# Microfinance Bank as a Catalyst for Entrepreneurship Development in Nigeria: Evidence from Ogun State

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## Abstract

*It is incontestable that an efficient and effective microfinance system is essential for building a sustained economic growth. The success of these microfinance banks can only be achieved through the safety, soundness and stability of the banks coupled with the effective and efficient management of the sector.This paper examines the relationship and causality between microfinance bank operations and Entrepreneurship development in Ogun State, Nigeria. Survey research design was adopted and data collected through financial statement of some selected microfinance bank operators within ogun state and the use of questionnaires to collect data from a sample of 20 entrepreneurs from each of the four zones in Ogun State which are Ijebu, Egba, Yewa and Remo zones. The impact of microfinance bank operations and Entrepreneurship development in Ogun State, Nigeria was analyzed using the regression analysis method. The study revealed that there is no significant impact of microfinance bank operations on entrepreneurial development in Ogun State. It has been proved that the capitals of these banks are not adequate and there are high incidences of non-performing loans. The capital of these banks is low and because of this; some of these banks have actually gone down. If their capital are adequate and they are liquid to be able to meet obligations as at when due, then microfinance bank operations would enhance the future development of entrepreneurship assuming that the policy objectives are followed. It was also found out that there is no significant difference between entrepreneurs who use microfinance banks in terms of loan and advances and those who do not. This however was due to the fact that most of the entrepreneurs do not even have access to loans and advances in the microfinance banks.It was found out that majority of the entrepreneurs who are SME owners capitalized mostly on personal income and loans from family and friends and not from the microfinance bank institutions because they could not provide collateral assets requested for by these microfinance banks which negates what is in their policy and objectives.The study recommended that Government should find an avenue for creation of awareness on how entrepreneurs can benefit from loans and monitors the microfinance banks closely to ensure disbursement of loans and grants to entrepreneurs. Entrepreneurs should equally endeavor not to divert loans given to them by microfinance banks.*

**Keywords:** Entrepreneur, Entrepreneurship, Microfinance Bank, Microfinance, Loan

## *Introduction*

The issue of sustainable development in the Third World countries like Nigeria has been a growing concern to both the government and the private sector. The huge amounts of money the government has been investing on this platform over the years have not yielded any meaningful result. Poverty is a characteristic of average Nigerian households and there are many individuals who cannot afford the basic necessities of life such as decent food, clothing and shelter. The National Bureau of Statistics (2012) explained that 112.519 million Nigerians live in relative poverty conditions. It has been realized in recent years that there are limits to which government can singly promote development. Most of the traditional functions being carried out by the government in most countries ranging from the provision of economic development are becoming increasingly difficult to accomplish.

Nigeria as a nation has her own peculiar developmental challenges because of mal-administration, corruption, infrastructural decay, insecurity of lives and properties, unstable macroeconomic policies and unpredictable fiscal policies by successive administrations (Fasua, 2006). Thus, both the public and the private sectors of the economy and every segment of the society need to be involved in the industrial development process of the country. It is on this basis that government begins to engage in privatization policy with the view of allowing the private sector to participate in the economic development of the nation. Consequently, various governments of the nations began to find pathways to involve the private sector in the developmental process of their country's economy.

One of the responses to the challenges of development in the developing countries is the encouragement of entrepreneurial development scheme. Nigeria had even taken more robust step by including entrepreneurial studies in the academic curriculum of her educational system at all levels. The belief of policy makers is that such decision will inculcate entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through small scale enterprises (Fasua, 2006). If successful, entrepreneurship is likely to result in a small and medium-enterprise (SME). Small and medium scale enterprises are very crucial to the development of a country's economy, especially countries like Nigeria. They are relatively small, independent and heterogeneous group of businesses that are found operating within the service, trade, agribusiness and manufacturing sector of the economy.

Small and medium enterprises are the starting points of most giant multinationals of today's business world such as the United African Company (UAC), General Motors, Microsoft, Volkswagen, etcetera. Examples of SMEs are varied but include such relatively small firms like Blacksmiths, small tool shops, goldsmiths, to the relatively large firms like soap making factories, bakery, nylon and block making firms to mention a few (Arowomole & Oyedokun, 2006).

SMEs; whether starting ups or existing entities need capital either to be able to grow or expand operations. Capital can be in form of internally generated funds or external funds such as a capital contributed of some types. While noting that robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to factors of production, especially credit, government and Non Government Organizations (NGOs) have been engaging in a number of programs and policies to encourage entrepreneurship in the country (Asaolu, 2002).It was, however, concluded that the latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth (Ehigiamusoe, 2008).

One possible explanation for the relative absence of SMEs in the poor economies is the difficulty of having access to finance. Large firms in these countries can secure financial assistance because they have assets that can serve as collaterals for loans. It could be recalled that The Central Bank of Nigeria (2001) in its 'monetary policy circular N0.35', stated that the new initiative that evolved under the aegis of the bankers committee is to give impetus to current efforts aimed at ensuring adequate resource allocation to SMEs. This initiative requires banks to set aside 10% of their profit before tax for the financing and promotion of SMEs in Nigeria.

The evolution of microfinance in 2007 is to break the barricade to access capitals by low income individuals for developmental purposes. Before the advent of microfinance banks, there were before it; the People's banks in 1989, community banks in the 1990s, Family Economic Advancement Program (FEAP) etcetera. (Adeyemi, 2008). Microfinance is the provision of financial services to low-income, poor and very poor self-employed people. Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions (Otero, 2000).The essence of this research work, therefore, is to examine the impact of effective microfinance bank operations on the small and medium scale business development in Nigeria.

### *Statement of the Problem*

Financing SMEs is considered by many capital providers as a risky venture due to high transaction costs and low returns, and going concern of the businesses especially in the early stages. Despite this, finance remains a strategic resource for SME development because investments are needed for new ideas to become marketable products and services. The impression has been that lack of fund or inadequate funding is the major root cause of several SMEs unproductive activities and closure in Nigeria which is the reason why government made microfinance banks the major sources of capital provider for entrepreneurs (Obasan, 2001).

