INFLUENCE OF MICROFINANCE BANK ON SMALL AND MEDIUM SCALE ENTERPRISES GROWTH IN OSUN STATE, NIGERIA

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Abstract

The study examined the influence of microfinance banks on small and medium enterprises growth in Nigeria. The population of study shall comprise of Small Business Entrepreneurs in Osun State. But the study was limited to Olorunda local government, Osogbo. Purposive method was used to select 150 SMEs which largely includes owners of supermarkets, electronic shops, Business centers/ cyber cafes, restaurants, barbing and hair dressing salons, block industry, bakery and pure water companies in the metropolis. Self - designed questionnaire was used to collect data from respondents. Both correlation and multiple regression analysis were used to analyze the data collected. The study reveals that MFBs financing services have significant influence on SMEs growth and expansion capacity of micro and small enterprise in Osun State, Nigeria. Paper recommends that MFBs should increase the size and the duration of their clients' asset loans and the repayment should be spread over a longer period of time which will enable the entrepreneur to have greater use of the loan over a longer period for the acquisition of capital assets. More also, Deposit Money Banks should complement MFBs in financing Small scale business and entrepreneur should be encouraged to source fund from second tier capital market in the country.

Key words: MFBs, SMEs, Loan, Finance, Business, Characteristics, Advisory

Introduction

The role of Micro Finance Banks in Promoting Small and Medium Enterprises in Nigeria is more than to be over emphasised (Babagana, 2010). Small and Medium Enterprises (SMEs) is the engine of economic growth and development while the microfinance bank is the fuel. Khandker (1998) defines microfinance as "successful opening of economic opportunities for the poor, increasing access to resources and contribution to their confidence and well being". While other scholars believed that the concept of micro finance can best be described by the title "small, short and unsecured", that microfinance is the provision of very small loans that are rapid within short periods of time and is essentially used by low income individuals and households who have few assets that can be used as collateral. It can be seen that micro finance is unique among developmental interventions because it can deliver benefits to the poor on large scale and permanent basis.

The emergence of microfinance banks was received with great confidence by business community with the belief that it will increase their access to loans which were not readily given in commercial banks because of the lack of collateral securities. The main purpose of microfinance banks was to provide banking and credit facilities to the poor, the low income earners and to the small and medium enterprises. Shreiner, (2005) confirms that establishment of Micro-finance banks by the government is to improve the access to loans and savings services for small and medium enterprises. Kolawole (2013) also states that microfinance bank helps to generate savings in the economy, attract foreign donor agencies, encourage entrepreneurship and catalyze development in the economy.

It is on this note that this research paper wishes to investigate the impact of microfinance bank services on small and medium enterprises growth.

Research Questions

1. To what extent do entrepreneur characteristics influence SMEs growth?
2. To what extent do business characteristics influence SMEs growth?
3. To what extent do microfinance characteristics influence SMEs growth?

Hypothesis

$\mathbf{H_{0I}}$: Entrepreneur characteristics have no influence on SMEs growth

H_{0II}: Business characteristics have no influence on SMEs growth

H_{0III}: Microfinance characteristics have no influence SMEs growth

Literature Review

Microfinance Bank

Microfinance is a term used to refer to the activity of provision of financial services to clients who are excluded from the traditional financial system on the account of their lower economic status. These financial services are most commonly in the form of loans and saving, though some microfinance institutions will offer other services such as insurance and payment services (Robinson, 2001). According to Central Bank of Nigeria (2005), microfinance is about providing financial service to the poor who are traditionally not served by conventional financial institutions. Eluhaiwe (2005) defines microfinance as the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Olaitan (2005) also defines microfinance as ''the provision of credit, savings repositories and other financial services to low income earners or poor households to create or expand their economic activities to improve their standards of living''.

According to CBN (2005), microfinance banks were established to mobilize savings for intermediation; create employment opportunities and increase the productivity of the active poor in the country; enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process. Specifically, objectives of microfinance policy and targets according to CBN (2005) are to make financial services accessible to a segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services; enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs and promote synergy and mainstreaming of the informal sub-sector into the national financial system.

