

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

It is an undisputable fact that the contribution of microfinance to entrepreneurship activities is increasing being recognized as a primary engine of economic growth. (The Economist, May 18th 1996). By combining existing resources with innovative ideas, entrepreneurs add value through the commercialization of new products, the creation of new jobs and the building of new firms. The Global Entrepreneurship Monitor (GEM) indicates that nations with higher levels of entrepreneurial activity enjoy strong economic growth. In short, entrepreneurs are the link between new ideas and economic development. This is proper using the experience of the industrialized countries of North America and West Europe. Legislative actions has been taken by countries like United States of America, the Netherlands and Japan to see to the fact that entrepreneurial activities can

contribute to economic development. This may explain why various governments around the world promoted it since entrepreneurial skills and strategies are used to tackle different social problem and addressing poverty as well as a means of employing the disadvantaged.

Speaking at the conference with a theme “Improving Access to Microfinance”, Soludo (2008) revealed that in order to sustain increases participation of skilled entrepreneurs in the credit and other financial service delivery to the micro, small and medium enterprises in the microfinance sub-sector, Central Bank of Nigeria (CBN) is forging ahead in its determination to develop a pool of articulate and well focused entrepreneurs through setting up one Entrepreneurship Development Centre (EDC) in each of the six geo-political zones in the country. The three pilot entrepreneurship development centres, he said,. Will commence January, 2008 are in Kano (North West), Ota (Southwest) and Onitsha (Southeast). Also speaking at the international microfinance

conference and annual microfinance conference and annual microfinance and entrepreneurs awards held at the Sheraton Hotel and Towers, Abuja, Soludo (2008) stated that access microfinance by the economically active poor and low income earners in Nigeria is a collective responsibility for the achievement of the Millennium Development Goals (MDGs); He added that it provides a strong focus on macro-economic stabilization, especially in the pursuance of massive trades and investment liberalization program to encourage entrepreneurial capacity to develop business and for the business to success (Nwoye, 1997).

Despite the missing links in Africa's development process, researchers and scholars have increasingly recognized the crucial role that entrepreneurship plays in economic development of nations, especially through the development of microfinance sub-sector. (Rashed, H.S, 2000, Dozie, 2005 Aglion and Howilt 1997). For instance, Dozie argued that this vital factor of production which forms the

basis of the Schumpeter's dynamism is the bedrock to a nation's industrialization and development. According to them, this is achieved through the innovation and risk taking ability of the entrepreneurs. It is therefore, the entrepreneur who generates the critical momentum an economy requires for economic growth by breaking new grounds in human endeavour as a result of the vital characteristics they possess.

However, on this note, this study intend to address the entrepreneurship in Nigerian economy has the potential of becoming the path to success and compete favourably at the global market economy, when the technical and commercial skills of the entrepreneur are effectively develops utilized.

Peter and Clerk (1997) affirm that entrepreneurial development is a disposition to accept new ideas and try new methods; a readiness to express opinions, a true sense that make men and women more interested in the present and future than in the past, a better sense of punctuality, a greater concern for planning, organization and efficiency, a

tendency to seek the world as calculated a faith in science and technology and finding a belief in distributive justice.

The study is an attempt to show how successful entrepreneurship development through microfinance institutions will result in creation of jobs, develop greater skills that can be more readily adopted by local residents (see Green et al, 1990; Kovshling and Allen 2004). Entrepreneurial development programmes offer sustainability and flexibility to meet broader community development needs (Dabson Ricky and Scheveke 1994, Loyons and Hamlin 2001, Lichtentein Iyons and Kutzandua 2004).

1.2 STATEMENT OF RESEARCH PROBLEM

In view of the forgoing, the Federal Government of Nigeria (FGN) has been adopting monetary, fiscal, industrial and developmental policy measures at the macro level to facilitate and support entrepreneurial activities and at the same time specific financing g arrangements are being made

in respect of funding programmes at the micro level to boost entrepreneurship activities in Nigeria.

The community banking system is one of such programmes introduced by decree 46 of 1992 (as amended) to finance and support the growth of entrepreneurship in Nigeria. The micro units in agricultural transport, commerce and industry, textile, dyeing, tanning, vulcanizing, blacksmithing, health, architectural, entertainment and other needs, this microfinance banking system is evidently fraught with problems as regards to its ability to finance projects in rural (and even semi-urban) communities. This is evident in the reform process of the Nigerian banking system, at which the community banks by the reform are to become Microfinance Banks (MFBs) with a minimum of 20 million capital base by December 31st 2007.

This research therefore, aims to make a close evaluation of the impact of microfinance on the development of entrepreneurial activities in Bauchi Local Government Area,

with special reference to some small scale entrepreneurs in the three districts of Galambi Bauchi and Zunhur.

1.3 STATEMENT OF PROBLEM

Given the problem statement above, the major problems which this research work aims to evaluate are captured in the following research question.

What are the contributions of microfinance banks to the entrepreneurial development and what are the modalities to finance?