At this point, it is therefore important to re-examine the impact of microfinance bank policies and its operations on the development of small and medium-enterprise in Nigeria.

### Objectives of the study

The overall objective of this study is to undertake an assessment of the extent to which microfinance banks and their operations can impact Entrepreneurship development in Nigeria.
The specific objectives include

1. To establish the relationship between microfinance bank operations and Entrepreneurship development
2. The challenges of accessibility of capital for the development of small and medium-enterprise The hypothesis of this study is; there is no significant impact of microfinance bank operations on Entrepreneurship development. At the end of this study, it is expected that the study will add to the knowledge of business management by examining the practices, problem and approaches to implementation of microfinance bank operations on Entrepreneurship development .The data generated from a sample of 20 entrepreneurs and microfinance bank operators from the four zones in Ogun State which are Ijebu, Egba, Yewa and Remo zones will be used to determine the impact of f microfinance bank operations on Entrepreneurship development. This study is divided into five sections, with section one dealing with the introduction, statement of problem, objectives and research hypothesis. Section II deals with the literature and Empirical review while section III deals with the methodology, Section iv deals with analysis and discussion of result. Section V deals with the conclusion and recommendation

### Section II

### Literature Review and Review of Empirical Studies

### The Concept of Microfinance

Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2000). Robinson (2001) as cited in Ogunleye (2009) defined microfinance as small scale financial services that involve mainly savings and credit services to the poor. Over twenty years ago, microfinance simply meant the provision of very small loans (microcredit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfers, as practitioners came to realize that the poor, who lacked access to traditional formal financial institutions, needed and required a variety of financial products to achieve meaningful improvement in their business activities. Microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor. Ogunleye (2009) is of the opinion that microfinance is about providing financial services to the poor, who are traditionally not served by the conventional financial institutions. He said the three features which distinguish microfinance from other formal financial products are:

1. The smallness of loans advanced and or savings collected,
2. The absence of asset-based collateral, and
3. Simplicity of operations.

Commercial banks usually demand for collateral security before giving out loans for business purposes. This is a necessary factor in obtaining loan as collateral serves as guarantee for recovering of loans given out by commercial banks in case of repayment default. An average citizen in Nigeria cannot provide such collateral security. This results to inability of an average Nigerian to access loans from commercial banks. Thus the difficulty of access to loans from financial institutions constitutes a great setback to entrepreneurial development in Nigeria. (Parker, 2006)

The evolution of community banks as intermediaries of microfinance program in Nigeria in 1990 was supposed to reduce the stress which low income individuals go through before they can have access to capital. (CBN, 2005). It has been noted that robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to factors of production, especially capital. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system. (Aderibigbe, 2001)

Over the years, successive governments in Nigeria have made several attempts to address the issue of access to finance by poorer Nigerians for micro and small scale economic activities. Efforts have included such programs as the Agricultural development Programs (ADP), Rural Banking Schemes, the National Economic Reconstruction Fund, National Directorate of Employment (NDE), the Directorate of Foods, Roads and Rural Infrastructure (DFRRI), Better Life for Rural Women, Family Economic Advancement Program (FEAP) as well as National Poverty Eradication Programme (NAPEP). In addition, several Development Finance institutions, which could among other functions, provide additional funding for institutions engaged in microfinance have been established. They include the Nigerian Industrial Development Bank (NDIB), the Nigerian Bank for Commerce and Industry (NBCI), Nigerian agricultural and Cooperative Bank (NACB) and the Federal Mortgage Bank (FMB). Most recently, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund was created to provide resources for small and medium industries.

Unfortunately, most of these programs have recorded limited success in securing wide access to sustainable micro credit as a critical instrument for growth and poverty reduction. A CBN survey of MFIs in 2001 identified 160 registered MFIs in Nigeria. Their operations appeared to have grown significantly in the last decade in terms of size, branch expansion, staffing, savings and credit levels. Ninety six institutions that responded to the CBN survey had between them savings of about N99.4 million and outstanding credit of about N649.6 million. Definitely, the figures would have been much higher now. Clearly there are significant business transactions in the sector and yet it also known that much of Nigeria's microfinance needs are still not met and that microfinance needs are high and continue to be constrained by weak access to funding sources. The additional liquidity provided in the banking sector by the consolidation process can be capitalized upon within the framework of the new policy for microfinance to enhance increased activity in this area.

### *Key Principles of Microfinance*

Consultative Group to Assist the Poor (CGAP), is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor, referred to as microfinance. The following principles were developed and endorsed by CGAP and its 28 members, and further endorsed by the Group of eight leaders at the G8 summit on June 10, 2004.

**1.** The poor need a variety of financial services, which are convenient, flexible and reasonably priced such as savings, cash transfers and insurance depending on the circumstances.
**2.** Microfinance is a powerful instrument against poverty as it allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions and children's health and education.
**3.** Micro financing means building financial systems that serve the poor: In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector.
**4.** Financial sustainability is necessary to reach significant number of poor people. Sustainability is the ability of a microfinance provider and the ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services to the poor that meets clients' needs, and finding new ways to reach the unbanked poor.
**5.** Microfinance is about building permanent local financial institutions which translates to building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services.
**6.** Microcredit is not always the answer because microcredit is not appropriate for everyone or every situation for example the destitute and hungry that have no income or means of repayment need other forms of support before he can make use of loans.

**7.** Interest rate ceilings can damage poor people's access to financial services: it costs much more to make many small loans than a few large loans and unless micro lenders can charge interest rates that are well above average bank loans rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding.
**8.** The government's role is an enabler, not as a direct provider of financial services: The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure.
**9.** Donor subsidies should complement not compete with private sector capital: donors should use appropriate grant, loans and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity etc), and support experimental services and product.
**10.** Lack of institutional and human capital is the key constraint as microfinance is a specialized field that combines banking with social goals, and capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government development entities and donor agencies.
**11.** The importance of financial and outreach transparency such as accurate, standardized and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative.

