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The Role of Microfinance Bank on the SMEs Performance in Nigeria

Fauziah Mahat[*a], Mohammed Zannah[b]

[a]*Faculty of Economic and Management, Universiti Putra Malaysia, Malaysia*
[b]*Mai Idriss Alooma Polytechnic Geidam, Yobe State, Nigeria*

Abstract

Previous studies on the role of microfinance institutions in small and medium enterprises (SMEs) performance findings were inconsistent to one another, some found the significant impact of microfinance while other results show negative impacts. This study will assess the impact of microfinance in northeastern Nigeria. A structured questionnaire was used to gather the data, random sampling method was also adopted in surveying the 309 number of the respondent. The finding shows a significant relationship between microfinance loan and small and medium performance, the relationship is medium and positive. Moreover, there is the impact of microfinance on small and medium enterprises performance. The loan has highly increased the performance. The study also recommends the government to consider and increase the number of a microfinance institution in the zone and formulate a law for small and medium enterprises to access loan in commercial banks. A chart were also included to show the level of awareness of the microfinance bank in the country.

Keywords: Microfinance, micro credit small and medium enterprises, performance

1. INTRODUCTION

The role of small and medium enterprises in both developed and developing countries is of paramount important in term of contribution to the gross domestic product (GDP) and employment opportunities, no country can achieve its goal for its growth and development without small and medium enterprises performance (Pandya, 2012). Nigeria SMEs contribute 90% of the business but in term of contribution to the country's GDP is very minimal, only less than 10% (Gbandi and Amissah, 2014).

Small and medium enterprises in Nigeria is defined by different author and bodies. Any business in Nigeria with employ between 11-35 and capital ranging from 1 million Nigerian Naira but less than 40million is regarded as small, and business employing 35-100 people and capital not more than 200million (Ufot, Reuben and Micheal, 2014). Any business employing 10-49 and capital of from 1million but not more than 199million as small enterprises, and business employing 50-199 and capital of 200million but less than 1billion Nigerian Naira is a medium enterprise, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN 2014). These small and medium enterprises differ from large enterprises in many aspects as showed in table 1.1 below:

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[*]Corresponding author.
E-mail: f_mahat@upm.edu.my

Table 1. Different between SMEs and large enterprises

	Small and medium enterprises	Large enterprise
Marketing	Ability to quickly to response to the consumer's requirements. (Market start-up oversea can be avoided costly.)	Comprehensive distribution and servicing facilities. High degree of market power with existing products.
Internal Communications	Efficient and informal internal memos networks. Affords a fast response to internal problem-solving: provides the ability to recognise rapidly to adapt to change in the external environment.	Internal memos are often cumbersome: this can lead to slow reaction to external threats and opportunities.
Qualified Technical Manpower	Inadequate of qualified technical staff. Often unable to support a formal R&D effort on a targeted rate.	It can employ adequate qualified technician. Ability to support the establishment of a high R&D laboratory
External Communications	Frequent lack of time or resources to identify and use important external sources of scientific and technological expertise.	It has the opportunity of consult external scientific and technological expertise. Can source library and information services. It affords sub-contract R&D expert centres. It has the ability to acquire important technical information and technology.
Finance	It has the problem of sourcing financial capital, especially risk capital. Innovation can represent a disproportionately large financial risk. It cannot be able to spread risk over a portfolio of projects.	Easier to borrow on the capital market. Can able to spread risk over a portfolio of projects. Better ability to fund diversification into new technologies and new markets.
Economies of Scale and the Systems Approach	In some areas scale economies of form substantial entry barriers to small firms. Inability to offer integrated product lines or systems.	Ability to gain scale economies in R&D, production and marketing. Ability to offer a range of complementary products. Ability to big for large turnkey projects.
Growth	Difficulties in sourcing external capital necessary for rapid growth. Entrepreneurial managers sometimes cannot cope with the increasingly compound organization.	It can source external finance for expansion of production and service. Ability to fund growth via diversification and acquisition.
Patents	Coping with the patent system will cause it some problem. It does not have enough time and financial cost involved in patent process.	Ability to employ patent specialists. It can sponsor itself to litigate to defend patents against infringement
Government Regulations	Some regulation are found to be difficult for them to abide	Ability to fund legal it is easier for it to go with complex regulatory requirements. Can spread regulatory costs. Able to finance R&D necessary for agreement.

