

*Original Article*

# The Roles of Microfinance in the Development of Infant Industries: A Case Study of Ikorodu Local Government

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**Abstract** - Critical attention was given to the role of microfinance in the development of infant industry. The study considers a case study of Ikorodu Local Government using primary data. It calls for urgent intervention through microfinancing in Ikorodu Local Government small firms to forestall the possibility of the collapse of some of these firms. The study recommended the protection of these infant industries using simple protection instruments. It recognized microfinance and infant industry development as a tool for economic growth. The article revealed that if microfinance banks can operate within a conducive environment, there will be an upsurge in business development in Nigeria.

**Keywords** - Microfinance, Infant industries, Growth, Development, Firms.

## 1. Introduction

Macro finance institution gives micro loan. According to the microfinance policy, regulation and supervisory framework for Nigeria by Central Bank 2005, it declares that microfinance is about providing financial services to people experiencing poverty who are traditionally not served by conventional financial institutions. With the aforementioned assertion, it is clear that microfinance is to address the issue of people with low incomes, most of whom live in rural areas. Infant industries are newly established or undeveloped industries when compared with the old and developed ones found in industrially advanced nations. In other words, infant industries are small industries that cannot compete with the big industries found in developed nations.

One of the cardinal objectives of this analysis is not only to move away from the normal convention of associating microfinance with people experiencing poverty and women but also to look at the general role of microfinance in developing the Nigerian economy through the development of infant industries. Microfinance cannot be dissociated from people experiencing poverty, as stated by the Central Bank (2005) in the regulatory and supervisory framework, as well as an industrial growth engine. The Asian Tigers (Taiwan, Singapore, Hong Kong, and South Korea) have proved this last statement correct.

The writing is organized into five sections. Section one covers the introduction. It discusses the research statement, the purpose of the study and the analysis method. Section two looks at the theoretical and empirical literature. Part three, four and five is empirical in nature. Section three covers what microfinance institutions can



do to increase growth by developing infant industries. It has a brief look at the agricultural sector. Part four presents the methodology of analysis, while section five makes the concluding remarks.

### **1.1. Research Statement**

In Nigeria, the formal financial system provides service to about 35% of the economically active population, while the remaining 65% are excluded from access to financial services (CBN, 2005). If narrowed down to Ikorodu Local Government (ILG) in Lagos state, how many proportions of the firms (small firms) have access to micro-loans? Farming dominated the people's economic activities in this part of the state. Hence, what proportions of these farmers have access to microfinance loans? In the cause of the researcher's interview with some farmers, some do not have more than a formal secondary school education. Some jointly declared that they had not even applied for a loan before to finance their business. In ILG, what proportions do apply for loans? Are there discouraging variables in this region? The questionnaire is structured to capture choice variables (what, in order of importance, will they use the loan for if they were granted a microfinance loan by a local microfinance bank).

### **1.2. Purpose of the Study**

This study's general objective is to examine microfinance's role in developing infant industries.

## **2. Theoretical Literature**

The standard blueprint establishing microfinance in Nigeria clearly stated that it addresses the problem of people experiencing poverty and women in society. Microfinance is about providing financial services to people experiencing poverty who are traditionally not served by conventional financial institutions (CBN, 2005). This blueprint also identifies the smallness of loans, advanced or savings collected and simplicity of operation as the three main features distinguishing microfinance from other formal financial products.

### **2.1. Origin**

History has it that the origin of microfinance can be traced to a university professor of economics, Muhammad Yunus, at Chittagong University in South East Bangladesh. However, he was trained at Vanderbilt University. As a result of the war, Yunus was displeased with the poverty rate. He started lending money to poor villagers from his salary. Beyond this historical point, analysts believe that poor nations can use the same means to develop infant industries in their countries.

