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IMPACT OF MICROFINANCE BANKS ON SMALL AND MEDIUM SCALE BUSINESS PERFORMANCE

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ABSTRACT

This was a descriptive survey study mounted to identify the impact of Microfinance Banks on Small Scale Business performance in Oyo State, Nigeria. Two research instruments were designed and two hypotheses formulated for testing. A population of ninety(90) respondents was used. Pearson's product-moment co-relational coefficient was applied in the analysis. The results showed that while there was a significant and positive relationship between micro-finance Bank and socio-economic development, there is also a significant but negative relationship between Micro-finance Bank and Small Scale Business performance. The study concluded that despite the bank limited and other various challenges that may exist within the system which might possibly account for the present performance, the micro-finance bank still has a role to play at delivering small scale business within the mirage of the present predicament. The study recommended that there is a need for additional measure towards value for the poor, in the form of additional facility package and rescheduling of payment periods to meet the requirement of micro business owners.

Keywords: Micro Bank Finance, Socio-Economic Development, Performance.

1.0 INTRODUCTION

The Nigerian government has over the years embarked on series of policy and institutional reforms aimed at enhancing the flow of finance from the banking sector to Small and Medium Enterprises (SMEs) as well as those involved in the petty business (Micro) activities and to entrepreneurial ventures at the informal level in particular.

However, the important objective of boosting the performance of the entrepreneurial activities of SMEs has not materialized. Traditional Banks perceive micro activities as a bad risk, hence have little interest in funding the sector, this is coupled with issues of high transaction costs and short tenor of payback period when funding is considered. Since a robust economic growth cannot be achieved without putting in place well-focused programmes to reduce poverty through empowering the people by increasing their access to formal financial services, the Central Bank of Nigeria (CBN 2005) as part of its banking reform agenda embarked on licensing Microfinance Institutions (MFIs) aimed at providing financial services to entrepreneurs who are not served by the conventional financial institutions (Ozioko, 2010). The emphasis, therefore, shifted from large-scale industries to SMEs, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. According to Yarron (1998), Nigeria has remarkable entrepreneurs who need support at every level and this includes Micro, Small and Medium Enterprises as well as big businesses. A common characteristic of these enterprises is their need for good financing.

SMEs are critical agents of economic transformation as they account for more than 50 per cent of Gross Domestic Product (GDP) of developing economies, are main source of innovation and technological development, source of supply of both human capital and raw materials to larger businesses and main source of entrepreneurship and enterprise (Sanusi, 2003). The contribution of the SME sector to the Nigerian economy is crucial for the achievement of the broader development objectives such as poverty alleviation, spreading of employment opportunities and increasing indigenous ownership of resources in the economy (Chidoko, Makuyana, Matungamire, & Bemani, 2011). SMEs contribute nearly half of Nigerian GDP and accounts for over 25 percent of employment in the country. There are 17 million SMEs in Nigeria, employing 32.41 million persons and contributes about 46.54 percent to the nation's GDP in nominal terms (National Bureau of Statistics 2013).

Small and Medium Enterprise Development Agency of Nigeria (SMEDAN 2005) defined SMEs based on the following criterion small scale enterprises are businesses with ten to forty-nine people with annual turnover of five to forty-nine million Naira, while a medium-scale enterprise have fifty to one hundred and ninety-nine people and annual turnover of fifty to four hundred and ninety-nine million Naira. With an existing inclination of economic activities in Oyo State, SMEs are undoubtedly recognized by the government, private individuals and development experts as the main engine room for any nation's growth and development which can be summarily referred to as the bedrock of the nation. However, despite the huge contributions of SMEs to national development, they are contending with numerous challenges. Lawson (2007) emphasized that the lack of access to finance has been identified as one of the major constraints to SMEs. The reason is that the provision of financial services is an important means for mobilizing resources for more productive use (Watson and Everett, 1999). The extent to which small enterprises can access fund determines the extent to which small firms can save and accumulate their own capital for further investment (Hossain, 1988), but SMEs in Nigeria find it difficult to gain access to formal financial institutions such as commercial banks for funds because they generally lack the requirements. This inadvertently hinders their performance. The inability of the SMEs to meet the conditionality of the traditional financial institutions for loan consideration provided a platform for attempt by informal institutions to fill the gap usually based on informal social networks; this is what gave birth to micro-financing. There are several definitions to the concept of microfinance. Otero and Rhyne (2007) described micro finance as a revolution that involves the large scale provision of small loans and deposit services to low-income people by secure and conveniently located. It includes a broader range of services mainly credit, savings opportunities, insurance, money transfers and other financial products targeted to the poor and entrepreneurs (Ojo, 2009). Most people think of microfinance, if at all, as being about micro-credit i.e lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings (Khan and Rahaman, 2007).