Source: (Şentürk et al., 2008)

1.1 Government Programmes to Provide Credit to Poor Entrepreneur Prior to Microfinance Bank

Prior to the establishment of Microfinance bank various government in Nigeria have come up with their credit channelling programme but were not last due to change in government and lack of continue of policies. Below are among the programmes;

- ✓ The Nigerian Agricultural and Cooperative Bank Limited (NACB).
- ✓ The Nigerian Agricultural Insurance Corporation (NAIC).
- ✓ The National Directorate of Employment (NDE).
- ✓ The Peoples Bank of Nigeria.
- ✓ The Community Banks (and the National Board for Community Banks).
- ✓ The Family Economic Advancement Programme (FEAP)

Microfinance started when Muhammad Yunus in 1976 establish microfinance scheme as an experiment in rural areas of Bangladesh. The experiment succeeded and result in the establishment of Grameen Bank (Yunus, 1976). In Nigeria prior to the establishment of microfinance a lot of traditional microfinance and credit association were in existence, such as Rotating Saving and Credit and Association (ROSCAs), Self Help Group (SHG), and many more which are gentlemen agreement or local arrangement between among the communities entrepreneur to

finance their businesses (Egboro, 2015). These groups and association have different names, in Hausaland, they called it *Adashe or Esusu*, in Yoruba land called *Ajo and Osusu or Isusu in Igbo land.*

Formal microfinance Bank in Nigeria was started as a community bank in 1990 to finance micro-enterprises in the rural areas. The programme was converted into Microfinance bank in 2005. The central bank of Nigeria, microfinance regulatory and supervisory guideline framework for microfinance bank 2005. Under this guideline, all the community bank and the non-governmental microfinance institutions (NGO MFI) are to recapitalised and converted to become Microfinance Bank (Central Bank of Nigeria, 2005). Microfinance bank is defined by the Nigeria apex bank as the process of channelling financial service to entrepreneur and the poor people who are economically active to pursue business and are excluded from access to financial services of conventional banks in Nigeria. Furthermore, this hindrance from access to finance services is among the factors that cause increase in poverty in developing countries and Nigeria in Particular (Central Bank of Nigeria, 2005; Oyinpreye, 2016)

2.   LITERATURE REVIEW

Microfinance loan (micro credit) has a significant role in growing the gross domestic product of Nigeria via providing capital to the enterprises (Oyinpreye, 2016). The role of microfinance in financing micro, small and medium enterprises development in Nigeria is positive and very significant (Ashamu, 2014), he further stated that microfinance has provided financial services to overcome the financial problem of small and medium enterprises in the country. But still the financial problem of small and medium enterprises in not totally solved. Microfinance institute plays an important role in the growth and development of Small and Medium enterprises in Nigeria, and there is need to for both government and private sector to re-energise the institution to improve enterprises activities in the country (Oleka, Maduagwu and Igwenagu, 2014).

Profitability is going hand in hand with the performance of a firm. According to the finding of Babajide and joseph, (2011), Microfinance loan will lead to the profitability of small and medium enterprises, and profitability is one of the factors of performance. Therefore micro credit (loan) is a significant predictor of performance. With the significant finding in their research between small and medium enterprises performance and microloan, Olutunda and Obamuyi, (2008) suggested that government should formulate a policy which will direct the commercial banks to give out a loan to small and medium enterprises to improve their performance. They further suggested that entrepreneur education should be compulsory and the certificate should be part of the requirement to access the loan. Small and medium enterprises are medium of economic growth and development (Fatai 2009) Microfinance did not enhance the growth and development of micro, small and medium enterprises in Nigeria (Babajide, 2012). The following hypothesis is formulated to answer the objective of the study.
H1: there is a relationship between microfinance loan and small and medium enterprises performance in Nigeria.
H2: microfinance loan improve small and medium enterprises performance in Nigeria
The object of this study are;
1.   To examine the relationship between microfinance loan and small and medium enterprises performance in Nigeria
2.   To determine the impact of microfinance loan on small and medium enterprises performance in Nigeria.

Table 1. Total microfinance bank in Nigeria

Geo political zone	Number of MFB	Total per Zone	Percentage
North East			
Adamawa	11		
Borno	17		
Bauchi	4		
Gombe	4		
Taraba	4		
Yobe	1		
Sub total	41	41	4
North west			
Jigawa	12		
Kaduna	40		
Kano	40		
Katsina	7		
Kebbi	10		
Sokoto	5		
Zamfara	6		
Sub total	120	120	11.7
North central			
Abuja	57		
Benue	11		
Kogi	25		
Kwara	27		
Nasarawa	10		
Niger	43		
Plateau	17		
Sub total	190	190	18.6
South east			
Abia	21		
Anambra	81		
Ebonyi	9		
Enugu	24		
Imo	42		
Sub total	177	177	17.3
South west			
Ekiti	14		
Lagos	199		
Ogun	56		
Ondo	19		
Osun	32		
Oyo	59		
Sub total	379	379	37
South-south			
Akwa Ibom	13		
Bayelsa	3		
Cross Rivers	15		
Delta	40		
Edo	28		
Rivers	18		
Sub Total	117	117	11.4
Total	1024	1024	100

Source other financial institutions Department CBN

3. RESEARCH METHODOLOGY

This study used primary data, by using survey questionnaire to respondent in the study area and retrieve back.

3.1 Research Design

This study used sample survey to in order to sample the total population, and quantitative approach was adopted in gathering the data from the respondent. By using of structure questionnaire to which has been distributed and retrieved back, it is appropriate to avoid bias. The study also used descriptive statistics and regression to answer the research question.