To what extent has their contribution (financing) impacted on the growth of entrepreneurship?

What problems militate against the effective financing of entrepreneurs by the microfinance banks and the attainment of their objective?

How effectively and efficiently will microfinance banks functions/to operate and perform better.

1.4 OBJECTIVES OF THE STUDY

Based on the research questions marshaled above the specific objectives seeks;

- i. To identify the role of microfinance on the development of entrepreneurial activities in Nigeria
- ii. Identify problems that militate against the effective funding of entrepreneurship development (apart from finance).
- iii. To identify the viability of microfinance banks in entrepreneurship financing
- iv. Make policy recommendation.

1.5 JUSTIFICATION OF THE STUDY

This study is a build-up on the previous investigation by various scholars and researcher on the impact of microfinance banks on entrepreneurship development, especially in Bauchi Local Government Area of Bauchi State

and is aimed at building up on the lapse of previous investigations.

The importance of this study lies in identifying the various problems that have bedeviled the effectiveness of the microfinance banking system.

More so, the study will add to knowledge on how Nigeria policy makers can grow the economy through their support on entrepreneurship development in Bauchi state. Which has been identified as the momentum for Nigeria economic growth (Onuoha, 1994).

Thus the justification of the research.

The findings of the research will therefore, provide a veritable base for the effective functioning of microfinance to the development of entrepreneurial activities.

1.6 RESEARCH HYPOTHESIS

Drawn from the research question marshaled above, and objectives that this research aims to achieve, the following

hypothesis have been formulated to help in the conduct of veritable and worthwhile research

H₀: There is no significant relationship between microfinance and entrepreneurship development.

H₁: There is significant relationship between microfinance and entrepreneurship development.

Where:

H₀ = Null hypothesis

H₁ = Alternative hypothesis

Both hypothesis are complementary.

1.7 SCOPE AND LIMITATION

Although there are many factors and variable responsible for entrepreneurial development, this study focuses only on the microfinance as the major factor responsible for entrepreneurial growth using twenty entrepreneurs from each district as selected sample size.

The limitations which include unavailability and inaccessibility of relevant data and material necessary for carrying out this study.

Another is the unwillingness on the part of the respondents to give adequate and correct information necessary to carry out the work. The researcher's inexperience in research is also another limitation.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This aspect of the research work examines available literature on the subject matter. This is categorized into two for clarity as follows; theoretical literature and empirical literature.

2.1.1 CONCEPT OF MICROFINANCE BANK

This aspect examines the definition of the basic concepts and terms that are central to this research as defined by scholars and stakeholders.

The central Bank of Nigeria (CBN) in its “Regulatory and supervisory Guidelines for microfinance Banks (MFBs)” defines MFBs as companies licensed to carry on the business of providing micro finance services such as savings, loans, domestic loans, transfer and other financial services that are

needed by the economically active poor and entrepreneurs to set up and establish their business.

Flutherland (2000), states that access to microfinance is very important as it enables the poor to create, own and accumulate assets and smooth consumption.

The United Nations Secretary General Kofi Anan (2005) observed that “sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, empowering people and entrepreneurial skills to make choices that best serve their needs”.

According to Canadian International Development Agency (CIDA) (2005), microfinance “is the provision of very small loans for entrepreneurs, agricultural, educational and consumption purposes as insurance service, housing and pension funds”.

Kimotha (2008) defines microfinance institutes as any institutions that provides great and other financial services to

the low-income entrepreneurs who are traditionally not served by the conventional/formal financial institutions.

From the various definitions given so far, it becomes clear that there is not universally acceptable definitions of the term microfinance. This is due to the variation from country to country or region to region with each definition being according to the economic circumstances exists in various economics.

2.1.2 CONCEPT OF ENTREPRENEURSHIP

Researchers are increasingly recognizing the importance of entrepreneurship in economic growth and development. The first link between attributed to Schumpeter's (1934) notion of creative destruction where new innovation by entrepreneurs destroyed older markets and fuel new growth. Recent work recognizes that entrepreneurship supports economic growth by turning knowledge into new products new jobs, and new firms.

Throughout the theoretical history of entrepreneurship, scholars and researchers from different disciplines such as, anthropology (Steward, 1991); sociology (Renolds 1991); psychologist (Shaver and Scott, 1991); economist (Kirchoff, 1991); and (Stevenson, 1985); and technology (Robbert, 1991); and (Litvak and Marile, 1999) cited in Tonge (2002) have grappled with diverse set of interpretations and definitions to conceptualize this abstract idea. A further search of the literature also reveals that researchers have been inconsistent in their definitions to explain the concepts of entrepreneurship, this meaning depends on when they were devised and the society in which the various researchers developed them (Di-masi, 1999).

In the last century, many writers have identified entrepreneurship with the function of uncertainty and risk bearing and others with the co-ordination of productive resources the introduction of innovation and provision of technical-know-how (Hoseliz, 1952), cited in Bruneth (200).