Small and Medium Enterprises (SMEs)

The Small and Medium Industries Equity Investment Scheme (SMIEIS) states that SMEs are enterprises with a maximum asset base of N200 million excluding land and working capital and staff not less than 10 or not more than 300. National Council of Industry in 1992 defined small scale business as an enterprise with 11-100 workers and total cost (including working capital but excluding cost of land) that is, not more than fifty million Naira. Small businesses are common in many countries, depending on the economic system in operation. The European Union generally defines a small business as one that has fewer than 50 employees. However, in Australia, a small business is defined by the *Fair Work Act 2009* as one with fewer than 15 employees. By comparison, a medium sized business or mid-sized business has less than 500 employees in the US, and fewer than 200 in Australia.

Fadahunsi (1992) stated that Small scale businesses represent 90% of the enterprises in developing countries. They also provide 70% of employment opportunities for the citizen and promote indigenous technology. In the same line, Kuratko and Hodgetts (2001) also noted that small businesses employ 53% of the private workforce and accounted for 47% of sales and 51% of private sector gross domestic product GDP. This indicates that Small scale business predominate the economy in developing countries.

Ebiringa (2011) highlights the objectives of small scale businesses as follows:

*SMEs act as catalysts for technological development

*They are a major source of employment

*SMEs provide training a ground for creation of future entrepreneurs in different fields

* SMEs are a major source of domestic capital formation

* They aid in the process of redistribution of income

* They provide intermediate/ semi- processed goods for use by large scale firms

*SMEs engage in manufacturing and serve as channels for import substitution and promotion of exports

*SMEs serve as dispersed local markets

* They constitute a critical source of specialization

Onugu (2002) also adds that the importance of small and medium enterprises drives mainly from their characteristics and as such their development is usually regarded as a viable option for sustainable economic growth and development of any given economy. He pointed that, the proliferation of small and medium enterprises (SMEs) through the contribution of the banking industry will serve as a viable tool for stimulating development and growth of Nigeria economy as they will generate employment, development entrepreneurship and manager, prevent small rural-urban drift, develop technology, create various associated industries, and improve equality in income distribution. Credit constraint is experienced by small and medium enterprises due to the reluctance of deposit money banks to lend money to small and medium enterprises due to the wrong assumption that the risk associated with lending money to small enterprises is high. The inability of small and medium enterprises to keep proper records and accounts of transactions and inability to raise adequate collateral for their loans are the issues of concern. In addition, deposit money banks source their funds from short term sources whereas most of the SMEs need long – term credit facilities. In the same vein, the SMEs have not been able to benefit much from the capital market, in spite of the fact that the Second Tier market has been established for some years now. The inability of the SMEs to meet the standard of the formal financial institutions for loan consideration provides a platform for informal institutions to attempt to fill the gap usually based on informal social networks, and this is what gave birth to micro-financing.

In 2005, the Federal Government of Nigeria adopted microfinance as the main financing window for micro, small and medium enterprises in Nigeria. The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) was launched in 2005; the policy among other things, addresses the problem of lack of access to credit by small business operators who do not have access to regular bank credits. It is also meant to strengthen the weak capacity of such entrepreneurs, and raise the capital base of microfinance institutions (Abiola, 2012). Microfinance banks were established according to CBN (2005), by providing microfinance service, such as savings, loans, domestic funds transfer, and other financial services that are needed by the economically active poor, micro- small and medium enterprises to expand their businesses. The contribution of MFBs to SMEs growth lies in it assisting to overcome their capital problem. Hossain (1988) notes that the extent to which financial services are made available for small enterprises is a measures of the degree to which small firms can save and accumulate own capital for further investment at firm level. Although small enterprises can assist in the effort to overcome unemployment, widespread poverty and income gaps that keep widening, the majority of small firms only have a limited access to services rendered by the commercial banks (Idowu, 2008). MFBs type of loans are usually small size and because collateral is de-emphasized, greater access is avail SMEs to capital.

However, most SMEs operators are illiterate and they did not aware of MFBs products (accounts, loan, daily contribution, assets financing, cheque discounting, funds transfer and financial advisory service). Olowe, Mordeyo and Babalola (2013) note that lack of access to financial institutions also hinders the ability for entrepreneurs in Nigeria to engage in new business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. According to Timmons and Spinelli (2004) the most serious causes of bankruptcy in small enterprises could be condensed into three categories: lack of vital business skills or knowledge, lack of access to finance, and an unfavourable economic climate. Savings and credit facilities have the potential for improving the incidence of survival among small enterprises.