Savings is a common word used by individuals on a daily basis. It simply means putting something aside for future use or what will be considered as a deferred expenditure (Amu and

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Amu, 2012). Micro-savings as a microfinance service enables people with few assets to save since they could make weekly savings as well as contribute to group savings, and such savings are mobilized by the microfinance institutions for further lending as a loan to other clients (Mkpado & Arene, 2007). Consequently, SMEs lack access to formal savings; many of them are unaware of the importance of this service especially as it could serve as an insurance buffer for them in terms of shocks.

Balasubramanian, Kumar, and Subramanian, (2012) defined micro-credit as the extension of small loans to low-income individuals who typically lack collateral, steady employment, and verifiable credit history. Access ti finance is also identified as a key constraint to the poor in securing their savings or to SMEs attempting to grow and expand their businesses. Schumpeter (1973) also stresses the role of credit in financing innovation to bring about development. In his theory, economic development arises as a result of innovation which is attributed to entrepreneurs. But without credit the benefits may not be realized by the society and here lies the argument for continuous financial support for SMEs to realize its full potential.

Bryman (1992) described the performance as the result from a person's effort which is achieved by the presence of labour, ability and assignment perception, effort because of motivation, satisfaction, and organizational commitment that shows the amount of energy used by an individual in initiating a task. Therefore, a good measurement of organizational performance must be able to consider the goal of the owner designed to promote the business such as SMEs in the areas of some specific results as output and profitability (Marr & Schiuma, 2003).

The two main mechanisms for the delivery of financial services to clients by Microfinance institutions are relationship-based banking for individual entrepreneurs and small businesses; and group-based where several entrepreneurs come together to apply for loans and other services as a group (Ameer & Jamil, 2013). In a country where only one in ten working Nigerians is formally employed and underemployment is estimated at 70.5 per cent, microfinance, SME finance and branchless banking are important in supporting growth and reducing poverty through employment creation (National Bureau of Statistics, 2006).

1.1 Statement of Problems

The bedrock of any nation's industrial development is entrepreneurial activities this can be attested with economic breakthroughs in the Asian tigers. The economic boom recorded in some of the Asian countries which are not unconnected to SMEs have lifted hundreds of millions of people out of poverty and created tens of millions of new middle-class consumers (Wang et al, 2011). The role of financial institutions in the development of a country is demonstrated through the crucial role that savings and credit play in economic growth (Armendariz de Aghion and Morduch 2005). Unfortunately, traditional banks in Nigeria are reticent in offering financial services to the poor, because they are usually unable to meet their requirements. It is worrisome that despite the potential importance of SMEs in any economy, the high mortality rate among established SMEs is becoming a reoccurring phenomenon in Nigeria.

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According to a SMEDAN 2010 report, only 15% of newly established businesses survive the first five years in Nigeria. The ones that survive after this period usually record poor performance. The crucial role of finance to the growth and survival of SMEs and the adoption of microfinance as the main source of financing SMEs in Nigeria is pivotal. It, therefore, makes it imperative to study the extent to which microfinance can enhance small business performance. Besides, the empirical evidence emerging from various studies about the effect of microfinance on entrepreneurial development have so far yielded mixed results that are inconclusive and contradictory. Some studies only looked at microfinance and poverty alleviation (Electrin et al, 2013, Kiiru and Kenia 2007, Boadu, 2009), other studies looked at microcredit alone as an intervention tool for entrepreneur development (Akingunola et al 2013) others looked at the presence of microfinance institutions as a catalyst for entrepreneurial development (Ozioko, 2007, Alalade 2013 Ojo, 2009). Question of whether specific microfinance services (microcredit, micro-savings) improves or worsens SMEs performance is still worthy of further research such as the one being undertaken in this study.