During the sixteenth century, people who organize and manage military expeditions in France were called “entreprendre”.

The word entrepreneur originated from the French word “Entreprendre”, and the German verb “Untunehmen” both of which means to undertake (Afonya, 1999). In oxford dictionaru an entrepreneur is defined as one who organized, manages and assumes the risk of a business enterprises.

The early 18th century French economist, Richard Cantillon (Crivca, 1755) introduces the term entrepreneurship. In this writings, he formally defines the entrepreneur as the agent who buy means of production at certain prices in order to combine them into new product. He further defines entrepreneur as the bearer of uncertainty and risk.

Shortly thereafter, the French economist Jean Baptiste say (1824) defines the entrepreneur as someone who shifts economic resources out of the area of lower to an area of

higher productivity and greater yield. He added to cantrillion's definition by including the idea that an entrepreneur is one who brings other people together in order to build a single productive organization. But Say's definitions, according to Drucker (1985) does not tell us who the entrepreneur is and since, say coined the word almost two centuries ago, there has been lack of consensus over the definition of entrepreneur and entrepreneurship.

In the 19th century, British economist such as Adam Smith, David Ricardo, and John Stuart Mill defined the concept of entrepreneurship under the broad English term of business management (Burnett, 2000). However, Schumpeter (1947) argues that whereas the writings of Smith and Ricardo suggest that they likely undervalue the importance of entrepreneurship, Mill actually stressed the significance for economic growth and development. He further claimed that entrepreneurship requires "no ordinary skills" and laments the fact that there has been lack of English equivalent to the

word which encompasses the specific meaning of the French word entrepreneurs.

The necessity of entrepreneurship for production was also recognized by Alfred Marshall in 1890 when he asserted in his **Treatise of principle of Economics**, that “there are four factors of production i.e, land, labour, capital and entrepreneur/organization”. He further argued that “the skills associated particularly with entrepreneur are so great and numerous that is high”. Another research carried out by Denrose (1959) posited that entrepreneurial activities involves identifying opportunities within the economic system, filling market deficiencies through import-competing activities including, the process of identifying, developing and bringing a vision to life. This vision may be innovative ideas, an opportunity, or a better way of doing something.

As a result of this background on the development of the concepts of entrepreneurship and entrepreneur, and various definitions posited by different scholars and researchers,

entrepreneurship in this study will be conceptualized as the willingness to seek for investment opportunities, establish and run a business enterprise successfully while an entrepreneur is a motivator, innovator or developer and organizer who recognizes and seizes opportunities convert these opportunities into workable ideas and value, through times, effort, money, skilled, assumes the risk of competitive market-place to implement these ideas and realizes the reward from this effort. Entrepreneurship is therefore, defines on their own, in teams, within and outside existing organizations to perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-markets combinations), and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decision on location, form and the use of resources and institutions (Wennkers and Thurik, 1999).

2.1.3 CONCEPTUALIZING ENTREPRENEURSHIP DEVELOPMENT

Joseph Schumpeter's contribution to our understanding of the mechanisms of technological progress and economic development is widely recognized in the theory of economic development. He describes how the innovating entrepreneur challenges incumbent firms by introducing new inventions that make current technologies and produces obsolete. This process of creative destruction is the main characteristics of what has been called the Schumpeter mark I regime. In capitalism and democracy, Schumpeter focuses on innovative activities by large and established firms. He describes how large firms out-perform their smaller counterparts in the innovation and appropriation process through a strong positive feedback loop from innovation to increased activities. This process of creative accumulation is the main characteristic of Schumpeter mar II regime.

The extent of which either of the two Schumpeterian technological regimes prevails in a certain period and industry varies. It may depend upon the nature of knowledge required to innovate the opportunities of appropriability, the degree of scale (dis) economies, the institutional environment, the importance of absorptive capacity, demand variety and so on. Industries in a Schumpeter mark II regime are likely to develop a more concentrated market structure in contrast to industries in a Schumpeter mark I regime where small firms will proliferate.

Porter (1990), directs our attention to two related phenomena of the 1980s and 1990s: the resurgence of small business and the revival of entrepreneurship. “There is ample evidence that economic activity moved away from large firms to small firms in the 1970s, and 1980s”. The most impressive and also the most cited is the share of the 500 largest American firms, the so-called fortune 500. Their employment

share dropped from 20 percent in 1970 to 8.5 percent in 1996 (Carlsson 1992 and 1999).

2.2 THEORETICAL LITERATURE REVIEW

This aspect looks at the various relevant theories of entrepreneurship. The basic theoretical frame work of this study is the significance of microfinance to entrepreneurial development.

“The only widely endorsed test of entrepreneurial ability is to try out in practice” as Carsson (1982/2003) puts it. Microfinance to entrepreneurial development.