Empirical Review

Many studies have been carried out on the relationship between MFBs and SMEs growth in Nigeria and their findings are inconclusive. For example, Olowe et al (2013) investigate the impact of microfinance on SMEs growth in Nigeria. Purposive sampling technique was used to select the participating SMEs. Simple random sampling technique was used to select a total of 82 SME operators that constituted the sample size. Pearson correlation coefficient and multiple regression analysis were used to analyze the data. The results from this study show that financial services obtained from MFBs have positive significant impact on SMEs growth in Nigeria.

Odebiyi and Olaoye (2012) carry out research survey of small and medium scale aquaculture industries in Ogun State of Nigeria. Multistage random sampling technique was employed in selecting one hundred and twenty aqua culturists that provided the primary data used in this study. The primary data were collected with the aid of well-structured, validated and pre-tested sets of interview schedules, administered through personal interviews and observations, so as to elicit the required information from the targeted small and medium scale aquaculture loan users were analyzed using descriptive, budgetary analyses and profitability ratios. The study revealed a positive impact of microfinance bank loan on small and medium scale aquaculture development as it increased the revenue of the farmers, reduced rural-urban migration and increased overall yield and even generate employment opportunities.

Babangana (2010) examines impact of the role played by micro finance banks MFBs) in promoting the growth of SMEs in Nigeria. An empirical study was carried out using Garu Micro Finance bank in Bauchi State. The study revealed that MFBs have contributed to the promotion of small and medium enterprises growth in Nigeria.

Oladejo (2013) evaluates the convenience at obtaining credit, adequacy of the credit supplied relative to demand, timeliness of credit to operation, and cost of credit as a component of total overhead to selected SMEs located in Osun state of Nigeria. Data were collected through Questionnaire administered on SMEs as well as the annual reports and accounts of the selected MFBs. Analysis of the data and hypotheses tested showed positive and significant relationship between microcredit delivery service of selected MFBs and SMEs performance.

However, Abiola (2012) investigates the effects of microfinance on micro and small business growth in Nigeria. The paper employed panel data and multiple regression analysis to analyze a survey of 502 randomly selected enterprises finance by microfinance banks in Nigeria. The study finds strong evidence that access to microfinance does not enhance growth of micro and small enterprises in Nigeria.

Methodology

The population of study comprise of Small Business Entrepreneurs in Osun State. But the study was limited to Olorunda local government, Osogbo. Purposive method was used to select 150 SMEs which largely includes owners of supermarkets, electronic shops, Business centres/ cyber cafes, restaurants, barbing and hair dressing salons, block industry, bakery and pure water companies in the metropolis. Self - designed questionnaire was used to collect data from respondents. To ensure the validity and reliability of the questionnaire, experts in the field of microfinance were consulted to review the questionnaire. A pilot test which took the form of test –retest method was conducted prior to the actual study. Correlation Coefficient and Multiple Regression Analysis (ordinary least square technique) were employed to analyse the data.

Model Specification

Mathematically the specification is expressed as follows:

SMEs Growth =f (Microfinance characteristics, Business characteristics, SMEs Operators characteristics)

Microfinance Characteristics = (Asset Loan, Loan duration, Repayment, and Financial Advisory Service).

Business characteristics = (Business location, Business size and Business registration)

SMEs Operators characteristics = (Age of entrepreneur, Entrepreneur education level and experience of Entrepreneur)

Therefore,

SMEs Growth = f (X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9)

SMEs Growth =$\beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4 X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \mu i$

Where;

X1 = Asset Loan

X2 = Loan duration

X3 = Repayment

X4 = Financial Advisory Service

X5 = Business location

X6 = Business size

X7 = Business registration

X8 = Age of entrepreneur

X9 = Entrepreneur education level

μ = disturbance term

β = intercept

$\beta_1 - \beta_9$ = coefficient of the independent variables

Data Analysis and Result Discussion

Table 1: Result of Correlation

Model 1	r-value	P-value
Loan size	0.771**	0.000
Loan duration	0.294	0.208
Repayment	0.635**	0.003
Financial advisory service	0.557*	0.011
Business location	0.779*	0.000
Business size	0.379	0.099
Business registration	0.366	0.113
Age	0.649**	0.002
Level of education	0.886**	0.000

** significant at 1%, * significant at 5%

The result of pension product moment correlation analysis in table1 indicates that loan size(r=0.771**), repayment period(r=0. 635**), financial advisory service(r=0.557*), business location(r=0.779*), Age of entrepreneur(r=0.649**) and educational qualification of entrepreneur(r=0.886**) are positively and significantly related with the SMEs growth. While loan duration, business size and business registration also have positive relationship with SMEs growth but not significant. The positive relationship implies that SMEs growth will be influenced by MFBs financial services, business characteristics and entrepreneur characteristics respectively.

