ANALYSIS OF THE ROLE OF MICROFINANCE BANKS ON THE DEVELOPMENT OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA.

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Abstract

This study analyzed the role of Microfinance Banks in the development of small and medium enterprises in five selected communities in Anaocha L.G.A of Anambra State, Nigeria. The study used questionnaire to elicit information from a sample of 109 staff of both Microfinance Banks and small and medium scale enterprises in the study area. The Chi-square statistical tool was applied to determine the magnitude of discrepancy between the variables, expectation and observations. The test was carried out at 5% level of significance. The result obtained indicates that SMEs do encounter problems in the procurement of loans from commercial banks in the study area, government policies have favored SMEs and SMEs have knowledge of Microfinance Banks in the study areas. Hence the study recommended that government at all levels can intervene in reducing the restrictive requirements and high interest rates of financial institutions by providing funding to the SMEs through a state bank with low interest rates and restrictions.

Keywords- Microfinance Bank, Small and Medium Enterprises, Government Policies, Chi-square, Commercial Banks.

INTRODUCTION

Small and Medium Scale Enterprises in Nigeria constitutes a greater percentage (75%) of all the registered companies in Nigeria. They have been in existence for a long time as majority of SMEs' grew from Cottage Industries. The operations of SMEs' are found in all the areas of human endeavours: Manufacturing, Production, information, Services, Agriculture, Hotel and Restaurants, Financial Intermediation, Real Estate, Education, Building and Constructions, Mining and Quarrying. For SMEs' to operate in these sub-sectors of the

economy, they are not left without controls. Federal government through the apex bank (CBN) monitors the activities of SMEs to ensure that they work in line with the set standards in other countries. The government set several agencies like small and medium scale industries equity investment schemes (SMIEIS),small and medium enterprise development agency(SMEDAN), Nigerian agricultural Cooperative and rural development bank,(NACRDB), Bank of industry(BOI), Nigerian bank for commerce and industry(NBCI), Nigerian industrial development Bank (NIDB). They are set to moderate, monitor, finance and control SMEs' to ensure that they are resurrected to be the major driver of our economic development and growth (Onugu, 2005).

A major/remarkable breakthrough in small scale business came about through the indigenization Decree 2002 and later in Nigeria Enterprise Promotion Act 2007. These were genuine attempts by the Federal Government to make sure that Nigerians play an active and worthwhile role in the development of the economy. In the National Development Plan, the Federal government gave special attention :o the development of small scale industries particularly in rural areas. This was in recognition of the roles of small and medium scale industries, as the seedbeds and training grounds for entrepreneurs. Nigerians need to take a cue from economic history, which is well stocked with enough insight into the humble beginnings of the present day giant conglomerates which started as small scale outfit. Within this decade, the government policy measures placed emphasis on the technological development of small scale industries in Nigeria. Various governments embarked on corrective measures to focus efforts towards the maximum exploitation of natural resources, and tried to discourage capital intensive mode of production in the light of the abundant resources available

The federal and state governments have both contributed to the growth of small scale industries in Nigeria especially in the rural areas. In recent time, various fiscal and non-fiscal incentives have been established for investors and entrepreneurs in the small scale sectors of the economy. Of special mention was the strategy adopted by the federal government for the training and motivation of the unemployed graduates, to be gainfully employed in out of school entrepreneurship development programmes. Thus, on the presentation of viable feasible projects, approved loans are disbursed through pre-selected commercial banks assisted by the National Directorate of Employment CBN (2010). To show its

seriousness, the federal government through its educational agencies like the National Board for Technical Education (NBTE), the Nigerian University commission (NUC), and the National youths Service Corps (NYSC) programme

gave directives that entrepreneurial development courses be incorporated into the curricular of tertiary institutions and NYSC program.

1.2 Statement of the Problem

SMEs represent a veritable vehicle for the achievement of National Economic objectives: Employment generation, value added, rural development acceleration, stimulation of entrepreneurship vital links between agriculture and industries, supply parts and components to large scale industries (LSI), contribute to domestic capital formation (Anyanwu, 2001). Despite incentives, polices, programmes and support by the government aimed at revamping SMEs, they have performed rather below expectations in Nigeria (Salam, 2012). Why? To address the above, this study embarked to identifying the various problems faced by SMEs in the procurement of loans from commercial banks, the effect of government policies on SMEs as well as the contribution of SMEs towards the growth and development of Nigeria's economy

Objective of the study

The main objective of this study is to determine the degree of accessibility of credit facilities from Microfinance Institute by Small and Medium scale Enterprises from five selected SMEs in Anaocha L.G.A, Anambra State.