“The only widely endorsed test of entrepreneurial ability is to try out in practice” as Carsson (1982/2003) puts it. Microfinance and privately held wealth of large is small magnitude, will always play an important role when people decide whether to explore entrepreneurial opportunities or not, hence, be important for over all extent of entrepreneurship in society. Privately held wealth often is a

direct requirement for obtaining external financing, Something Shane (2003) point out. This, by the existence of privately held wealth, also the market wealth might also serve as a cushion against unforeseen negative events (Shane, 2003). But even if the entrepreneur actually would have the possibility of convincing external financiers, there often are reasons not to reveal the ideas before they are saleable because of the risk that such financiers should copy the ideas themselves. Self finance is the natural solution.

Economist like Carsson (1982/2003) and Shane (2003), have provided a synthesis that has taken theories on entrepreneurships and its financing further. Also Fass and Klein (2004) seem to support the view, at least implicitly.

Despite the growing awareness among economists and policy makers that entrepreneurship is a critical scarce resources in developing countries, and that it is not economic opportunity alone that calls it forth, attention has been given

to the social and cultural factors that influence it. (Akeredolu=Ale, 1975 and Mansfield 1978).

Mill Henrik and Morch (2005), described the entrepreneur as the one who starts a enterprise; the one who puts new forms of industry on their effect; the one who shoulders the risk and uncertainty of using economic resources in a new way; and the one with the right motivation, energy, and ability to build something by his or her own efforts. Managerial ability is an essential ingredient.

For this review we shall regard the entrepreneur as a combiner of resources. Reynolds (2005) this is a courageous, independent, and tenacious individual who can surmount difficulties created by the social milieu to combine or marshal such resources as initiative, risk taking, know-how, organizational ability, leadership, and marketing skills to establish a profit-oriented enterprise.

Webber (1930) and Schumpeter (1947) argue that entrepreneurship appears to be more appreciated during

economic depression than when times are good. Studies of entrepreneurship lapsed after the great depression but had a resurgence in the 1970s and 1980s (De Bano 1971, Dobb 1976, Thring and Laithwaite 1977, Sounder 1981). When more attempts were made to find practical solutions to economic recession, high inflation and mass poverty. Now there is a burgeoning literature of several theoretical perspectives, some of these are summarized here;

2.2.1 THE ECONOMIC PERSPECTIVE ON ENTREPRENEURSHIP

The economic importance of entrepreneur in world history has been recognized for several decades. Webber (1930) put forward the thesis that the protestant ethic is spirit of capitalism (Green 1959). Other writers have discussed, from different perspectives, the importance of entrepreneurship to different countries in the post industrial era, Schumpeter 1947, who was perhaps the first major

economist to analyze the roles of entrepreneurship in economic development, attributed innovation to the entrepreneur. He argued that “to study the entrepreneur is to study central figure in modern economic history”.

The theory of distribution put forward by say (1824), a neo-classical economist, the entrepreneur plays a crucial role, though he is not a production factor. Say postulated that to be successful, the entrepreneur should be able to estimate future demand, determine the appropriate quality and timing of inputs, calculate probable production costs and selling prices, and have the arts of superintending and administration. As this combination is not common, the number of successful entrepreneur is limited, especially in industry.

Adam Smith, the 18th century philosopher and economist, made the distinction between the “undertaker” (a translation of French entrepreneur). Who manages his or her own capital and receives a profit, and the “inactive capitalist”

who receives interest. Although Smith did not articulate the entrepreneurial function, he strongly emphasized the importance of the business class.

In the literature, it has been established that the developments of technical innovation and the capacity to translate such innovation into entrepreneurial venture is a positive step in the direction of socio-economic development. Webber (1934), there is underdevelopment when this step is missing. But history tells us that the ability to innovate and to translate innovations into entrepreneurial ventures is subject to constraints dictated by the practical economy of a nation and to the attitude of people and their reactions to the structural constraints of the economy.

In Nigeria, Adegbite (2005), technical innovation and entrepreneurship are conditioned by the practical economy; the institutions, the socio-cultural opportunities and constraints, and the orientations of individuals actors in the social structure.

2.2.2 MODERN THEORY OF ENTREPRENEURSHIP

Mc Clelland (1961) and Penrose (1968), among many other cotemporary scholars of entrepreneurship, each avoided a clear definition of the entrepreneur but developed a theory to explain entrepreneurial behavior itself. There is however, absurdity in their approach since the entrepreneur rightly can be regarded as the hub on which the entrepreneurial development revolves. Mc Clelland in his famous treatise on what he term “achievements” enumerated the characteristics of entrepreneurship as a function of the components of entrepreneurial role behavior. These components include;

- i. Moderate risk-taking as a function of skill, not choice decisiveness
- ii. Energetic and/or novel instrument activity
- iii. Individual responsibility
- iv. Knowledge of results of decision profits as an incentive for more output

- v. Organizational skills
- vi. Anticipation of future possibility.

McClelland, held that as the explanatory variables behind entrepreneurial success, asserting, that economic development has its roots in the psychological forces underlying the basic for achievement among entrepreneurial class. He added that this traits originated from certain beliefs and family child-bearing practices.

