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Effects of Social Performance of Microfinance Banks on Services to Small and Medium Enterprises in Nigeria

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Abstract
The Central bank of Nigeria (CBN) policy framework establishing microfinance banks was primarily targeted at creating an environment of business inclusion to boost the capacity of Small and Medium Enterprises (SMEs). Previous studies have produced mixed results with regards to the impact of microfinance banks services to SMEs. It is these mixed conclusions that necessitate the need to carry out a study to establish the influence of microfinance bank's social performance on services rendered to SMEs in Nigeria. Descriptive survey research design was employed. The study used regression analysis to test the statistical significance of the independent variables (skills development and literacy training) on the dependent variable of services to SMEs. The data for this study was collected using questionnaire for primary data. One hundred and fifty questionnaires were issued to randomly selected microfinance banks in Kaduna and Kano state. One hundred and thirty two questionnaires, representing 88% were duly completed and returned. The significance test showed that the relationship between social performance and services to SMEs was statistically significant. The study recommends that the management of Microfinance banks should pursue a strategy that will enhance the delivery of social services, such as, skills development and literacy training to the SMEs clients and other government should provide incentives to the microfinance banks that will facilitate efficient social service delivery to the SMEs in Nigeria.

Keywords: *Microfinance, Small and Medium Enterprises, Social Performance, Skills Development, Literacy Training*

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Background to the Study

The impact of Social Services provided by Micro Finance Institutions (MFIs) seems unequally dispersed among countries. Some MFIs have become very significant in size and render a variety of services to Small and Medium Enterprises (SMEs) clients, like the Grameen Bank in Bangladesh. or BR in Indonesia, while other MFIs remain small or even cease to exist (Cicea and Hincu, 2009). The governance of an MFI plays a major role in ensuring that the institution keep to it's mission of serving Small and Medium Enterprises (SMEs) and other clients (Klapper and Love, 2004 Moauro and Spaggiari, 2011). Good corporate governance in MFIs is expected to underpin effective and efficient social performance within firms (Waithaka, Gakure and Wanjau, 2013). A study in Ghana and South Africa on SMEs Development by Abor and Quartey (2010) also emphasized the vital roles of MFIs.

An important mechanism of governance is the quality of the board of directors. Accordingly, leadership characteristics of MFIs have great impact on their performance (Waithaka, Gakure and Wanjau, 2013). The main goal of a Microfinance bank (MBF) is to operate profitably in order to maintain its stability and improve performance and sustainability (CGAP, 1999). However, existence of high levels of loan delinquency problem in microfinance industry in most countries negatively affect the level of social services to SMEs (Cristiana, 2008).

The financial sector in Turkey is traditionally dominated by microfinance activities, and the industry experienced several systemic crises in the 1990s (Mordy, 2010). Turkey weathered the financial crisis far better than many countries, As a result of strong corporate governance culture in the banking sector, Turkey's Gross Domestic Product (GDP) increased from $230 billion in 2002 to $740 billion in 2008 (Sanusi, 2010). In addition, Turkey's national deficit fell by 40% in the first few months of 2010. Good corporate governance promotes goodwill and confidence in the financial system. Studies by Wu, Lin & Lare (2010) showed that good corporate governance leads to increased valuation, higher profit levels, increased sales growth and lower capital expenditure. This view was supported by Lam, Tin and Lee (2008).

However, systemic crisis surfaced in the Nigerian Microfinance banking Sector in the mid-1990s and 2000s (Mordy, 2010). Sanusi (2010) observed that the Nigerian microfinance banking crisis situation was the manifestation of a complex state of inter-related corporate governance problems including a weak policy environment, capital and management inadequacies and economic down-turn. Sanusi (2010) observed that the banking sector in Nigeria has evolved in five stages. The first stage was the pre-existence of the Central Bank of Nigeria (1930-1959), during which several poorly-capitalized and unsupervised indigenous banks failed in their infancy. The second stage was the control regime (1960-1985), during which the Central Bank of Nigeria (CBN) ensured that only “fit and proper” persons were granted license, subject to the prescribed minimum paid up capital and in line with the provisions of Banking Act (Mordy, 2010). The third stage was the post Structural Adjustment Programme (SAP) or de-control regime (1986- 2004), during which the liberal philosophy of “free entry' was over stretched. This period marked the beginning of formal micro-finance banking (community banks) in Nigeria (Sanusi-2010). The fourth stage was the era of banking consolidation (2004 to 2009) with emphasis on recapitalization. The fifth stage is the post-consolidation era of reforms hinged on proactive risk management and corporate governance best practices.