### *Microfinancing in Nigeria*

According to the CBN's regulatory and supervisory guidelines for microfinance banks in Nigeria (MFBs), a microfinance bank shall be construed to mean any company registered to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer and other financial services that are needed by the economically poor, micro, small and medium enterprises to conduct or expand their businesses as defined by these guidelines.

Policy objectives of microfinance banks in Nigeria include:

1. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise could have little or no access to financial services.
2. Promote synergy and mainstreaming of the informal subsector into the national financial system.
3. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
4. Contribute to rural transformation
5. Promote linkage program between universal/development banks, specialized institutions and microfinance banks.

In view of the above, microfinance service providers are expected to:

1. Provide efficient and effective financial services, such as credits, deposit, leasing and innovative transfer/ payment services, (2) Undertake appropriate recruitment and retention of qualified professionals through transparent and competitive processes, (3) Adopt continuous training and capacity building programs to improve the skills of entrepreneurs or small scale owners; (4) Remain transparent and accountable in protecting savers' deposits (Adelaja, 2004).

Six sources of funds are listed in the CBN guidelines for Microfinance banks. These are:

**a.** Paid up share capital and reserves (shareholders funds)
**b.** Deposits (customers' savings)
**c.** Debenture/Qualifying medium to long term loans.
**d.** Grants and donations from individuals, organizations, national government and international sources.
**e.** Fees and commissions.
**f.** Interest income.

### *Challenges of Microfinancing in Nigeria*

Ehigiamusoe, (2005) opined that since one of the acknowledged 11 principles of microfinance is 'building of institutions which deliver financial services to the poor in an efficient manner and on a sustainable basis', then it is only efficient institutions that can reach large number of people thereby making substantial impact on poverty.

To achieve sustainability, microfinance must devise strategies to effectively address the 6 challenges of microfinance which are as follows:

1. High operating cost: small units of services pose the challenge of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations especially in rural communities.
2. Repayment problem: loan delinquency is a major threat to institutional sustainability. It can be described as a deadly virus which afflicts MFBs. It demoralizes staff and deprives beneficiaries of valuable services. However it can also be seen as a symptom of poor leadership.
3. Inadequate experienced credit staff: micro financing is more than dispensing loans. To be viable, MFBs require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFBs in Nigeria are on their first jobs and this limits expansion and institutional performance.
4. Lack of re-financing facilities: MFBs in Nigeria are not profit oriented. Non- profit status of MFBs inhibits effective engagement with financial institutions like the commercial banks.
5. Client apathy and drop-out: Improper client services and delivery strategies could lead to client drop-out.
6. Internal Control challenge: large transactions and informal operational approach pose serious internal control challenge. Operational procedures could be breached at disbursement and collection points. High cash transaction which is a feature of micro financing is a source of temptation for fraudulent practices.

Morduch (1999) listed sustainable parameters which include the ability of the Microfinance Banks to meet all transaction costs categorized as follows:

- **i.** Loan losses/ bad debts ii Financial costs iii Administrative costs iv Return on equity

## *Microfinance Models*

### *The Grameen Models*

Grameen Bank of Bangladesh was established in 1983 as an independent specialized bank after an experimental period of six years starting from 1976 under the supervision of Professor Muhammad Yunus and financed by the Janata Bank, to provide credit to the rural poor, particularly women in Bangladesh. The Grameen Bank experience started with the group concept-informal lending to the poor. It was started to assist landless people in Bangladesh to obtain credit, which could not be obtained through the formal commercial banks credit facilities. The bank was established in order to improve the economic condition of the rural poor through the creation of opportunities for their self employment.

Grameen Bank loans are not secured by physical collateral like the other commercial banks, instead, they are secured by group collateral complemented with peer monitoring and pressure to enforce repayment. Loans are disbursed through banking units of separate groups of five members for men and women that apply for loan.
Individual members of each group receive loans but the entire group is held liable for repayment. In first round, loan is granted to two members to invest in their business. If these members repay their loans successfully, then four to six weeks later, next two members also will be granted for loan. The last one member will be eligible for loan if the previous two members are able to repay their loans.

Repayment of each member give room for next loan and continue like that if all members are able to repay their loans. Invariably, if a member defaults, no other member of the group is legible to receive further loan.
Six to eight groups are organized into a community referred to as the “centre” and this constitutes the second tier level of participation by which a Bank official deals with these all eight groups. This centre of eight groups has its own centre chief and centre group leader (Khan and Rahman, 2007). Small amount of loan (US $100) are granted to a single borrower for a year and bank require a repayment of 10 percent rate per week. This repayment encourages them to save more income. The loans are granted for income generating activities identified and selected by each member with the assistance of group members (Owualah, 1999).

However, this model operates using the modality of collective guarantees, close supervision and peer pressure from other members of the group. Therefore, the model had been quite successful as a bank for the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of poor.

### *The Progressive Lending-Banco Sol Model*

This model was adopted by Bancosol in Bolivia when populist regime left government and there were high rate of unemployment in urban areas. Bancosol. A pioneering microfinance institution in the region was developed to address the problem of urban unemployment and provide credit to the cash-strapped informal sector. The idea of progressive lending model combined individual lending together with individual lending. In this model, the amount of loan increases after completion of every repayment schedule. The progressive lending is an extension of Grameen model because it incorporates other characteristics of the Grameen model such as targeting the poor women, group formation and public payment. In the progressive lending, micro lenders are flexible about collateral and lend loan to group with individuals. Many MFIs are now adopting this approach because it is very helpful in areas with low population densities or highly diverse population where group forming is not easy due to different ratio of safe and risky borrowers.