1.2 The objective of the Study

The main objective of the study is to assess the impact of microfinance bank on small and medium enterprises in Government. The specific objectives are to:

I. Determine the impact of microfinance bank on small scale business performance in Oyo State.
II. Assess the influence of microfinance bank interest credit subsidy and credit facilities on the level of demand by small scale business in Oyo State.
III. Assess and analyse the effect of microfinance banks or socio-economic development i.e employment and income generation in Oyo State.

2.0 LITERATURE REVIEW CONCEPT OF SME IN NIGERIA

Small scale businesses, Small scale industries and small scale entrepreneurship are used interchangeably to mean a Small and Medium Enterprise. Its deliberation was to refer to the operational definition. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, a number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these features equally vary from one country to the other.

In Nigeria, for example, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, or whose investment in machinery and equipment does not exceed six hundred thousand nairas (Kayode, 2010). Similarly, Central Bank of Nigeria (CBN) in its credit guidelines, classified small scale business as a business with an annual income/asset of less half a million naira (N500,000.00) (Kayode, 2010). Also, the Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing a process or service industry, with a capital not exceeding N150,000 in manufacturing and equipment alone. In the same vein, the Small Scale Industries Association of Nigeria (1973) also defined small scale business as those having an investment (i.e capital, land, building and equipment of up to N60,000 (pre-SAP Value) and employing not more than fifty persons. While the Federal

Ministry of Industries working capital to set up. In addition, the Centre for Management Development (CMD) definition of small industry in the policy proposal submitted to the Federal Government in 1982 defined small scale industry as "a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers" (Kayode, 2010). In the United States, the Small Business Administration (SBA) defines a small business as one that is independently owned and operated and is not dominant in its field and meets employment or sales standard developed by the agency (White & Chaceltana, 2002).

3.0 CONCEPT OF MICROFINANCE

One such poverty alleviation tool is microfinance, which has gained worldwide recognition since the 1990s and has been proven to have a positive impact on poverty levels and entrepreneurship development in developing countries (Hossain et al, 2008).

Microfinance is the provision of financial services to the poor, aiming to empower low-income populations by providing them with access to credit and other financial services. Through MFIs, the poor can obtain collateral-free loans at relatively low-interest rates and use the money for creating microenterprises (small businesses owned by poor people), funding children's education, and improving households, among others. Aside from microcredit (small loans to the poor). MFIs have also developed numerous financial services, such as micro-insurance and micro-mortgage that are designed to accommodate the poor's financial needs. Most of these institutions have also required their clients to open up savings accounts, which could be used for emergency and investment purposes (Carr & Tong, 2002).

The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low-income households and micro-enterprises usually lacking access to formal financial institutions" (CIDA, 2002). Microfinance is defined as the provision of financial services and the management of small amounts of money through a range of products that are targeted at poor people. This product includes loans, savings, insurance, etc. (United Nation, 2005). Also, microfinance is defined as "the provision of credit, savings, and other financial services to lower-income groups" (Almeyda & Branch, 2999). Microfinance, according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people."

Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay, both the principal and interest, on time and also make savings, provided financial services tailored to suit their needs. This study, however, adopts the definition of Almeyda and Branch (1999) this is because it highlights the dependent variable (performance) and the independent variables (microcredit and micro-savings).

4.0 CONCEPT OF PERFORMANCE

Performance according to Obiwuru, Okwu, Akpa and Nwankwere, (2011) refers to the ability of an organization to achieve such objectives as high profit, quality product; large market share, good financial results and survival at a predetermined time using relevant strategy for action. Consequently, Wang, (2010) viewed performance as product accomplishments,

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results and achievements in an organization. Williams and Andersons, (1991) also defined performance as an employee's achievement level in his/her responsibility and duties assigned in the workplace. Understanding the determinant factors of SMEs performance is considered an important area of focus in Enterprises (Rosli, 2011). This is because SMEs contribute to employment growth at a higher rate than larger firms. Anastasia (2008) viewed that organizational performance construct can be measured by effectiveness, efficiency, satisfaction and innovation of the product. According to Apolot (2012), organizational assessments of performance in sales growth, customer satisfaction and profitability were measured in their businesses. This study, therefore, adopts the definition of both Apolot (2012) and Anastasia (2008).