Specific Objectives

1. Determine whether SMEs encounter problems toward accessing Microfinance loan in Anaocha L.G.A

2. Determine whether Government policies favoured SMEs in Anaocha L.G.A

3. Determine whether SMEs have knowledge about MFBs in the studied Area.

4. To find out the best and most efficient way of handling these factors with a view of finding solutions

Research Questions

The following research questions were formulated to guide the research objective;

1. What are those factors influencing small scale businesses towards accessing Microfinance loan?

2. Have government policies favored SMEs?

3. Do SMEs have knowledge about Microfinance Banks?

4. What are the possible solutions to these factors influencing SMEs?

Statement of the Hypothesis

Ho1: To a large extent SMEs do not encounter problems in the procurement of loans from commercial banks.

Ho2: To high degree government policies have not favoured small and medium enterprises in Anaocha Local Government Area.

Ho3: To high degree SMEs have no knowledge about MFB in the Anaocha L.G.A

2. Literature Review

Small Scale Industry orientation is part and parcel of Nigeria. Evidence abound in Our respective trading concerns; yam barns, iron smelting, farming, cottage industries and the likes. So the secret behind their success (of a self- reliant strategy) does not lie in any particular political philosophy, so much as in the people's attitude to enterprise and in the right to which the right incentive is enough to make risk worth taking are provided (Anyawu,2001). Abudu (2009), said that small scale industries constitutes the fountain head of vitality for the variation economy and consequently their problems have been viewed as those of the nation, by virtue of their number, diversity, penetration in all sectors of production and marketing contribution to employment and to the prosperity of the particular areas in which they operate. In concrete terms, CBN (2010) stressed that small scale industries constitute a greater percentage of all registered companies in Nigeria, and they have been in existence for quite a long time, majority of the small scale industries developed from cottage industries and from small scale to medium and large scale enterprise. Prior to Nigeria's Independence, the business climate was almost totally dominated by the Colonial and other European Multinational companies like United African company (UAC), GB Olivant, Uniliver Plc, Patterson Zechonics, Leventis, etc. These companies primarily engaged in bringing into Nigeria finished goods from their parent companies overseas. The government in those days encouraged them to become stronger by giving incentives at favourable terms and tax concessions (CBN, 2011).

The former CBN Governor, (Soludo, 2010) stated that government can provide funding to the SMEs either through the direct provision of funds through a state bank, or through the provision of funds which are leveraged by private sector investors. Both forms of intervention are common across developing countries. In as much as we observed that the effect of government policies is of a greater effect in developed nations (Japan, Russia and America etc) where the small and medium scale enterprises are the pivot of national development and transformation.

We observe that the importance of some policies as regards to the SMEs in Nigeria cannot be over emphasized. This is because the government has the powers to make out laws, rules and regulations and such must be carried out by even the financial institutions. The security and enabling environments are not off from what the government can do to ensure that SMEs thrive well and become the pivot of the national development just like the developed nations. The CBN (2012) statistics reported that commercial banks advances to SMEs have been on the decline over the years. Commercial bank loans to SMEs as a percentage of total credits decreased from 48.79% in 1992 to 0.15% in 2010.

Agbaje and Abiodun (2015) posit that it is important to note that the development of entrepreneurs cannot be over emphasized the role they play in economic development and how they are financed through both formal and informal sources. The development experience indicates that SMEs can meaningfully contribute to the attainment of many development objectives. These include output expansion, employment generation. Jegede (1990) observed in the early 1970s and according to a survey conducted by center for industrial Research and Development (CIRD), that small and medium scale enterprises concentrated on narrow range of activities with garment making and allied activities accounting for more than 50% of the total number of small and medium scale enterprises (SMEs). Compared with the position of large enterprises, the provision of finance to SMEs by lending institutions can be problematic for a number of reasons.(Berger and Udell. 2006)

This is compounded by the fact that SMEs experience greater volatility in profitability, growth and earnings in comparison to larger firms, and their survival rate is much lower (storey and Thompson, 2005). These difficulties can be further compounded in the cases of start-up and young enterprises, which can have difficulties in providing the collateral, employment of trained personal and may be seen as potentially offering high returns but a high potential risk (Nofsinger and Wang, 2011). The financial system may not provide range of products and services to meet the needs of SMEs adequately. However, these may be a 'pecking order' in terms of firm lending, with larger firms favored by lending institutions (Watson & Wilson, 2002).

