structured questionnaire in likert-scale form. The population of the study comprises of accountants in Ogun State Nigeria, upon which they were stratified in to three (3) strata (sector), viz, Accountants in the Public, Private and Industry sector. One hundred and eighty-four (184) of the population constituted the sample size selected through convenient sampling across each stratum. A combination of descriptive statistics and multiple regression analysis were used to analyze the data collected. Frequency distribution tables and percentages will be used to analyze objective (i) and (ii) which is to describe the socio-economic characteristics of the respondents in the study area and the constraints perception of accountants on the microfinance credit strategy.

Regression Analysis

This was used to analyze objective (iii) which is to determine the effect of the microfinance credit strategies on economic development. The dependent variable is the economic development while the independent variables are the microfinance credit strategies to be adopted in contributing to the economy. This is stated as follows:

$Y=f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8 \ldots, \mu)$

Where,

Y = Output of credit strategies

F = the strategies to be adopted

X_1 = Subsidizing credit (1, Yes; 0, Otherwise)

X_2 = Sourcing of fund from external donors by MFIs (1, Yes; 0, Otherwise)

X_3 = Training credit beneficiaries on proper utilization (1, Yes; 0, Otherwise)

X_4= Flexible collateral (1, Yes; 0, Otherwise)

X_5 = Simplicity of service (1, Yes; 0, Otherwise)

X_6 = Offering of small initial loans (1, Yes; 0, Otherwise)

X_7 = Shorten turnaround time (1, Yes; 0, Otherwise)

X_8 = Group Lending (1, Yes; 0, Otherwise)

μ = Error Term

Table1. *Computation of the sample size based on strata*

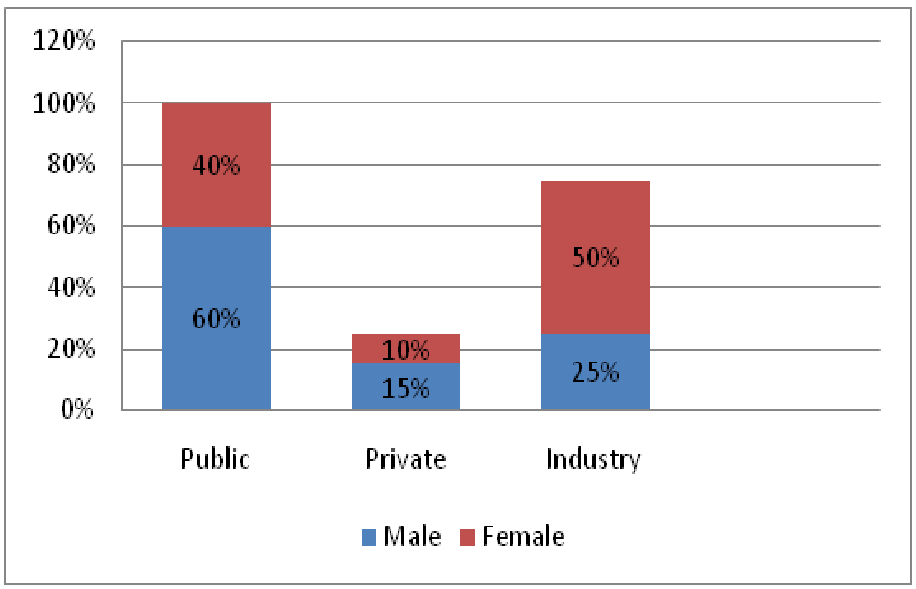
S/N	Sector	Sample size	Percentage (%)
1.	Public	83	45.0
2.	Private	46	25.0
3	Industry	55	30.0
	Total	184	100

Source: Field survey, 2017

Findings

Socio-economic Characteristics of the respondents

Sex: The chart below summarized the sex distribution of the respondents. It shows the number of accountants in various sectors in the study area. According to the chart 60 % of male inhabitant works in public sector, while the female constitute 40%. 15 % of Male inhabitant works in the private sector and 10% of male, likewise, 25% of male and 50% female accountants are in the industry.

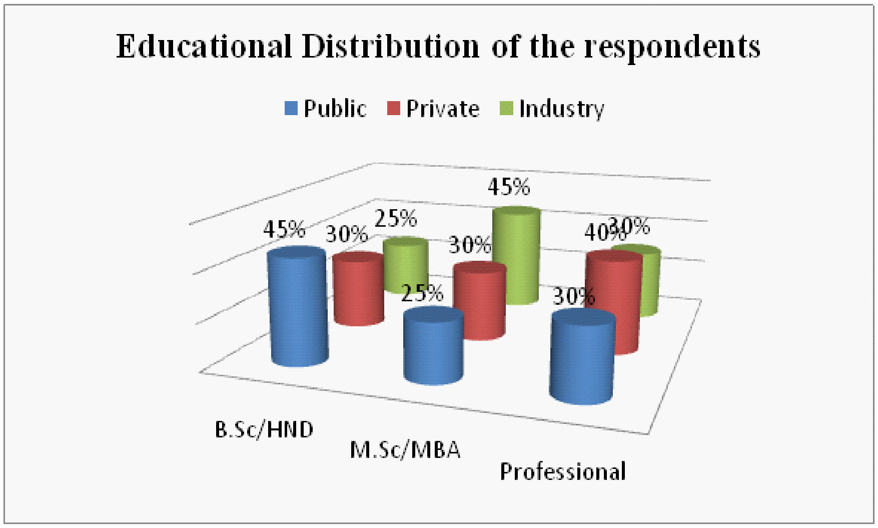


Source: computed from field survey, 2017

Fig1. *Distribution of respondents according to sex*

Educational level and Professional Qualification

The data below show educational level of respondents, 45% of the respondents have had tertiary education with either B.Sc or HND from the public sector. The data collected also shows that 45% have had postgraduate qualification from the industry sector recording the highest sector to have had M.Sc or MBA and 40% of the respondents had one or two professional qualifications such as ICAN, ANAN, ACCA, ICAEW among others. With these results, one can deduce that majority of the respondents have high educational levels and their perceptions to strategic credit to beneficiaries by MFI with such a level of professional qualifications shows their understanding on the subject matter towards development of the nations economy, in the district since many of the respondents in private sector works in the banks and as well as in Microfinance Banks.