5.0 METHODOLOGY

The study was a descriptive survey designed to identify the impact of Micro- Finance Bank on Small Scale Business Performance. The research instruments were designed and used namely:

I. Micro-Finance Bank Identification Scale (MFIS) used to identify the impact of the micro-finance bank. This was responded to a four-part- linked-scale by the staff.
II. Business Performance Rating Scale (BPRS) drawn to elicit information from the staff. The research was conducted in the three major micro-finance banks in Oyo State namely: Microfinance Bank Isale, Oyo, Microfinance Bank in Ibadan South West, Oyo State, Ajewale Microfinance Bank Ogbomoso, Oyo State.

A population of ninety (90) respondents was used made up of thirty (30) staff of Micro-finance Bank (10 from each Micro-finance Bank) and sixty(60) staff owners of Small Scale Business made up of twenty (20) owners from each small scale business operating in Oyo State chosen. The satisfied random sampling technique was adopted to select the samples. All ninety (90) questionnaires were recovered because the researcher personally administered the instruments. A summation of the rating of the respondents as the two research instruments were done and the person's product-moment co-relational co-efficient was used in the analysis. Two research hypotheses were formulated for testing in the study bothering on the impact of Micro-finance Bank on Small Scale Business performance.

6.0 RESULTS

The results of the analysis of the data collected and collated are presented hereunder according to the two hypotheses used.

6.1 Hypothesis one Ho1: There is no significant relationship between Microfinance Bank and Small Scale Business performance.

Table 1 shows the relationship that exists between the Micro-finance Bank and Small Scale Business performance. The result shows that there is a significant relationship between Micro-finance bank and Small Scale Business performance.

From the table, it can be read that the calculated 'r' value of -0.413 is significant at the degree of freedom of 88 and a table of 0.202.

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Variable	Σ	Calculated 'R'	Table 'R'	Degree of freedom	Conclusion
Micro-Finance	13343				A negative Significant relationship
Performance	816	-0.413	0.202	88	

Key: Σ = Sum of scores

'R' = Co-relation value

DF = Degree of freedom

6.2 Hypothesis Two:

There is no significant relationship between Micro-finance Bank and Socio-economic development in Oyo State.

Relationship between Micro-finance Bank and Socio-Economic Development in Oyo State.

Variables	Σ	Calculated 'R'	Table 'R'	Degree of freedom	Conclusion
Micro-Finance	1842				Positively significant
Business Performance	2052	0.68	0.202	88	

Key: Σ = Sum of score

'R' = Co-relation value

DF = Degree of freedom

Table II displays the relationship between the Micro-finance Bank and Socio-Economic development in Oyo State under the study. From the table, it can be read that the calculated 'R' value of 0.68 is quite higher than the table 'R' value of 0.202 at 88 degrees of freedom and alpha level of 0.05%. This indicates that the test is significant.

6.3 Findings

From the results of the tests conducted, the following findings were made:

I. There exists a negative but significant relationship between Microfinance and Small Scale Business performance of staff investigated.

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II. It was also found that there was a strong and significant relationship between the Micro-finance Bank and Socio-Economic Development.

7.0 CONCLUSION

A peculiar is the highest awareness level on the part of customers and low impact on the beneficiaries, versus low bank capability in terms of ability to all application request smallness of loans and the short repayment period. Microfinance bank is not an end in itself but means to an end. Despite the bank limitations and other various challenges that may exist within the system which might possibly account for the present performance, Micro-finance bank still have a role to play at delivering Small Scale Business within the mirage of the present predicament. Because of the positive influence on small business capital, profit, generation, business expansion, saving investment, and wealth creation, this research sees the micro-finance bank as a good means of poverty reduction since these explanatory variables determine micro-business performance at the community level.

8.0 RECOMMENDATION

- There is a need for additional measure towards value for the poor, in the form of additional facility package and rescheduling of the payment period, to meet the requirement of mirage business owner.
- There is a need for additional efforts on enlightening marketing to improve banking habits to reduce borrowing from friends and relatives to finance business activity
- Effort to partnering entrepreneur development Centres (EDCS) and Small Scale Business entrepreneurship development agencies of Nigeria (SMEDIAN) to promoting the teaching of a business entrepreneur among local communities.

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