3. Research Methodology

This study is a survey research covering the five selected SMEs in Anaocha Local Government Area in Anambra state. Anaocha Local Government Area is one of the twenty-one local government area in Anambra state, and the towns that make up the Local Government Area are; Neni, Adazi-Enu, Adazi-Nnukwu, Aguluzigbo, Ichida, Obeledu, Nri, Adazi-Ani, Agulu and Akwaeze. The target population for this study consists of respondents randomly selected from five SMEs in Anaocha L.G.A, which are Adazi-Nnukwu, Aguluzigbo, Ichida, Obeledu, and Nri.

The sample size for the research using Taro Yamani formula is 109 comprising of 100 SMEs staff and 9 bank staff under study in the L.G.A, Anambra State.

The data for the study were collected using questionnaires. Two sets of questionnaires were distributed because the research involved two study groups: SME's and microfinance bank officials.

Method of Data Analysis

The responses gotten from the questionnaires were presented in tabular forms. The responses were converted to frequencies and percentages. Interpretation was based on the findings and the research question of the study. The hypothesis formulated in this work was tested with the use of chi-square method, which shows the magnitude of the discrepancy between the variables, expectation and observation. The test was carried out at 5% level of significance.

In this study, a field survey was carried out to ensure the reliability of the instrument used for the study. Here, a measure of reliability called Cronbach's Alpha was employed. Cronbach's Alpha ranges in value from 0 to I. A coefficient equal to or greater than 0.6 is considered a minimum acceptable level, although some authorities argued for a stronger standard of at least 0.70. The internal consistency for this instrument is considered high and acceptable given a result of 0.76.

To ensure that the structured questionnaire instrument developed for this study measures what it is expected to measure, that is to certify the requirement of validity, content validity was adapted to adequately measure coverage of the research topic. The instrument was submitted to the experts in the field of the study for criticisms and suggestions relevant to the research. The corrected copy was validated by the researcher from which final copies were reproduced.

4. Findings of the study

Table 1 Respondent's opinion on whether SMEs encounter problems towards accessing Microfinance loan.

Responses	Frequency	Percentage (%)
Strongly Agree	21	19
Agree	64	59
Undecided	16	15
Disagree	8	7
Strongly Disagree	0	0
Total	**109**	**100**

Source: Field survey, (2019).

The above table indicates that (19%) of the respondents strongly agree that small scale business encounter problems in accessing microfinance loan. (59%) Agreed, (15%) undecided while (7%) disagree

Table 2: Respondent's opinion on whether government policies favoured SMEs

Responses	Frequency	Percentage (%)
Strongly Agree	12	11
Agree	46	42
Undecided	45	41
Disagree	6	6
Strongly Disagree	0	0
Total	**109**	**100**

Source: Field survey, (2019).

The above table shows results regarding whether government policies favoured SMEs. About (11%) strongly agreed while (42%) agreed, (41%) undecided and (6%) disagree.

Table 3 Respondent's opinion based on the Awareness of Government loan scheme (%). The aim of this subsection was to evaluate how well the SMEs have information about Government loan scheme

Variables	Responses	Frequency	Percentage (%)
Awareness of Govern-	Yes	70	64.2
ment loan scheme to	No	39	35.8

Micro entrepreneurs

	Total	109	100

Source: Field survey, (2019).

Table 3 shows how well the respondents have information on government loan schemes to micro entrepreneurs. About (64.2%) have heard about government loan scheme while (35.8%) indicated that they have not heard.

Table 4 Respondent's opinion based on whether they have benefited from any Government loan scheme (%)

Variables	Responses	Frequency	Percentage (%)
Benefited from Government loan scheme on Micro entrepreneur	Yes	24	22
	No	85	78
Total		109	100

Source: Field survey, (2019).