### **2.2. Strategies that Can be Used**

Four strategies are often proposed in economic literature. They are importing substitution strategy, export promotion strategy, small scale versus large scale industry strategy and balance growth strategy. The import substitution strategy believes local firms should be established to produce imported goods. From the word 'substitution', locally made goods should be substituted with the goods that are being imported. In the same vein, Nigeria can adopt what China did in the recent past. An unconfirmed source made us realise that nothing comes out today in foreign countries that we will not see a prototype (fake) in Alaba (a popular marketplace in Lagos). The local manufacturers can be encouraged by the government. They can be sponsored to produce a similar but different Nigerian brand. It should also be noted that consuming foreign products such as shirts, trousers, name it, simply means that the foreigner should continue to employ their indigene while the consuming countries' infant industries producing similar products should shut down.

The 'rice' crises are on call. Nigeria has a popular local rice called 'ofada'. Local firms producing rice can be upgraded. The proportion of local rice available in the Nigerian market is far less than imported rice (Okeowo, 2008). Unquestionably, some complain of the substandard nature of the local rice, but that is not the case here. The report shows that domestic production has continued to lag behind demand (Okeowo, 2008). If indeed the rice (local ofada rice) is worse off, supply should exceed demand. The simple reason is that despite the 'stone'

problems often encountered, consumers remark that it is richer and better than foreign imported rice. The bottom line is that the local small firms need financing, and one of the institutions that can help here is the microfinance banks. The local village farmers need modern technology to embark on mass production. This is impossible without a concerted effort by stakeholders and policymakers. Bank of Industry can also be of help here. In an article titled, 'Food Crises in Africa' published in the Nation Newspaper, Okeowo made a deep recommendation for the problem of food crises in Africa. However, these recommendations were not implemented by policymakers. Unless Nigeria goes back to the basis of the policy of inclusive growth, indigenous and local financing of small firms and reducing unemployment to the minimum of three percent, there is still a looming danger ahead.

The balance growth proponent proposed the development of all sectors of the economy at the same time. The big question is: does Nigeria have the resources to pursue such an objective? An export promotion strategy can also be adopted. Export drive principles come into play here. An export drive is a plan, i.e., deliberate action by the government to promulgate laws and make policies that will increase the export of the country's product to other nations of the world. The most crucial strategy is the small-scale industrial development strategy. Firstly, what is the argument? Some economists have argued that Nigeria should adopt a large-scale industrial strategy. This is also the big-push theory. They believe that Nigeria should move at once on large-scale industrialization. They support their claim that it will lead to a fast growth process. On the other hand, small scale believe that Nigeria lacks the materials and human resources to move in a big way. They proposed that infant industries should be established in different sectors and move the economy forward in a gradual process.

This strategy can solve almost all the problems in developing nations, Nigeria inclusive. How? Nigeria's local governments should establish at least twenty small firms in all their localities every year. The state government should provide both financial and logistic support in all the states. What should the federal government do? All the basic infrastructure must be in place and functioning. Power and good roads must be guaranteed. If all these are in place, what again do you call development? Financing and protecting the infant industry can be a viable theoretical tool for developing nations.

### 3. Empirical Literature

Alexander and Franklin (2012) used secondary data to analyze the role of microfinance in poverty alleviation. The paper found a clear correlation between living standards and social capital. The social tie among kinship serves as the source of capital for the local women. The study further used three case studies: Imo, Enugu and Ekiti states in Nigeria. The findings revealed that participation in informal cooperative microfinance schemes boosted the income and asset building of individual, family and community levels.

Similarly, Charles (2012) analysed the performance of microfinance banks in financing agricultural cooperative societies in rural Nigeria. Using primary data, the paper found out that there were three major sources of internally generated funds. They include Annual reserve by individual farmers, which stood at 20.8%. Share capital contribution, which recorded 41.6% and thrift and saving had a 16.7% share. In terms of the funds raised through external sources, the paper found out that commercial banks stood at 8.3%, and government grants recorded 12.5%. Trade credit and microfinance banks recorded 10% and 69.2%, respectively. The paper recommended that the state and local government should perform their statutory role as provided in the constitution by ensuring that 1% of its budget is allocated to MFBs, as entrenched in the CBN microfinance policy document. Charles opined that if this is done, agriculture will degenerate to such an extent that food security becomes a serious threat; hence, a topical issue will be a thing of the past.