The creation of Micro-Finance Banks (MFBs) in 2005 in Nigeria marked the beginning of the transformation of Community Banks (CBS) which had been in existence since 1990. The report sheet for 334 community banks whose operations were analyzed by December, 1992 revealed the total assets was N98 1 million, total deposit mobilization was N640 million, loans advances amounted to Nl50 million while gross earnings was N107 million (NDIC 2010). Central Bank of Nigerian CBN (2011) also reported that a total of N205 million was realized as aggregate gross earnings by *435* community banks out of *753* community banks that were fully operational 1994.

However, by 2005 many of the community banks had become distressed as a result of weak capital base, insider abuses and large amount of non-performing loans among other factors (Folake, 2005). This state of affairs led to the creation of present day Microfinance Banks (MFBs). According to Central Bank of Nigeria (CBN, 2011), weak corporate governance practices in Microfinance banks (MFBs) in Nigeria resulted in the liquidation of 84 MFBs as at 2010. The total deposit liabilities of these 84 MFBs as at 2010 was N8.999 billion for 668,214 depositors (NDIC, 2010). The total deposit liabilities comprised insured sum of N4.467 billion and uninsured amount of N4.53 1 billion. Such is the negative consequences of wcak corporate governance practices in the MFBs sector.

Objectives of the Study

The objective of this study was to investigate the effects of social performance of Microfinance Banks (MFBs) on the services to Small and Medium Enterprises (SMEs) in Nigeria. Specifically, the study sought to:

1. Ascertain if the MFB's Skills Development Practices Influence the services to SMEs
2. Determine whether MFB's Literacy training programmes have effects on services to SMEs

Research Hypothesis

H_1 There is no relationship between skills development practices in Microfinance Banks and Services to SMEs

H_2. There is no relationship between Literacy training programmes in Microfinance banks and Service to SMEs

The conceptual framework diagram (figure 1.0) demonstrates the theoretical relationship between the independent variables (Social Performance) and the services to SMEs in Nigeria.

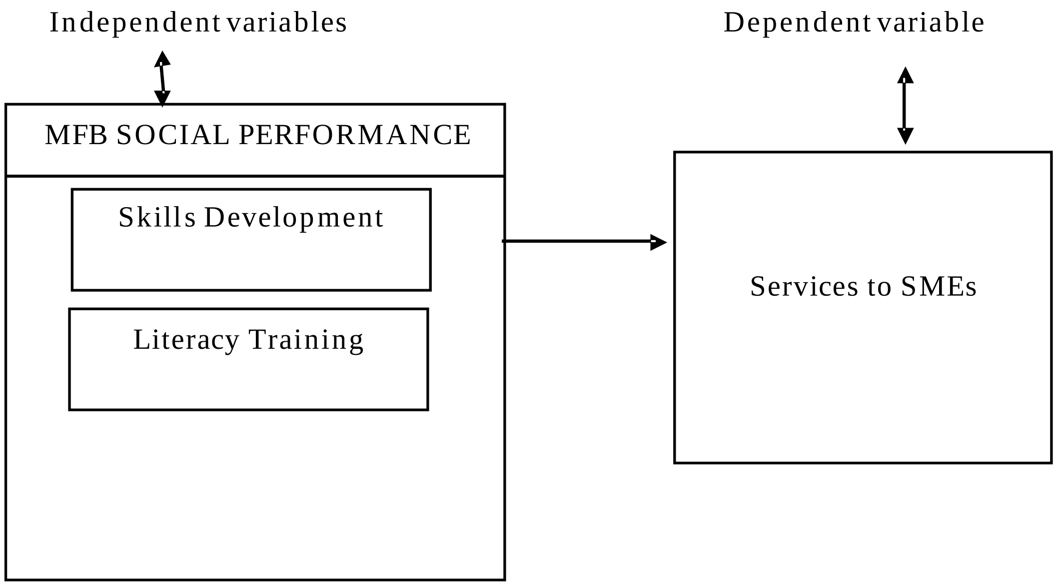

Figure 1.0 Conceptual Framework

Study Methodology

The study examined the effects of social performance functions of Microfinance banks on their services to SMEs in Nigeria. fifty Microfinance banks in Kaduna and kano States were sampled for data collection. In addition to interviews and observation, questionnaires were designed and used as instrument for data collection. The data was analyzed using both descriptive and inferential statistics. A total of 150 questionnaires were administered out of which 132 were successfully returned – this represents 88% response rate.

Social Intermediation Performance

According to Christopher (2010); social intermediation can be understood as the process of building the human and social capital required for sustainable financial intermediation with the SMEs. Successful financial intermediation is often accompanied by social intermediation (Von Pischke, 1991).

i. Skills development: This involve motivation which is the creation of stimuli, incentives and working environment that enable people to perform to the best of their ability (Chartered Management Institute, 2006). According to Kets de Vries (2001), the best performing microfinance banks are those that possess a set of values that creates the right conditions for higher performance and skills developments Armstrong (2007) also observed that motivation relates to factors that influence people to behave in certain ways.

ii. Literacy Training: This is a major area of human resource management function that is very relevant to effective management and use of people

(Mullins, 2000). According to Drucker (1977), the one contribution that a manager is distinctively expected to make is to give others vision and ability to perform. Microfinance Banks can use financials literacy training programmes to attract more clients from the SMEs.