2.2.3 INNOVATION THEORY OF ENTREPRENEURSHIP

Differing from Mill's view point, Schumpeter (1934) later emphasized innovation rather than risk taking as the most important distinction between the entrepreneur and manager. In his opinion, an entrepreneur's goal broadly defined, is to develop new products or services as well as new sources of supply and develop new organizational forms. This, in his book capitalism, socialism and democracy, he said "innovations are carried out by entrepreneurs"

Oshon (1987), taking a learning towards the classical theory of capitalist, defined an entrepreneur as “a risk-taking” innovative individual who establishes and manages an enterprise for purpose of profit and economic growth”. He identified the critical traits for entrepreneur as processing:

- i. A keen sense for innovation:** Knowledge of what is important and what needs to be accomplished. A high tolerance for ambiguous, unstructured situation. This serves as an attitudinal made for moderate risk-taker or entrepreneur. In addition, an entrepreneur is most likely to be inclined to taking long-term view of the materialization of his or her innovation.
- ii. An intuitive analytical ability:** Creative talents to discover connection not recognized or developed before and capacity to follow them until they are realized.

From the foregoing, we can see that these theories are closely interrelated. An intimate relationship can be established between entrepreneurship, innovations, risk-bearing and profit, however, and most importantly it is innovation by small scale entrepreneurs that leads to a dynamic change which in their turn leads to dynamic growth and development,

2.3 EMPIRICAL LITERATURE REVIEW

Microfinance when properly positioned and implemented leads to accelerated growth of entrepreneurial skills evidence abounds in various empirical literature in support of this statement.

Entrepreneurship which happens to be the clients of the banks is engaged in by the largest proportion of the poor in Indonesia, comprising of 99.9% of the total entrepreneurial business in the country is employing about 99.4% of the total workforce and contribute 56.7% of the GDP. Thus, the

success of Bureau of Public Regulation (BPR) is influenced or a function of the development of entrepreneurship in Indonesia and their confidence in them (Asian Research Centre for Microfinance 2004).

Obviously, it is hard to measure “entrepreneurship” and because of this “self employment” has often been used as an approximation in the empirical literature. One fundamental idea in the literature is that positive entrepreneurs face “liquidity constraints”, they are constrained by limits on the access to liquidity. Consequently, possession of and access to own capital would imply a higher likelihood of entrepreneurship. This idea on why microfinance matters was confirmed empirically by Evans and Leighton (1989) and Evans and Jovanovic (1989). This result has later been verified by, for example, Kidd (1993), Holtz Eakin et al, (1994a,b), bearnhardt (1994), Lafferrere and Mc Entec (1995), Black et al, (1996) Linth and Ohlsson (1996), Lowling and Mitchell (1997), Blanchflower and Ostlald (1998), Aldrich (1999),

Johanson (2000a,b), Burke et al, (2000,2002) Hurste and Lusardi (2003) and More (2004).

Moreover, Parker (2002), has pointed out why banks are likely to limit the external financing of prospective entrepreneurs, while Blanchflower (2003), have shown that it is sometimes harder for prospective entrepreneurs among minorities to gain access to such means, closely related to the literature are those studies that see venture capital as a means to improve on the external financing of new ventures (see for example Gompers and Cerner, 2001).

2.3.1 EMPIRICAL EVIDENCE IN NIGERIA

A Central Bank of Nigeria (CBN) survey of microfinance institutions in 2001 identified one hundred and sixty registered microfinance institutions (MFIs) in Nigeria; their operation appeared in terms of size, savings and credit levels. (Savings of about N99.4 million and an outstanding credit of about N649.6million). Although these figures are much higher

today, yet a lot of entrepreneurship needs are still not met and micro finance needs are high and continue to increase in 2004, eight leading microfinance institutions in Nigeria were reported to have mobilized a total savings of N222.6 million and advance N2.624 billion credit with an average loan size of N8,206.90 translating to about 32,000 membership based customers enjoying one form of credit or the other, indicating about a 123.43% increase in microfinance activities.

Despite this increase in microfinance activities the existing formal microfinance institutions serves less than one million out of the over forty million people that needs their services.

2.3.2 DEVELOPMENT EXCHANGE CENTRE (DEC)

Development Exchange Centre (DEC) provided loans usually less than N30,000 to individual women group to establish and expand micro small self sustaining business. A Development Exchange Centre (DEC) client, Jumai Jumba, a

widow got a first loan of N2,000 and went into animal farming starting with a goat and two rams which she fattens and sells. Today she has thirteen goats, a large farm for crop production and saves on monthly basis. Another client Mallama Umma, a house wife who started with an initial loan of N5,000 went poultry farming and had today diversified as she also makes home-made juice and supplies to several fast food centres within and outside Bauchi town. (Nigeria Quarterly Microfinance News Letters June, 2006).

The evidence provided above shows the efficiency of microfinance in the provision of the needed window of opportunities to promote development of entrepreneurship skills through improving their access to finance thus enabling their development and that of the economy as a whole.