Without the entrepreneurship spirit, the establishment of infant industries will be a mirage. Muogbo and Tomola (2018) analyse the impact of microfinance banks on entrepreneurship development in Nigeria. Using a

structural questionnaire, the research found that microfinance bank is supportive of Nigeria's entrepreneurship development. Contrary to the aforementioned assertion, Ede and Elikwu (2018) observed that despite government efforts targeting SMEs through microfinance banks, businesses are folding up, and unemployment and social vices are increasing.

### **3.1. What Can Micro Finance Institution Do to Increase Growth Process through Development of Infant Industries**

Credit has been recognized in Nigeria as an essential tool for promoting Small Micro Enterprises (SMEs); about 70% of the population is engaged in the informal sector or agricultural production (Mustapha, 2009). Robert (2014) recognizes the rule of microfinance in developing infant industries to include strengthening business survival in quality of sales, creating more business outlets, increasing capital size and improving business management.

The apex bank clearly stated the fundamental role of microfinance in the microfinance policy in 2005. This is embedded in the justification for the regulatory policy. This includes economic empowerment of the poor, employment generation and poverty reduction, strengthening the weak capital base, weak institution capacity and utilization of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS). Similarly, microfinance makes financial services and funds available for the infant industry. It contributes to normal transformation and promotes linkage programs between universal/development banks and specialized institutions. Credit delivery, boosting small-scale enterprises/agriculture, employment generation, improvement in skill acquisition and poverty alleviation are the points put forward by (Mustapha, 2009). Economic literature, therefore, admits that microfinance is to make micro-loans available to small firms. The infant industry cannot grow into a big firm without having access to funds. International Monetary Fund 2005 stated that broad access to financial services is a key characteristic of a deep and efficient financial system. Employment generation is another role microfinance plays. When these small firms get the loan, they can employ more staff. Economic empowerment of the poor and poverty reduction also fall within this category. Microfinance is the major vehicle through which the funds available for the infant industries can be disbursed and utilized.

## **4. Methodology**

The writing employs two analysis methods; firstly, it relies heavily on past theoretical work. This was looked at extensively in sections one to three of this analysis. The second tool employed in this work is the use of primary data. Ten firms in Ikorodu Local Government were interviewed using a well-structured survey questionnaire.

## **5. Analysis of Result**

The research result shows gender bias. The captains of the firms in Ikorodu Local Government (ILG) are 12.5% male and 87.5% female. 80% of the correspondence falls within the economically active working population. 20% are about to enter the retirement age in ILG. The sample survey also shows that either the manager or the entrepreneur of the small firms in ILG has one form of formal education or the other. 57.1% of the firms have the tendency to grow into big firms, especially in the farming industry; it is believed that if a firm can exist for more than five years, there is a possibility that it will survive for 10 years or more. 42.9% have start-up experiences. As expected, the correspondents insisted that if a microfinance loan is given to them, it will be used for the purpose for which the loan is given.

The proportion who said the interest rate would be a discouraging factor in obtaining microfinance loans in ILG stood at 40%. Interest rate seems to be the most discouraging variable in obtaining a microfinance loan in ILG. The correspondence did not complain that they were not given the amount of loan applied for, and neither is the repayment period a problem to battle within the local government. Similarly, meeting strict requirements, such as having two or more guarantors and having at least six months of business experience, affect 20% of the

correspondence. 40% of the correspondence also says they have not applied for a microfinance loan. When it comes to business expansion, none of the correspondence admits that there is no problem in getting microfinance loans. Policymakers need to remove all forms of bottleneck. Most entrepreneurs go to the bank with doubt about the possibility of getting funds.