Table 4 shows how the respondents have benefited from government loan schemes to micro entrepreneurs. About (22%) have benefited from government loan scheme while (78%) indicated that they have not benefited.

Table 5 Respondent's opinion based on whether they have knowledge about MFB in the studied area.

Responses	Frequency	Percentage (%)
Strongly Agree	16	15
Agree	80	73
Undecided	0	0
Disagree	13	12
Strongly Disagree	0	0
Total	109	100

Source: Field survey, (2019).

Table 5 shows how well the respondents have knowledge about MFB. Out of 109 respondents, about (15%) strongly agree, while (73%) agree and (12%) disagree. This may be because MFB are sparingly located and this creates gap between SMEs and MFBs.

Table 6 Distribution based on level of Borrowing (%)

Variables	Responses	Frequency	Percentage (%)
Have you borrowed	Yes	24	22
From MFBs	No	85	78
Total		**109**	**100**

Table 6 shows that (22%) have borrowed while (78%) have not. Reason could be that the majority of those who accessed credit from MFBs only did that once, though some indicated that they have borrowed more than once.

Table 7 Distribution of Respondents based on Reasons for Borrowing

Variable	Responses	Frequency	Percentage (%)
If yes, what was the Loan for?	Start/ Expand Business	40	36
	Pay off debt	35	32
	Education	24	22
	Others	10	10
Total		**109**	**100**

Source: Field survey, (2019).

Table 7 shows the respondents reasons for borrowing. About (22%) used theirs to sponsor their wards/children in school

Majority used loan for starting or expanding their enterprise which is a welcomed development.

Table 8 Distribution of Respondents based on Reasons for not Borrowing

Variables	Responses	Frequency	Percentage (%)
If No, why did you not apply?	Do not know anyone	19	17
	Scared of borrowing	23	21
	High interest rate	40	37

	Loan was not necessary	25	23
	Other reasons	2	2
	Total	109	100

Source: Field survey, (2019).

The micro entrepreneurs who indicated that they have not been able to access credit facility from MFBs were asked to indicate reasons why they were not able to access credit. Table 8 shows that majority of the respondents about (37%) believed that the interest charged on MFBs loans were too high for them to pay and still make profit from their business. 25 respondents (23%) believe that the loan was not necessary and so did not go for it, (21%) indicated that they were scared of borrowing from any financial institution while 2% indicated other reasons.

Table 9: Respondents opinion on the best solution for SMEs

Variables	Responses	Frequently	percentage(%)
Commercial banks to assist SMEs to access loans with low interest rate	Strongly Agree	27	25
	Agree	75	69
	Undecided	7	6
	Disagree	0	0
	Strongly Disagree	0	0
Total		109	100

Source: Field survey, (2019).

Table 9 above shows respondents opinion on solution they considered best. About (25%) strongly agree that commercial banks should assist SMEs to access loans at low interest rate, (69%) agreed, (7%) were undecided.

Hypothesis One

Hoi: To a large extent SMEs do not encounter problems in the procurement of loans from commercial banks.

In testing this hypothesis, responses from table 1

Table 10: Result on the Chi-square test on the Research Question

Variables	X^2	Degrees of freedom	p-value
Table 1	25.19	12	21.026
Tables 2&5	72.64	20	31.410

Decision

The decision rule state that null hypothesis should be rejected if the chi-square calculated (25.19) is greater than the critical value of chi-square (21,026), otherwise accept. Since the computed chi-square is greater than the critical value of chi-square, we reject the null hypothesis and accept the alternate hypothesis which states that the SMEs do encounter problems in the procurement of loans from commercial banks.

Hypothesis Two

Ho2: To high degree government policies have not favoured small and medium enterprises in Anambra State.

Ho3: To high degree SMEs have no knowledge about MFB in the Anaocha L.G.A In testing this hypothesis, responses from table 2 &5.

Decision

The decision rule states that null hypothesis should be rejected if the chi-square calculated (72.64) is greater than the critical value of chi-square (31.410), otherwise accept. Since the computed chi-square is greater than the critical value of chi-square, we reject the null hypothesis and accept the alternate hypothesis which states that government policies have favoured small and medium enterprises and SMEs have knowledge of MFB in Anaocha L.G.A Anambra State.