3.2 Population and Sample

The target population was small and medium enterprises managers and owners in Northeast states of Nigeria, which include the enterprises engage in manufacturing, agricultural, trading, construction and services. They are

of about total of 1596 according to National Bureau of Statistic, 2013. The sample of 309 was selected based on Cochran (1977) sampling technique. The questionnaire has been issued to the total number of the sample.

3.4   Data Analysis and Method

As stated earlier the data were collected using structured questionnaire and analyzed using SPSS software version 22. The result was presented in, correlation matrix and regressional analysis in order to test the relationship between small and medium enterprises performance and microfinance banks in Nigeria.

Table 2. Data reliability result

Variable	No of Items	Alpha(α)
SME performance	8	.761
Microfinance acceptance	11	.810

Base on the above result all the variable's Cronbatch alpha coefficient are more than .70 which regard to as reliable.

4.   FINDING OF THE STUDY

Table 3. Correlation matrix

Variable	Y	X
SMEs Performance	1	
Microfinance	482	1

N=308

The correlation matrix in table 1.4 showed there is positive and medium significant relationship between microfinance credit and small and medium enterprises performance in Nigeria. Microfinance credit is positively contributing to the performance of SMEs. Therefore H1 is accepted.

Table 4. Multiple regress of Microfinance and SME performance

Model	B	S.E	B	t	P
(Constant)	.922	.255		3.560	.000
Microfinance	.048	.58	.52	.850	.000

Note: R=.469; adjusted R = .457; [F (6, 302) =45.111, P=00) 8129140932
Dependent variable; SME performance, B; coefficient unstandardized, S.E; Standard error B; coefficient unstandardized, t;-value p; p-value

The regression result indicated that microfinance credit is a predictor of small and medium enterprises performance in Nigeria. 1% increase in microfinance loan is explained by 48% increase in performance of small and medium enterprises. Therefore H2 is accepted

5.   CONCLUSION

This study examines the relationship between microfinance bank loan and SMEs performance in Nigeria and Northeast in particular. The result shows microfinance is significantly contributing to the growth and development of small and medium enterprises. The microfinance loan and credit given to the small and medium enterprises enable them to expand their business, recapitalised them and enable them to acquire more machinery, employ more staff and produce more goods and services. Going by the number of microfinance in the Northeast part of Nigeria and important attach to the institution there is urgent need to establish more. Considering the Northeast as one of the six geo-political zones of the country, it has only 4% (41) out of 1024 registered microfinance banks. The central bank should reconsider the Microfinance regulatory and supervisory framework and increase the total loan capacity of the bank. The government also direct the conventional banks to provide a loan to the small and medium enterprises to develop.

6.   RECOMMENDATIONS

The on the study the following recommendation were made;
1. Government should provide more infrastructural facilities to the Northeast to boost enterprises activities
2. Security is one of the major problem disturbing the zone, the government should re strategies the security issues to encourage more investor in both SMEs and Microfinance institute.
3. Awareness and enlightenment programmes should put in place to the existence of the bank and the product available.
4. The compulsory training programme is to be established by the government for the managers.

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Table 5. Microfinance bank awareness level in Nigeria
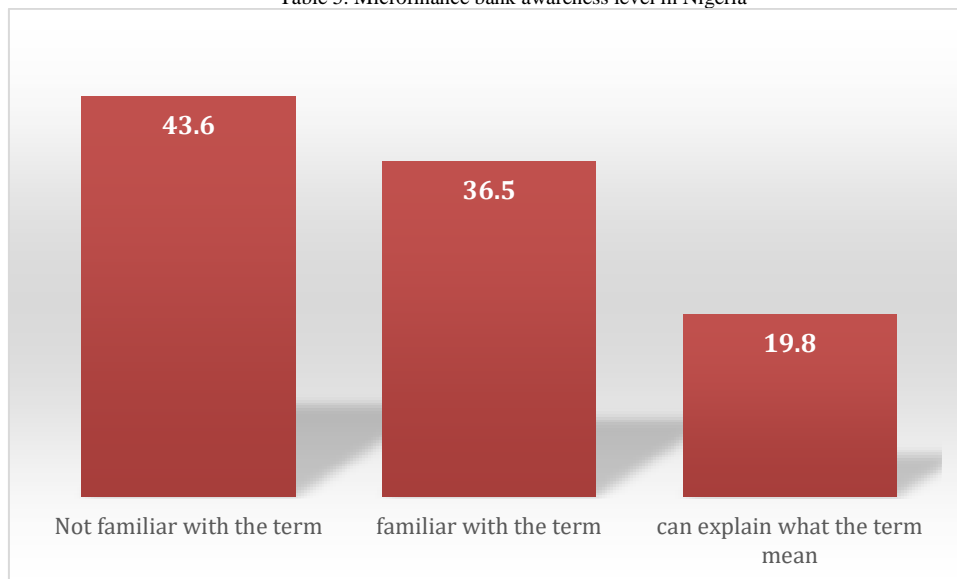
Source; access to finance services in Nigeria survey (2014