Source; Field survey, 2017

Fig2. *Educational Qualification of the respondents*

Result of Regression Analysis of Credit Strategies to be adopted by Microfinance institutions for economic development

Table 2 display the regression result showing the estimated parameters and their corresponding level of significant. From the table, credit subsidy by relevant government arms (0.604) as an adopted credit strategy was found to be significant at 1% with a coefficient value of (3.455). This implies that credit subsidy as an adopted credit strategy influence the level of output of economically active individuals and SMEs. Thus, the more MFIs adopt the use of credit subsidy as a credit strategy the likelihood the effect of economy is being suppressed. This is in line with the Poverty Lending approach described by Robinson (2001) as a donor- and government-funded credit to provide to poor borrowers, typically at below-market interest rates. The goal is to reach the poor, especially the extremely poor—the poorest of the poor—with credit to help overcome poverty and gain empowerment. This further agree with Aghion & Morduch, (2005) statement that when interest rates are not allowed to reflect the costs of financial intermediation due to government subsidies, wealth and political power are likely to replace profitability as the basis of loan allocation.

Sourcing for external funds (.127) significant at 1%. Sourcing for external funds by MFIs from donors has being another source of funding for the MFI and such supported by findings of Fehr *et al*, (2004) "Donor grants and soft loans comprise the majority of the funding in the formative stages of the organization. As the MFI matures, private debt capital becomes available, but the debt structures have restrictive covenants or guarantees. In the last stage of MFI evolution, traditional equity financing has become available"

Other significant parameters are training on proper utilization of credit facility (.035) significant at 10%. The implication of these is that as beneficiaries are trained on the utilization of credit, the less likelihood would the effect of GDP growth be observed. In all, credit subsidies, sourcing for external funds by MFI and training on proper utilization of credit beneficiaries was all found to influence the output of MFI activities as a strategy for economic development.

On the other hand, flexible collateral (.265), simplicity of service (-.178), offering of small initial loans (-019) and fast track loan request approval (.040) were found not to have any significant influence on economic growth if adopted as a credit strategy. This suggests that MFIs should think of other ways for credit service repayment method to be able to contribute to the development of the economy.

Table2. *Regression Analysis on Credit strategies to be employed by MFI for economic development*

	Subsidizing credit	Sourcing for External fund	Training on proper Utilization of Credit	Flexible Collateral	Simplicity of Services	Offering of small Initial Loans	Fast rack loan request approval	Employ Group lending facilities to motivate repayment
Parameter Estimate	0.604	.127	.035	-.268	.178	-.019	.040	.018
Z -value	3.458	-1.444***	.934	-3.448***	1.901*	-.239	.452	.206
Standard Error	0.080	.040	.083	.078	.093	.078	.088	.090

Source: Computed from field Survey, 2017

* Significant at 10%.

** Significant at 5%

*** Significant at 1%

Conclusion

The study has measured in details professional accountants view concerning the contribution of Micro finance Institutions credit facilities in the development of Nigeria economy. This study therefore, was carried out in order to ascertain the effects of MFI credit strategies to the development of Nigerian economy. These effects were examined based on the financial and non financial strategies such as credit subsidizing by relevant arm of the government, sourcing for External fund by the MFI themselves, Flexible Collateral, Offering of small Initial Loans and also to Employ Group lending facilities to motivate repayment. In order to present a solid basis for this study, theoretical and empirical literatures relating to this study were reviewed. Furthermore, regression analysis was carried on the accountant's opinion in order to be able to fully ascertain the level of these effects.

The microfinance bank financial resources have been considered as a tool for economic development in Nigeria through the provision of affordable loan to the rural dwellers in other to enhance their standard of living with minimum interest rate. More so, the attributes of beneficiaries towards repayment of loan has made it difficult for microfinance banks in carrying out their roles effectively in the development of Nigerian economy. Furthermore, the embellishments of microfinance banks is primarily to meet the unsatisfied demand created by the inability or unwillingness of the more formal institution to offer small enterprises and rural dwellers adequate access of their deposit and credit facilities as well as other financial products and services. The study thus confirmed the positive contributions of credit strategies if adopted by MFIs towards economy development in Nigeria.

Recommendations

As part of the objective of this study, the following recommendations were made;

1. Accountants and Managing Directors of various MFI should adopt the credit strategies propounded in the study for them to be able to contribute meaningfully towards government efforts and economic development at large.

2. Microfinance banks should also devise best and accurate method for loan repayment or recovering by defaulters or non performing loans.

3. Government at all levels are to device a necessary means of providing credit subsidy to Microfinance Institutions and equally assist in the sourcing of external funds to be able to develop a sound, strong and sustained economy

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