### *Non Government Organization (NGO) Model*

This is also grouped as informal model as it tends to adapt the Grammen principles and usually are gender specific and sector ally motivated. There are women groups, farmers union, trader union etc in this organization.
The NGOs with the features of Grameen bank are formed in different countries in the world with different names, e.g. Left Above Poverty (LAPO) can be view as a typical example of NGO that emulate the method of Grameen Bank by channeling credit facilities to the poor who are member in Nigeria. While in Ghana and Gambia, the most successful micro credit programs with these features are women finance association. The programs were reported to have had high rate of repayment.

### *The Esusu Model*

Esusu is a revolving loan scheme in Nigeria and entrenched in most West African countries operating as an informal micro-credit programme. The group formed to operate the revolving schemes are voluntarily. In this model of microfinance, members make fixed contributions of money at regular intervals. This is quite different from Grameen model because at each interval, one member collects the entire contributions from all. Every member takes a turn until the cycle is completed, and then it starts again. One perfect function of Esusu is that it serves as a saving mechanism for the last person to take his or her turn. The Esusu are very strong program that have assisted in promoting entrepreneurship in most of West African countries, particularly among market women in rural/urban markets. Each Esusu’s group has a recognized leader and Esusus are often used as model by NGOs trying to establish micro-finance programme in urban setting (Akanji, 2008).

### *The Linkage Model*

The framework for linking informal savings collectors to the formal institutions formed the basis of the breakthrough discussed earlier. In view of the banks’ readiness to acquire more information about the informal sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programs an example is the recent merger of the Nigerian Agricultural and Cooperative Bank (NACB), peoples Bank of Nigeria and Family Economic Advancement Program (FEAP) to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). Also the current Bankers Committee initiative which is supported by the CBN, for banks to set aside 10% of their profit before tax for equity investment in small scale industries will be tangential to alleviating poverty through the lending window or through joint ventures.

### *Donors Model*

Donors have played a very important role in the micro-credit program, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model proposed by Gabriel and Ibanga (1997) called “The Ekpuk (family) model worked perfectly well within an extended family structure, particularly proven successful in some villages in Akwa Ibom State.

### *The Concept of Entrepreneurship*

In almost all the definitions of entrepreneurship, it is agreed that it is about a kind of behavior that includes initiative taking, organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account and the acceptance of risk or failure. (Hisrich, Peters & Shepherd, 2008) To the economist, an entrepreneur is one who brings resources, labor, materials and other assets into combinations that make their value greater than before and also one who introduces changes, innovations and a new order.

To a psychologist, such a person is typically driven by certain forces- the need to obtain or attain something, to experiment, to accomplish or perhaps to escape the authority of others. To a businessman, an entrepreneur appears as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone who creates wealth for others, as well as finds better ways to utilize resources, reduce waste and produce jobs others are glad to get. (Hisrich et al, 2008)

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources. (Hisrich et al, 2008)

Lawal, Kio, Sulaimon & Adebayo (2000) sees entrepreneurship as the act or process of identifying business opportunities and organizing to initiate a successful business activity. They noted that the functions performed by entrepreneurs include: searching for and discovering new information; translating new information into new markets, techniques and goods; seeking and developing economic opportunities; marshalling the financial resources necessary for the enterprise; taking ultimate responsibility for management; and bearing the risk for the business.

The world book Encyclopedia (1982) as cited in Onifade (2004) opines that entrepreneur as a person, organizes, operates and assumes the risk for a business venture. He said that an entrepreneur is a business owner or a self employed person who in turn employs people to work in his enterprise. Although each of these definition views the entrepreneur from a slightly different perspective, they all contain similar notion such as newness, organizing, creating wealth and risk taking. To include all types of entrepreneurial behavior, Hisrich et al (2008) is of opinion that Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuring the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence

### *Microfinance and Entrepreneurship Financing*

Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time .Entrepreneurship has an important role to play in the development of a country. It is one of the most important inputs in economic development. The number and competence of entrepreneurs affect the economic growth of the country.

The economic history of the presently advanced countries like USA, Russia and Japan supports the fact that economic development is the outcome for which entrepreneurship is an inevitable cause. The crucial and significant role played by the entrepreneurs in the economic development of advanced countries has made the people of developing and under developed countries conscious of the importance of entrepreneurship for economic development. It is now a widely accepted fact that active and enthusiastic entrepreneurs can only explore the potentials of the countries availability of resources such as labour, capital and technology.

The role of entrepreneurs is not identical in the various economies. Depending on the material resources, industry climate and responsiveness of the political system, it varies from economy to economy. The contribution of entrepreneurs may be more in favourable opportunity conditions than in economies with relatively less favourable opportunity conditions.

Entrepreneurship and economic development are intimately related. Schumpeter opines that entrepreneurial process is a major factor in economic development and the entrepreneur is the key to economic growth. Whatever be the form of economic and political set-up of the country, entrepreneurship is indispensable for economic development. Entrepreneurship is an approach to management that can be applied in start-up situations as well as within more established businesses. The growing interest, in the area of entrepreneurship has developed alongside interest in the changing role of small businesses. Small entrepreneurship has a fabulous potential in a developing country like Nigeria.

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector.

The entrepreneurs need funds to bring together various factors of production such as land, labour and capital for production to take place. The take-off and efficient performance of any enterprises, be it small or large will require the provision of funds for the creation of new investment.

Therefore, various forms of assistance have been designed in many microfinance institutions to promote the development of entrepreneurship. These include finance, extension and advisory services, training and the provision of basic infrastructure. In the past, the poor and micro enterprises have been discriminated against by formal financial institution because of the high risk associated with financing them. As a result, access to economic source of finance for the low income earners to establish their own business has been a major issue in the literature of economic and entrepreneurship development.

Poverty reduction is not an impossible task in a country. Empirical evidence has shown in Indonesia that significant poverty reduction is possible and had occurred in developing countries. For example, studies have revealed that the absolute number of people living in poverty has dropped in all developing countries that have experienced sustained rapid economic growth over the past few decades (Aderibigbe, 2001).