CHAPTER THREE

RESEARCH METHODOLOGY

Applied econometric approach will be adopted in this chapter. This is concerned with the measurement of the parameters of economic variables.

The model adopted shall depend on the nature of the features and objectives of the research findings.

Econometric approach adopted is to facilitate the specification of the model, parameter estimation that will collectively aid the formulation of various relevant policies.

This then means that for s to know the role of microfinance banks in the model being used must be correctly stated as a means of evaluating the validity and relevance of microfinance services in our society.

3.1 AREA OF STUDY AND COVERAGE

The study of the microfinance bank in the development of the index of business activities of own operations (entrepreneurs) in Nigeria specifically Bauchi state.

3.2 MODEL SPECIFICATION

The first aspect of econometrics investigation is the specification, it is the specification of the econometrics model underlying the phenomenon of interest.

The Ninth assumption of the classical Linear regression model stipulates that the regression model should be correctly specified and this means expressing the model in both mathematical and econometric terms, so that it would be utilized as a tool to evaluate the economic phenomenon in question.

$$\text{entprn} = a_0 + a_1 \text{mcfnl} + a_2 \text{intr} + a_3 \text{azinfl} + U_i$$

Where:

entprn = entrepreneurship development

mcfnlm = microfinance loan

intr = interest rate

infl = inflation rate

a_0 = intercept

a_1 , a_2 and a_3 coefficients of the parameters

U_i = error term

3.3 ESTIMATION PROCEDURE

The econometric modeling procedure adopted for this research is the ordinary least square (OLS) of the classical linear regression model. It is good for the study because it consists of best linear unbiased estimators. The data was obtained from CBN statistical bulleting (2010). The econometric software used is Ms-Excel to input data and E-views so used to run the regression.

Techniques for evaluating the results

Three criteria will be used to evaluate the result obtained from the regression analysis.

- Evaluation based on Economic criteria
- Evaluation based on statistical criteria
- Evaluation based on Econometric criteria

3.4 EVALUATION BASED ON ECONOMIC CRITERIA

Entails examining the economic meaningfulness of the model with regard to the expected sign of the parameters and their conformity or non conformity to economic theory. It has been shown in 3.1 above

3.5 EVALUATION BASED ON STATISTICAL CRITERIA

(First order Tests)

The coefficient of determination (R^2) C-Ujarati, (2003) states that R^2 is a summary measure that tells us how the sample regression line fits the data, it is also known as

goodness of fit test and tells us by what percentage the variation in the dependent variable is being explained by the independent variable of the model

The T-Test

This is used to ascertain if the individual variables are statistically significant in determining the impact of microfinance bank in the development of the index of business activities of own operations (Entrepreneurs) in Nigeria. This test the individual significance of the variables in the model

The F-Test

It is used to test the overall significance of the variables in the regression model.

3.6 EVALUATION BASED ON ECONOMETRIC CRITERIA

NORMALITY TEST

This test is being carried out to check if the error terms follows a normal distribution. The normality test adopted in this research is the Jaraue-Bere (JB) statistic which follows the normal distribution.

Auto Correlation Test

This is a test for first order serial correlation. The Braisch Godfrey serial correlation LM test is adopted. It is carried out to check if the errors corresponding to different observations are uncorrelated. The BG-test is used to avoid some of the pit falls of the Durbin-Watson of autocorrelation.

Heterscedasticity test

An important assumption of the classical linear regression model is that the variance of each distribution term U , has a constant variance σ^2 .

The presence of Heteroscedasticity violates this assumption and the variance varies such that we have O^2 , which shows the conditional variance of the dependent variable increases.

Multicollinearity Test

This test is conducted to ascertain if the estimated model is correctly specified or not. The Ramsey Reset (Regression Specification Error Test) will be used. Specification biased arise if we are not able to formulate the model as precisely as possible because we do not have the right of data to test the model.

Research estimation method

H_0 : There is no significant relationship between microfinance and entrepreneurship development in Nigeria.

H_1 : There is a significant relationship between microfinance and entrepreneurship development in Nigeria.

Where H_0 = Null hypothesis

H_1 = Alternative hypothesis

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF RESULT

4.1 PRESENTATION OF RESULT

The estimates from the regression carried out are presented and analyzed in this chapter, as stated in the previous chapter, the modeling procedure employed in the work is the ordinary least square.

The result of the regression with three regressors is presented in the table below.

Number of obs = 16

F 3, 12 = 1.28

Prob > F = 0.3247

R-squared = 0.2428

Root MSE = 0.71754

Table 4.1: Presentation of result

Lentprn	coef.	Std.Err.	t	p> t 	(95%conf.	interval
Lmcfnl	-0.4364889	0.439337	-0.99	0.340	-1.393846	0.5208678
Intr	-0.0249446	0.0617233	-0.40	0.693	-0.1594281	0.109539
Infl	-0.0144858	0.110112	-0.13	0.898	-0.2543991	0.2254276
_cons	6.592243	3.069434	2.15	0.053	-0.0954787	13.27997

Therefore:

$$\mathbf{Lentprn} = 6.592243 - 0.4364889\mathbf{Lmcfnl} - 0.0249446\mathbf{Intr} - 0.0144858\mathbf{Infl} + u$$

4.2 INTERPRETATION OF THE REGRESSION RESULT

4.2.1 ANALYSIS OF REGRESSION COEFFICIENTS

From the result above, when all the independent variables are equal to zero, the intercept for the ENTPRN becomes 6.592243.