The chi-square result shows that amongst the numerous problems facing SMEs in Nigeria, that the greatest of all of them is access to credit facilities.

SMEs fail to secure loans because of restrictive requirements of the financial institutions, top among them being collateral security.

This is due to lack of tangible assets like land, which are used as assets to secure credits.

Also the result of the chi-square analysis shows that government policies significantly favour SMEs in Nigeria.

The former CBN Governor, Soludo (2010) stated that government can provide funding to the SMEs either through the direct provision of funds through a state bank, or through the provision of funds which are leveraged by private sector investors. This kind of intervention is common across developing countries. In as much as we observed that the effect of government

policies is of a greater effect in developed nations (Japan, Russia and America etc) where the small and medium scale enterprises are the pivot of national development and transformation.

5. Conclusion

Our result shows that accessibility of credit facility from financial institutions by SMEs in Nigeria has been bedeviled by many problems. This is evident in the responses from the questionnaires to the SMEs operators in the manufacturing sector of the economy. The resultant effect is that there is poor accessibility of credit facility from the financial institutions. There is indeed a great need for our government to wake up to the responsibility of providing avenues that will make funds available and accessible to the sub-sector in addition to providing enabling environments, upgraded infrastructures and favourable policies. These will not only give opportunity for SMEs to grow but will become the greatest pivot and driver of national development. Our focus and strengths should be drawn from other developed nations across the globe that supported SMEs and it worked for them.

The financial institutions on the other hand should not be allowed by government to abuse the extant rules and laws that affect the small and medium scale enterprises. The government must as a matter of urgency react to the abuse of these rules and laws so that they will be reduced to the barest minimum. For instance, in other to generate widespread interest in the scheme and maximize its development impact, a reasonable portion of the money set aside should be used to give working capital loans at interest rates that are in tune with the viability of SMEs.

6. Recommendations

Having highlighted the problems and shortcomings of the small and medium enterprises (SMEs) in Nigeria, the following recommendations aimed at correcting

and eliminating those constraints are put forward for consideration. In order to reduce the risk in small and medium enterprises (SMEs) lending, the central bank of Nigeria and the government must ensure that they keep on regulating properly their current initiative of requiring all commercial banks to set aside 10 percent of their profit before tax for equity investment in small and medium size enterprises. Rediscounting by the central bank of Nigeria (CBN) can sample possibility for encouraging commercial banks to gain experience in medium and long term building operation. A number of procedures can be adopted such as preferential discount rates, multiple discount rates or quotas favouring certain purposes. The banks themselves can ensure maximum risk of the loan losses by providing technical and

managerial resources to various kinds of small enterprises customers. This would assist them in project preparation, implementation, financing and management. At the same time, small scale enterprises can avail themselves to such services provided by the government at the entrepreneurial development centre. In order to make credit available to SMEs sector, the banks and the government should make use of the rural banking program. The branches of each bank in the rural community should be given free hand to take certain decisions concerning advancement of these loans and advances to rural small scale enterprises. They should be able to act as 'management consultants' identifying problems and suggesting solutions.

Banks would also need to be encouraged to find the working capital requirements of SMEs. In the face of limitations and inadequacies already enumerated in this project, small size enterprises are high risk for banks to lend. Consequently, part of the government programs for small enterprises would be to devise a means of providing incentives and management to banks to be able to freely lend to small enterprises.

Central bank of Nigeria (CBN) should license more micro finance banks to be able to extend more loans to small and medium enterprises. We also recommend that SMEs should not base only in urban areas. This is because the numbers of small enterprises in urban areas are alarming and commercial banks cannot give loans to all. This is why they should be encouraged to reside more in rural areas i.e rural small enterprises should be encouraged. If this is achieved, the government should ensure that it provides more infrastructural facilities in rural areas so as not to discourage these small businesses in achieving their objectives.

Finally, a major impediment to growth generally in Nigeria has been the state of economic and social infrastructure. This has been an over-flogged issue in the discussion of Nigeria's economic development. Provision of necessary infrastructural facilities and the enabling environment for business operations generally is an imperative. Uninterrupted power supply, good roads and transportation networks, rural development communication etc. are the basis to competitive performance of enterprises. Their provision will definitely reduce the funding needs of small enterprises as they would no longer require funds to provide electricity, water, telephone and other infrastructures on their own.

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