The approaches adopted by these countries are collectively known as microfinance. It is designed to raise the level of investment infrastructure and people in order to enhance income generation capacities. According to Fashola (2008), setting up microfinance institutions was a strong commitment to alleviate poverty, raise the standard of living of the people and help to generate job opportunity. He stressed that when people are empowered and loans are made easily available to especially poor people to start small scale business, our society would be better off.

## *Empirical Review*

Ojo (2009), carried out a research work on the 'Impact of Microfinance on Entrepreneurial Development: The case of Nigeria' to investigate the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in an economy like Nigeria. The researcher used questionnaire as an instrument of primary data collection. Tables and simple percentages were used in data presentation. For clear analysis, the study centers on two broad variables: the dependent variable which is entrepreneurial development and the independent variable which is microfinance institutions. Three different hypotheses were formulated and tested using various statistical tools such as chi square, analysis of variance and simple regression analysis. The study reveals that: there is a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not; there is a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and that there is no significant effect of microfinance institution activities in predicting entrepreneurial development.

The researcher concludes that microfinance institutions world over, especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy.

Ekpe, Mat, & Razak (2010) focused their article on 'the Effect of Microfinance Factors on Women Entrepreneurial Performance in Nigeria'. They agreed that women play a crucial role in the economic development of their families and communities but certain obstacles such as poverty, unemployment, low household income and societal discrimination mostly in developing countries have hindered their effective performance of that role. They hypothesized that: credit, savings, training and social capital are positively related to women entrepreneurs' performance in Nigeria, credit; credit, savings, training and social capital are positively related to opportunity for entrepreneurial activity of women entrepreneur in Nigeria; and that opportunity for entrepreneurial activity acts as a link between microfinance factors and women entrepreneurs' performance.

Some scholars focused on the mechanism by which poverty is reduced. Concerned that microfinance banks only serve people slightly below or above the line of poverty with the really poor and destitute being systematically excluded, such scholars include Amin, Rai, and Topa (2003) who carried out a study on the ability of microfinance to reach the poor and vulnerable.

Copestake, Halotra and Johnson (2001) analyzed the impact of microfinance on firms and individual's wellbeing focusing on business performance and household income to establish a link between the availability of microfinance and overall wellbeing of the poor. Evans and Adams (1999) approached the microfinance question at a slightly different angle.

However, they seek to explain non participation in the microfinance evolution, stating that while microfinance is used as a viable tool in fighting poverty, more than 75% of the poor individuals choose not to participate for various reasons. Guy Vincent (n.d.), in his own study on sustainable micro-entrepreneurship stated that about 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the vicious cycle of poverty; that if the people of less developed countries (LDCs)have a limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increase in productivity is prevented. He is of the opinion that lack of access to financial institutions also hinders the ability of entrepreneurs in developing countries to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable (existing for continuing future use).

He argued that the extent to which microfinance, entrepreneurship and sustainability are interrelated is dependent on the extent to which it addresses the economic development process and concluded that the economic benefits of sustainable micro-entrepreneurship in LDCs are compelling, and its potential effects on the development process are equally promising. In terms of development and social impact, the microfinance industry allows significant improvements in quality of life for the micro-entrepreneurs of LDCs around the world and makes them to stabilize the cash flow of their economic activity, bringing security to the enterprise. This allows them to better manage spending, which often generates savings; and provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Finally, an access to banking and increased security promotes a sense of entrepreneurship, and thus their self-esteem and reputation increase.

Faseun & Bewayo (2009) observed that a direct relationship exists between governmental privatization and entrepreneurship within a country and as a result, significant improvement has been made on the part of the Nigerian government to increase the participation of its citizens over the last two decades through privatization. However, while the government's effort to spur entrepreneurship has been genuine, it has not achieved its goal of economic prosperity. The entrepreneurial spirit has been enjoyed by a relatively small group of people and there exists conditions that do not encourage but stifle the works of entrepreneurs. This is because banks request for collateral (although a prudent thing to do in a developed country) has led to exclusion of a majority of the population especially the poor in a developing country.

They cited the case of Bolivia and urged Nigeria to learn from the mistakes of Bolivia to ensure that its microfinance sector can contribute economically to its progress. While noting that economic progress is important to entrepreneurship, they urged the Nigerian government to continue its steps in cleaning up the perception of the corruption in government by enforcing its patent infringement laws against businesses that sell counterfeit product; because similar to Bolivia, the Nigerian markets are filled with knock offs of original merchandise. The perception problem of the poor is not unique to Nigeria but applies to a way forward in microfinance. They observed that the poor are not looking for a giveaway but value hard work as much as the rest of the population so treating the poor then as an important sector in the building of Nigeria will be beneficial. They recommended that microfinance institutions in Nigeria should hold innovative classes for its customers that teach them how to grow their business and this way, the entrepreneur will not be stuck producing the same product and will be more adaptive and dynamic.

As is evident from the financial information, microfinance institutions in Nigeria suffer from an inadequate capital base. This small capital base affects the lending practices within a microfinance institution as lenders become pickier about who to lend money to; which in turn slows down the flow of capital to those that need it desperately. In the Bolivian framework this problem was partially solved by the funding and grants the microfinance institutions received.

In Nigeria, a solution to this problem could be commercialization, as was utilized in Bolivia. The use of more solidarity groups in Nigeria could also increase the amount of funds that are available to a group of borrowers. The government could also give incentives for people to give grants to microfinance institutions, for example, a tax holiday for a period of time and can increase its scope of aid to more areas than agriculture. Foreign capital would also be attracted to the increased return on equity that commercialization could bring and would also invest in microfinance institutions. The main driver of capital though should be the savings of the members of the microfinance institutions. As some microfinance institutions in Nigeria are already doing, providing an attractive savings interest rate would encourage members to deposit their money in the banks.