Microfinance loan (MCFNLN): A unit change in MCFNLN decreases entrepreneurship by 0.4364889 units. This shows a negative relationship between MCFNLN and the ENTPRN

Interest rate (INTR): A unit change in INTR will decrease entrepreneurship by 0.0249446 units. This shows a negative relationship between INTR and ENTPRN

Inflation rate (INFL): A unit change in INFL will decrease entrepreneurship by 0.0144858 units. This shows a negative relationship between INFL and ENTPRN

4.2.2 ECONOMIC CRITERIA

The economic test examines the economic meaningfulness of the equation with regards to meeting the a priori expected signs. The table below summarizes the result

Table 4.2: Economic test

Variable	Expected sign	Observed sign	Conclusion
LMCFNLN	+	-	Does not Conform
INTR	-	-	Conforms
INFL	-	-	Conforms

Thus, all variables except microfinance loan conforms to economic theory.

4.2.3 STATISTICAL CRITERIA

This test include

- **Goodness of Fit Test (R^2):**

From the result obtained in the regression, R^2 is 0.2428 showing a goodness of fit of 24.28%, on the grounds that the explanatory variables explain 24.28% of the explained or dependent variable (entrepreneurship).

- **Student's t-test**

In order to test if the independent variables are statistically significant, we use the t-probability $P|t|$ 0.05 level of significance. At 0.05 level significance, the $P|t|$ and the significance status of the independent variables are shown in the table below.

The decision rule is to reject the null hypothesis H_0 if t-probability is less than or equal to 0.05 and accept it if otherwise.

Table 4.3: t-table

Variables	t-statistics	t-probability	Decision
Constant	2.15	0.053	Insignificant
MCFNLN	-0.99	0.340	Insignificant
INTR	-0.40	0.693	Insignificant
INFL	-0.13	0.898	Insignificant

From the result, all the explanatory variables are seen to have insignificant impact on entrepreneurship

Hypothesis testing:

H₀: There is no significant relationship between microfinance loan and entrepreneurship development in Nigeria.

H₁: There is a significant relationship between microfinance loan and entrepreneurship development in Nigeria.

From the table above, microfinance loan was found to be insignificant, thus implying that microfinance loan has no significant impact on entrepreneurship development in Nigeria. Therefore we accept the null hypothesis.

- **The f-test:** The test is conducted to see if the regression model is well specifies. The decision rule is to reject the H₀ that the overall model is significant. If F-probability is less than or equal to 0.05 or accept H₀ if otherwise.

F-probability = 0.3247

We therefore accept H₀ and reject H₁ concluding that the overall regression is insignificant.

4.2.4 ECONOMETRIC CRITERIA

Under this test we verify whether the assumptions of OLS state in the previous chapter are violated. The test is presented below.

1. Test for autocorrelation

To test for autocorrelation in our model, we make use of the Breusch-Godfrey Serial correlation LM test for autocorrelation. The most popular and routinely used is the Durbin-Watson d test.

Table 4.4: Decision rule

Null hypothesis	Decision	IF
No positive autocorrelation	Reject	$0 < d < d_1$
No positive autocorrelation	No decision	$d_1 < d < d_u$
No positive autocorrelation	Reject	$4 - d_1 < d \leq 4$
No positive autocorrelation	No decision	$4 - d_1 \leq d \leq 4 - d_1$
No positive autocorrelation	Do not Reject	$D_u < d < 4 - d_u$

Where:

d = Durbin Watson

d_1 = Lower limit Durbin Watson

d_u = Upper limit Durbin Watson

n = 16

K = 3 (excluding the dependent variable)

At 5% level of significance

$d = 0.1639315$

$d_1 = 0.98204$

$d_u = 1.53860$

And since $0 < d < d_1$ (that is $0 < 0.1639315 < 0.98204$), we conclude that it falls within the rejection range. So we reject and conclude that there is positive serial correlation in the residuals.

2. Normality Test

This test is carried out to check whether the error term follows a normal distribution. The normality test adopted the Jarque-Bera (JB) Test of Normality. The test is an asymptotic and it is based on the OLS residual. The test computes the skewness and kurtosis a measure of the OLS residuals and follows the chi-square distribution.

Hypothesis

$H_0: \sigma = 0$ (the error term does not follow a normal distribution)

Against

$H_1: \sigma \neq 0$ (the error term does not follow a normal distribution)

At $\alpha = 5\%$ with 2 degree of freedom

Decision Rules

Reject H_0 if $JB^* > JB_{tab}$ at 2df and accept H_0 if otherwise.