### **5.1. Agricultural Sector: A Specific Focus**

For analytical purposes, International Trade Statistics (ITS) is presented in the Standard International Trade Classification (SITC) with ten main groupings (CBN Statistical Bulletin 2006). It includes food and live animals; beverages and tobacco; crude materials, inedible; mineral fuels; animal and vegetable oils; chemicals; manufactured goods; machinery and transport equipment; miscellaneous manufactured articles and miscellaneous transactions unclassified. These have codes 0-9 (CBN, 2006).

In this section, food and live animals, which are the first grouping, are focused on. As a result of this, attention is also given to the agricultural sector. The research mirrors the infant firms in agricultural sectors in Ikorodu Local Government. The fish farmers show no bias for the two types of pounds used in the area. Approximately 33% use the concrete pounds. The same proportion also uses the earthen pound in their production process. However, some fish farmers concur that earthen pounds are preferable. This is shown by the output result. 33.3% use both concrete and earthen ponds.

The issue of flooding is only peculiar to the earthen pound. The analysis shows that this is the major problem of earthen pounds. All the farmers using earthen pounds said they had experienced one flood or the other. This is shown by 100% in the output table. The mortality rate stood at 5% for livestock with the range of (100-200) and (200 and above). The interview with the farmers shows that experience in the industry comes into play here.

### **5.2. Analysis of Choice Variable**

Eight choice variables were captured in the analysis. 20% of the correspondences are more interested in business survival, while only 30% will attend infrastructural facilities first when they get funds from microfinance. The implication is that about 20% of small firms in ILG need urgent intervention or need external funds from microfinance. If such a proportion of businesses collapses in this area, unemployment will be a big problem the local government will be dealing with. It should be noted that, as the business fails, it is not only the entrepreneur who is thrown into the labour market but the employee also.

It is perturbing that none of the correspondence is interested in effective management education. They believe that they are knowledgeable enough to run their business. The result shows that none of the farmers in Ikorodu is interested in spending the microfinance loan on education for effective management. While the firms pay less attention to profit maximization, 20% of the firms are interested in opening more business outlets. Business expansion seems to be of utmost importance to 20% of the correspondence. It thus means that if a microfinance loan is given to them, 20% of the small firms will spend the money on business expansion and opening business outlets. The business capital base is an issue for only 10% of the sample size. 10% of small firms need microfinance loans to increase the capital of their business. 10% of the firms are not operating under full capacity utilization. Hence, they need microfinance loans for such purposes. The same proportions also need to hire more staff so that good brains can be brought on board to drive the firms' vision.

## **6. Summary**

The researcher identifies the following as the general role of microfinance: creating employment, making funds available to small firms, directly helping the small firms to have more business outlets, economic empowerment of the poor and poverty reduction. It equally points out that microfinance acts as an intermediary between the government and the infant industry. It recognizes microfinance as one of the ways to disburse the

funds that are earmarked for this purpose. In the choice variable analysis, 20% of the small firms in ILG need urgent intervention to forestall the possibility of collapse.

## 7. Recommendation

As a matter of urgency, the Lagos state government must send experts to about 57% of the small firms in this local area; they have the tendency to grow big, while 20% need to be rescued from collapse. This research work will be made available for such an urgent hunt. The entrepreneur seems not to be interested in education. I recommend that the government organize free seminars and workshops on business management. With such an attitude to education, it is not a good omen to this local area, knowing that without education and its entire ramifications, a nation will be doomed to perpetual backwardness and its inhabitants a subhuman existence. The paper also recommends strict protection for these small firms in ILG. Targeted infant industries must be granted absolute protection in the domestic market. These firms are small, and they cannot compete with the ones found in developed nations.

## 8. Conclusion

The role of microfinance in developing the infant industry cannot be over-emphasised. Microfinance is the key medium through which funds can reach these small firms. Protecting the infant industry is important to the development of any nation. ILG in Lagos state is on its way to competing with big industries found in developed nations if the recommendation and the findings of this research paper are put to use by local and national policymakers in Nigeria.

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