Kiiru Joy (n.d.) in her research on 'Microfinance, Entrepreneurship and Rural Development: Empirical Evidence from Makueni District, Kenya', attempted to contribute to the debate on the relationship between microfinance and poverty reduction. Her main objective is to find out under what circumstances microfinance creates jobs, and increases wage employment and higher incomes in the rural areas. A rich panel data set collected from the south western part of Makueni district with three observations within eighteen months to study the welfare effects of microfinance on the rural households and the patterns of entry, exit, and growth of micro enterprises. The research also compared these with the mainstream theoretical and empirical work on rural development through entrepreneurship.

The econometric model showed that demand for joint liability microfinance loans decrease with household socioeconomic status in the sense that wealthier households are unlikely to join joint liability microfinance programs. It was also discovered that the possibility of good welfare outcome after a microfinance intervention is influenced by the pre-existing wealth of participating households. In conclusion, three important points were made from these results; the first is that microfinance is only an option for the relatively poor of the society; second, even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance; and thirdly, the vulnerable poor have a greater risk to slide backwards in the course of stringent loan repayment procedure. It was however noted that these results are inconclusive, since theory as well as recent empirical work confirms that indeed microfinance is an option for the relatively poor in society. The richer in society would rather opt for individual loans which are cheaper in terms of both interest rate and also do not have the kind of opportunity costs that go with joint liability loans. In line with these findings other researchers have written that the vulnerable poor are too poor to benefit from market oriented approaches and as such some have even recommended social safety nets as well as basic charity as a poverty intervention for the vulnerable poor e.g. Morduch, 1999 and Amin et al 2003.

## *Section III*

### *Model Specification*

The methodology used in examining the impact of microfinance bank operations on entrepreneurial development was multiple regression analysis. Generally, a multiple regression is usually used to solve modes with more than two variables (one which comprises of one dependent variable and two or more independent variables) as it is in this case and it is represented as:

$y = a + b_1 x_1 + b_2 x2$ where y is the dependent variable and $x_1$, $x_2$ are the independent variables

Hence the following functional form of a model was specified:

ENT= f (MFBO) ,which can be written in equation form as:

$ENT = a_0 + b_1 MFBO + \mu$, where ENT is entrepreneurial development and MFBO is microfinance bank operations.

The entrepreneurial development was measured through the number of employees and level of profitability while capital adequacy, liquidity, earnings ratio and asset quality were used to measure the performance of the microfinance bank operations. Twenty entrepreneurs and microfinance bank operators each were assessed using their five-year annual reports. Hence,

No of employee (EMP)= $a_0 + b_1CA + b_2AQ + b_3ES + b_4LQ + \mu$…….Equation 1

Profitability (PFT)= $d_0 + e_1CA + e_2AQ + e_3ES + e_4LQ + \mu$………….Equation 2

Where, CA= Capital adequacy, AQ= Asset Quality, ES= Earnings, LQ= Liquidity, $\mu$= error term or stochastic variable that took care of other factors not explained in the model, $a_0$ and $d_0$ are the intercepts; and $b_1$ ,$b_2$ ,$b_3$ ,$b_4$ ,$e_1$ ,$e_2$ ,$e_3$ , and $e_4$ are parameters measured.

The estimation methodology follows the estimation procedures described in Wooldridge as cited in Asian Development Bank (2007) in their study on the effect of microfinance operations in poor rural households for estimating the average treatment effects. The study affirms that four possible treatment variables can be used to assess the impact of microfinance on household welfare: (i) availed program loan; (ii) number of months the program is available to the village (iii) amount of loans (cumulative total amount of loans) availed of; and (iv) number of loan cycles. The length of exposure to the program is also expected to have an impact. Therefore, treatment variables (ii)-(iv) are deemed to represent program availability better.

However, these treatment variables have different implications for estimation. For example, perhaps only the first two satisfy the ignorability of treatment condition for treatment variables while (iii) and (iv) would fail the ignorability condition and would thus require instrumental variable estimation.

Several outcome variables are considered in the study: (i) basic household welfare measures such as per capita income, per capita expenditures, per capita savings, and food expenditures; (ii) other financial transactions such as other loans and personal savings stocks; (iii) household enterprises and employment; (iv) household assets such as land, farm equipment, livestock and poultry, and household appliances; and (v) human capital investments such as education and health. Some of these variables are continuous such as per capita income, expenditure, savings, food expenditure, health expenditure per capita, and education expenditure per attending child. Others are binary such as having a savings account and availing of other loans. Others are truncated such as value of household assets and other loans. Others are count variables such as the number of other loans, number of enterprises, and the number employed in those enterprises. Finally, others are proportional such as the proportion of school-age children attending school or the proportion of those who are sick to have sought treatment. Each of these dependent variables is treated using different estimation methodologies.

According to the study, another important impact of microfinance relates to the enterprises of the respondent households. The survey asked participants questions about their enterprises and employment in these enterprises.

## *Justification of the Variables Used in the Analytical Model*

Since the framework of this study is based on certain concepts and theories of entrepreneurship highlighted as follows:

- **a.** Frank Knight(1921), who opined that the behavior of the entrepreneur reflects a kind of person who is to put his career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture and that the entrepreneur earns profit as a reward for taking such risks.
- **b.** Israel Kirtzner (1973) who identified profit as a measure of entrepreneurship. His entrepreneurship models holds that the entrepreneur subconsciously discovers an opportunity to earn money by buying resources or producing a good and selling it and this he calls 'the pure entrepreneurial profit' and;
- **c.** Onifade (2004) defines the entrepreneur as a person who organizes, operates and assumes the risk for a business venture. He said that an entrepreneur is a business owner or a self employed person who in turn employs people to work in his enterprise. Hence, entrepreneurship can also been measured by increase in employment opportunities.

It then follows that number of employment opportunities created and the profit earned by entrepreneurs could be used to measure entrepreneurship in this context.

On the other hand, Ojo (1992) explained that in evaluating the performance of bank operations, basic indicators such as capital adequacy, asset quality, earnings and liquidity can be used.