From the result of the normality test

$JB^* = 2.49$, hiwl chi square table $JB_{tab} = 5.99147$

Therefore $JB^* < JB_{tab}$ at 5% level of significance we accept H_0 and conclude that the error term follows a normal distribution.

3. Heteroscedasticity test:

Heteroscedasticity test: we shall employ the White's Heteroscedasticity test. See Gujarati (2004). This test is basically on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

H_0 : Homoscedasticity (i.e there is no Heteroscedasticity)

H_1 : Heteroscedasticity at 9 degrees of freedom

Decision Rule

If $x^2\text{-calculated} > x^2\text{-tabulated}$, reject the null hypothesis

$$X^2_{tab} = 16.919$$

$$X^2_{cal} = 5.61$$

Conclusion

Since $X^2_{cal} < X^2_{tab}$ that is $5.61 < 15.919$, we conclude that the variance of the error term is constant.

4. Multicollinearity Test:

The test is carried out using the correlation matrix. This suggests that if the pair wise correlation coefficient between two repressors is in excess of 0.8 then we say that there is multicollinearity. The correlation matrix is presented below.

Table 4.5: Correlation matrix

	LMCFLNL	INFL	INTR
LMCFLNL	1.000000		
INFL	0.7360	1.000000	
INTR	-0.0275	0.3877	1.000000

From the above table, no pair-wise has a correlation in excess of 0.8, thus we conclude that multicollinearity does not exist.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The noble objective of this study is basically to access the impact of microfinance bank on the development of entrepreneurship in Nigeria. This is because finance is well known determinant of the growth of entrepreneurship activities, hence the establishment of microfinance banking system to provide financial succor to these activities.

The study begins with an introduction of the research which comprises background of the study. Statement of research problem, objectives of the study, justification of the study, research hypothesis, scope and limitation and finally, the outline of chapters.

The introduction is followed by a review of the available relevant literature, comprising the introduction, the study such as microfinance banks, entrepreneurship development and the adoption of suitable conceptual definition for the

research work. Following is the theoretical literature review of entrepreneurial development. Also discussed in this aspect of the research is the review of empirical literature which is the work of others on the subject.

The third major aspect of the research deals with the methodology of research specifying the deals with the methodology of research specifying the data source and variables, model specification, and research estimation method.

The fourth major aspect of the research deals with the presentation of the data collected interpreted and analyzed, following which is the discussion of result in the light of the objective that this research seeks to achieve.

The fifth and final aspect of the research is carried with the summary of the entire work following which informed conclusions is drawn and recommendation made in the light of the findings of the research.

5.2 RECOMMENDATIONS

The following recommendations were made after the findings of the research instability effects the economy by limiting productive economic opportunities and potential sustainable microfinance and entrepreneurial capacity. In general, microfinance instability makes interest rates, exchange rates, and relative price more volatile and these factors impose additional cost and risks on microfinance and their authorities concerned should put up structures that will stabilize the macro economy like correcting interest rate and exchange rate which could help check inflation to a single digit thus creating a healthy environment for entrepreneurship development.

That the banks should increase their provision of other services such as financial advice, commodity marketing, micro-insurance, leasing etc. to entrepreneurs.

That the concentration of the loans of the banks in the agricultural sector is worthy, but other lines of business such

as vocation, manufacturing and industry, services, commerce and trade, should also be considered to ensure even and overall contribution to the economy.

Publicity programmes of microfinance should be channeled to the rural areas, for instance, public seminars could be held in rural areas to give them proper orientation on the activities of the microfinance and how it can help them improve their business.

The Central Bank of Nigeria (CBN) should bring up regulations that would allow it to be fully involved in the coordination of the several other microfinance practitioners both in grassroots and up towns rather than leave them totally under the supervision of some state authorities or some private sectors. A proper linkage between them will allow them to share better experience that will give insight as to how to best carry out their services.

Entrepreneurs should be involved directly in the identification, design and implementation of the microfinance policy program to ensure effective use of resources.

Development of infrastructure will also go a long way in improving entrepreneurial activities, infrastructures such as roads, hospitals, market facilities, schools, adequate power supply, portable water will increase the performance of economic activities both in the rural and urban areas so as to reduce mass poverty.

To encourage gender equity and women employment, women entrepreneurs should be encouraged by setting aside a certain amount or percentage of total loans to be given to them and at lower interest rate than that of the males.

5.3 CONCLUSION

This research has succeeded to indicate that microfinance is an imperative strategy in the development of entrepreneurship activities. Its importance in entrepreneurship development cannot be overemphasized as indicated in the presentation of data, its analysis relating the contribution of microfinance bank on the growth and development of entrepreneurial skills.

This was shown by table 4.1 presentation of result in this regard. However, the contribution or impact is not substantial.

Therefore, there is still a lot to be done to substantially increase the contribution and impact of microfinance banks on the growth of the index of business activities of own operations (entrepreneurship) in Nigeria.

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