Table 2: Regression Result on the influence of MFBs financing services on SMEs growth

Model 2	B	T	p-v
Constant	-0.866	-0787	0.444
Loan size	0.603	4.177	0.001
Loan duration	0.384	2.242	0.041
Repayment	0.145	0.776	0.450
Financial advisory service	0.098	0.365	0.720
R^2	0.754		
Adj.R^2	0.688		
F- value	11.494		
Probability	P<.01		

The result in table 2 shows that MFBs financing services (loan size, loan duration, repayment and financial advisory service) were significant joint predictors of SMEs growth (F =11.494; R^2= 0.75; P<.01). The MFBs financing variables jointly accounted for 75% of the variance of SMEs growth, while the remaining 25% could be due to the effect of extraneous variables.

Therefore, the prediction of SMEs growth by the MFBs financing variables was not due to error. Furthermore, only loan size(β= 0.603; t = 4.177; P<.01) and loan duration(β= 0.384; t = 2.242; P<.01) were significant independent predictors of SMEs growth . This implies that MFBs financing activities has significant influence on SMEs growth in Nigeria. The study is consistent with Olowe et al, (2013), Odebiyi and Olaoye (2012), Babangana (2010) and Oladejo (2013) that MFBs have contributed to the promotion of small and medium enterprises growth in Nigeria.

Table 3: Regression Result on the influence of business characteristics on SMEs growth

Model 3	β	T	p-v
Constant	0.958	1.358	0.193
Business location	0.654	4.422	0.000
Business size	0.007	0.691	0.499
Business registration	0,093	0.688	0.501
R^2	0.639		
Adj.R^2	0.572		
F- value	9.458		
Probability	P<.01		

The result in table 3 reveals that business characteristics (business location, business size and business registration) were significant joint predictors of SMEs growth (F = 9.458; R^2= 0.639; P<.01). The business characteristics jointly accounted for 63.9% of the variance of SMEs growth, while the remaining 36.1% could be due to the effect of extraneous variables.

Therefore, the prediction of SMEs growth by the business characteristics was not due to error. Furthermore, only business location (β= 0. 654; t = 4.422; P<.01) was significant independent predictor of SMEs growth . This implies that strategic location of business has a strong impact on SMEs growth.

Table 4: Regression Result on the influence of entrepreneur characteristics on SMEs growth

Model 4	B	T	p-v
Constant	-0.046	-0.102	0.720
Age of entrepreneur	0.375	2.669	0.016
Educational qualification	0.738	6.930	0.000
R^2	0.849		
Adj.R^2	0.831		
F- value	47.670		
Probability	P<.01		

The result in table 4 indicates that age of entrepreneur and educational qualification were significant joint predictors of SMEs growth (F = 47.670; R^2= 0.849; P<.01). The entrepreneur characteristics jointly accounted for 83.1% of the variance of SMEs growth, while the remaining 16.9% could be due to the effect of extraneous variables. Furthermore, Age (β = 0.375; t =2.669; p<.01); and educational qualification (β = 0.738; t = 2.930; p<.01) were significant independent predictors of SMEs growth. This result therefore indicates that the older and educated entrepreneur contribute to SMEs growth. The result did not support hypothesis three and therefore, hypothesis three was rejected.

Conclusion and Recommendations

The main findings of this research reveal that MFBs financing services have significant influence on SMEs growth and expansion capacity of micro and small enterprise in Osun State, Nigeria. The study also reveals that loan size and duration have positive and significant impact on SMEs growth, which means that the larger the size of loan and longer duration of loan have meaningful impact on SMEs growth. The result also shows that business location, age of entrepreneur and his/her level of education also have positive impact on SMEs growth. It is therefore recommended that MFBs should increase the size and the duration of their clients' asset loans. The repayment should be spread over a longer period of time which will enable the entrepreneur to have greater use of the loan over a longer period for the acquisition of capital assets. Deposit money banks should complement MFBs in financing Small scale business and also entrepreneur should be encouraged to source fund from second tier capital market in the country.

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