- **a.** Capital Adequacy: is a quantitative factor which can be used as an indicator of the performance of banks and their operations. The best management cannot turn around an ailing bank and improve its operations if it does not have adequate capital. The ratio of classified loans and advances to shareholders fund is used by regulatory/ supervisory agencies to access the performance of banks in terms of their operations. As is evident from the financial information, microfinance institutions in Nigeria suffer from an inadequate capital base. This small capital base affects the lending practices within a microfinance institution as lenders become pickier about who to lend money to; which in turn slows down the flow of capital to those that need it desperately.
- **b.** Asset Quality: This is measured by the proportion of classified loans and advances to total loans and advances and it is another important indicator of the performance of banking operations.
- **c.** Earnings and profitability: since the high incidence of non-performing loans and advances will have an adverse effect of banking operations such as advancement of new loans and advances and also on bank earnings, then there is need to know if earnings or profitability of banks could affect bank operations in impacting on entrepreneurial development.
- **d.** Liquidity: This is measured by the ratio of loans and advances to total deposits of the bank. Inadequate liquidity will adversely affect major banking operations such as giving out of loans and advances.

### A Priori Expectation

This explains the theoretical linkage between the signs and magnitude of parameters of the specified function. A priori expectations are determined by the principles of economic theory guiding the economic relationship between the variables under study. (Koutsoyiannis, 2003).

The a priori expectation tells the theoretical relationship that exists between entrepreneurial development and microfinance bank operations. Here, the a priori expectation is that all the microfinance bank operations' indicators are expected to be positively related to the entrepreneurial development variables.

### Model Estimation Technique

The Ordinary Least Squares (OLS) method was used to estimate the parameters of the model by inputting the presented data into the relevant statistical package. The specified models are multiple linear regression models. OLS estimators determined the relationship existing among the variables stated above. Other relevant statistical tests were also carried out to determine the validity or otherwise of the hypothesis

### Model Evaluation Technique and Test of Hypothesis

In evaluating the model, the student t-statistic was employed to test the statistical significance of individual coefficients of the explanatory variables in the specified model. The decision criteria:

If $t_{calculated} < t_{tabulated}$ Accept $H_0$
If $t_{calculated} > t_{tabulated}$ Accept $H_1$

The f-statistic measures the overall significance of the coefficients of the explanatory variables in the specified model. The decision criteria

If $F_{calculated} < F_{tabulated}$ Accept $H_0$
If $F_{calculated} > F_{tabulated}$ Accept $H_1$

Also the co- efficient of determination ($R^2$) was used to measure the goodness of fit. A perfect fit is obtained when the regression line fit all the observation. $R^2$ measures the variation in the explanatory variable. It determines the extent to which the independent variable explains variations in the dependent variable. A high $R^2$ is also a confirmation that the independent variable exerts significant effect on the dependent variable.

## Section IV

### Data Analysis and Interpretation

#### Test of Hypothesis

Regression analysis was carried out to know the impact of microfinance bank operations on entrepreneurial development of entrepreneurs in Ogun State. Standard error test, t-test, f-test, Durbin Watson test and P values were used to test the hypothesis.

The financial statements of twenty microfinance banks were used to carry out the regression analysis and questionnaire were distributed to entrepreneurs in the state. Table 1:

| Variable | Coefficient | Standard Error | t-statistics |
|---|---|---|---|
| Consultant | 4.766 | 1.066 | 4.482 |
| Capital Adequacy (CA) | 0.517 | 0.619 | 0.836 |
| Asset Quality (AQ) | -1.729 | 2.429 | -0.712 |
| Earnings (ES) | -6.135 | 3.633 | -1.689 |
| Liquidity (LQ) | 2.961 | 1.437 | 2.061 |

**Source:** Researcher Field Survey 2012

R = 0.295
$R^2$ =0.087
Adjusted $R^2$ = 0.049
F-statistic = 2.264
DW statistic = 1.742

The result of the model in the equation 1 shown above indicates that the constant term, capital adequacy and liquidity of microfinance banks are positively related to the employment rate of entrepreneurs. This shows that an increase in the capital adequacy and liquidity will lead to an increase in employment rate of the entrepreneurs and vice versa.

This shows that the more capital a bank has, the more liquid it is and the more it will be able to assist entrepreneurs. The more the entrepreneurs are able to get loan from banks, the more they will tend to increase their productivity which will come with increase in employment. It has also been proven that the best management cannot turn around an ailing bank if it does not have adequate capital. The asset quality and earnings are negatively related to the employment rate of those entrepreneurs. This is against the opinion expectation and it indicates that if there is an increase in these exogenous variables it, will lead to reduction in the level of employment of the entrepreneurs.

This has shown that earnings of MFB are investors' ratio in which the increase is only for the benefit of investors and not the customers of the banks. The test of significance shows that only the liquidity is statistically significant which shows that an increase or decrease in liquidity do have significant impact on the employment rate. The standard error for each of the three other exogenous variables is greater than half of their coefficient and this therefore shows that they are statistically insignificant. This indicates that the increase or decrease in these variables will not have any significant effect on the endogenous variable (EMP). The f-statistic is used to test for stability in the regression parameter coefficient. Thus, the computed f at 5 percent level of significance and at 4 and 95 degree of freedom (df 1 and df 2 respectively)

From the table the $f_{(0.05)}$ at df 1=4 and df 2=95 in 2.45 while the calculated f is 2.264. It shows that the overall model is statistically insignificant thus, the exogenous variables are not significant explanatory factors of the variables in the employment rate. Therefore, the null hypothesis should be accepted. This result negates the study of Ojo (2009) which revealed that there is a significant difference in microfinance institutions' activities and entrepreneurial productivity. The $R^2$ also indicate that only 8.7 percent of the total variations in employment rate are explained by the exogenous variables while 91.3 percent are explained by other variables not mentioned in the model.

The Durbin-Watson statistics is used to test for the presence of first order serial correlation. It measures the linear association between adjacent residuals from a regression model. The calculated D.W statistic falls in between the tabulated lower and upper D.W statistic. This therefore shows that the test is inconclusive. Table 2:

| **Variable** | **Coefficient** | **Standard Error** | **t-statistics** |
|---|---|---|---|
| Consultant | 721.890 | 675.309 | 1.069 |
| Capital Adequacy (CA) | 282.670 | 364.821 | 0.775 |
| Asset Quality (AQ) | -120.782 | 1492.782 | -0.081 |
| Earnings (ES) | -184.372 | 2126.715 | -0.087 |
| Liquidity (LQ) | 2054.277 | 887.093 | 2.316 |

**Source:** Researcher Field Survey 2012

R = 0.271
$R^2$ =0.073
Adjusted $R^2$ = 0.030
F-statistic = 1.705
DW statistic = 1.978

The result of the equation 2 is presented above. The table shows that the constant term, capital adequacy and liquidity of the microfinance banks are positively related to the profitability of the small scale entrepreneurs. This indicates that an increase in the liquidity and capital adequacy will lead to increase in the profitability in the business and vice versa. This also indicates that the more capital a bank has and the more liquid it is will, enable it to channel the loan able funds to the entrepreneurs and this allows the entrepreneurs to expand their productivity and hence increase their profitability.

The asset quality and earnings ratios are negatively related to profitability. This indicates that an increase in earnings and asset quality will lead to decrease in profitability of small businesses.

The table also shows that only the liquidity of the banks is statistically significant to the profitability of entrepreneur. This indicates that an increase or decrease in the liquidity of the banks will have significant effect on the profitability of the entrepreneur. All the other three exogenous variables (i.e. CA, ES & AQ) are statistically insignificant indicating that an increase or decrease in the variables does not have any significant impact on the profitability of the entrepreneur. Hence, only the liquidity of the banks appears to significantly contribute to the explanation of variations in their profitability.

The $R^2$ is 0.073, which implies that all the explanatory variables explain only 7.3 percent of the total variations in the profitability of the entrepreneur. The remaining 92.7 percent are explained by other variables outside the model. This therefore does not show the goodness of fit of the regression as also shown by the f-statistic (2.45) at 5 percent level of significance. The f-statistic therefore shows that the overall model is statistically insignificant, therefore the null hypothesis is accepted. The Durbin Watson statistic which is appropriate only for the first order auto-regressive scheme, the calculated DW statistic (1.98) is greater than the upper theoretical D.W statistic and this indicates that there is no autocorrelation.

## *Section V*

## *Summary of Findings, Conclusion and Recommendations*

### Summary of Findings

This study has shown that there is no significant impact of microfinance bank operations on entrepreneurial development in Ogun State. It has been proved that the capitals of these banks are not adequate and there are high incidences of non-performing loans. The capital of these banks are low and because of this; some of these banks have actually gone down. If their capital are adequate and they are liquid to be able to meet obligations as at when due, then microfinance bank operations would enhance the future development of entrepreneurship assuming that the policy objectives are followed.

It was also found out that there is no significant difference between entrepreneurs who use microfinance banks in terms of loan and advances and those who do not. This however was due to the fact that most of the entrepreneurs do not even have access to loans and advances in the microfinance banks. It was found out that majority of the entrepreneurs who are SME owners capitalized mostly on personal income and loans from family and friends and not from the microfinance bank institutions because they could not provide collateral assets requested for by these microfinance banks which negates what is in their policy and objectives.

Furthermore, it was gathered that not many entrepreneurs have benefitted from programs emerging from the microfinance policies in Nigeria. Majority are not even aware of the microfinance policies in Nigeria.
Lastly, findings indicate that assessment of the microfinance bank operations and the implementation of its policy in relation to entrepreneurship development in Ogun State is not efficient.

## *Conclusion*

It is incontestable that an efficient and effective microfinance system is essential for building a sustained economic growth. The success of these microfinance banks can only be achieved through the safety, soundness and stability of the banks coupled with the effective and efficient management of the sector. It has however been proved that the development of entrepreneurship will help in facilitating the industrial sector which will result into having a virile economic growth. In the case of Ogun State, all the proxies of microfinance banks except capital adequacy and liquidity have negative relationship with entrepreneurial development which means that the contributions of capital adequacy and liquidity have been significant to the entrepreneurial development and consequently the development of small and medium scale businesses. The intermediation and investment role of the microfinance banks are not targeted on a long-term basis which is making the real sector of the economy weak and therefore reducing the productivity level of the economy.

Although, some of the policy objectives of microfinance banks in Nigeria are: to make financial services accessible to a large segment of potentially productive Nigerian population without asking for collateral; contribute to rural transformation; enhance service delivery to micro, small and medium entrepreneurs in order to stimulate economic growth and generate employment opportunities; yet, these banks are reluctant to release the fund due to the inability of the local entrepreneur to provide collateral and good feasibility study.

With these, the growth of the financial sector has not been able to complement the expected growth in the producing sector of the economy. The development of entrepreneurship can significantly influence the expansion of the producing sector if the microfinance banks are well monitored to carry out the primary objective of their establishment.

## *Recommendations*

In order to ensure an accelerated entrepreneurship development, the following recommendations are suggested: 1.There is the need to develop viable and responsive micro financial services for the poor (2) Microfinance banks should encourage the formation of cooperatives so that a number of beneficiaries that are engaged in the similar business can collectively enjoy their services and hence a reduction in operating cost as well as a reduction in the likelihood for borrowers to default.(3) The use of more solidarity groups in Nigeria could increase the amount of funds that are available to a group of borrowers.(4) Government should find an avenue for creation of awareness on how entrepreneurs can benefit from the present microfinance bank policies.(5) Microfinance institutions should be mandated by their regulator to organize seminars for entrepreneurs so as to enlighten them about their businesses. (6)There is the need to establish more microfinance banks especially in rural areas of Ogun State so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth.(7)Repayment problem and loan delinquency is a major threat to institutional sustainability; therefore entrepreneurs should endeavor not to divert loans given to them by microfinance banks.(8)There is also the need to address other factors that could affect entrepreneurship development in Ogun State since there are other variables apart from the ones used in this study.

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