In a study on the effects of leadership characteristics on MFIs Social Performance in Kenya, Waithaka, Gakure & Wanjau (2013), found that there is a strong relationship between board size, CEO non-duality CEO experience on one hand and the social performance in MFIs. The situation in Nigerian MFB sector is not too different as can be seen in the results of this study.

Results and Discussions

Table 1.0 shows that 120 (91%) of the respondents revealed that the microfinance banks (MFBs) do not provide skills development services to members of their host community. Only 9% (n=12) of the respondents indicated that the MFBs provide such services to their host community. In response to the question on the degree to which provision of skills development programmes can enhance services to the SMEs, 83% (n=10) of the respondents who indicated that such services do exist in MFBs believed that, it has greatly facilitated improved service delivery to the SMEs. Only 17% (n=2) of those respondents were of the view that skills development functions of the MFBs had no significant value addition in services to SMEs. On the extent of negative effect of lack of skills development programmes by the MFBs on their services to SMEs in Nigeria, a vast majority of the respondents (82%) agreed that this had greatly hampered service rendition to SMEs clients. Only 18% believed that the negative effect was only mild.

Table 1.0: Effect of Skills Development Programmes in MFBs on Services to SMEs

Does your bank provide skills development services for members of the community?	No	120	91%
	Yes	12	9%
If yes, how did these facilitate provision of services to the SMEs?	Greatly	10	83%
	Mildly	2	17%
If no, how did this affect service provision to SMEs clients by MFBs?	Greatly	98	82%
	Mildly	22	18%

Beyond the provision of financial services, microfinance banks are also expected to provide social or non-financial services that focused on the well-being of micro-entrepreneurs and operators of SMEs (Oladeji, 2001). The social intermediation service on skills development are offered by MFBs as a means of improving the ability of its clients to utilize financial services (Folake, 2005). This assertion was corroborated by a study on imperative of Good banking habits for successful Small Scale Industrial Development by Ogubunka (2010)

The findings from this study on very limited skills development service provision by the MFBs in Nigeria is consistent with results of studies carried out by Osotimehin, Jegede and Charles (2011) which revealed that microfinance banks' outreach services in South Western Nigerian remained unsatisfactory. A study on the performance of Ten Microfinance Institutions in Nigeria by Folake (2005) also indicated that social performance service function by Microfinance Institutions is limited. It can be deduced that providing effective financial services to small enterprises requires social intermediation and enterprise development services such as skills development, provision of social services such as health care and education.

Microfinance banks in Nigeria can make use of strategies adopted in Canada, where Ledgerwood (1999) reports that the Association for the Development of Microenterprises (ADEMI) provides technical assistance to small enterprises in addition to credit delivery services.

Table 1.1 shows that an overwhelming majority of the respondents were of the view that microfinance banks do not have financial literacy training policy for their clients. Ninety one percent (91%) of the respondents (n=120) indicated that their banks do not have financial literacy training policy. Only 9% (n=12) of the respondents claimed that financial literacy training policy exist in their microfinance banks.

Furthermore, ten (10) out of 12 respondents (that is 83%) agreed that the existence of such policy did enhance the MFB's service rendition to their SMEs clients. Only 17% of those respondents claimed otherwise. The respondents who were of the view that such training policy did not exist in their banks, overwhelmingly believed that this had negative effect on service rendition to SMEs client. Ninety (90%) percent of those respondents indicated that non-existence of financial literacy programme greatly affected MFBs' services to the SMEs client. Only 10% (n=12) felt that the negative effect was mild. With a mean of 1.1667 and standard deviation of 0.38925, respondents in table 1.2 indicate that Financial Literacy Training has greatly enhanced the MFB services to SMEs. Similarly, results is recorded by respondents who believe that absence of such training policy had greatly affected the services to SMEs.

Table 1.1: Effect of Literacy Training by MFBs on Services to SMEs

Does your bank have financial literacy training policy for its clients?	No	120	91%
	Yes	12	9%
If yes, how did this enhanced the bank services to the SMEs clients?	Greatly	10	83%
	Mildly	2	17%
If No, how did this affected the banks services rendition to the SMEs clients?	Greatly	108	90%
	Mildly	12	10%

Table 1.2: Responses on Social Performance

Items	Responses	Frequency counts	N	Mean	Standard Deviation	Remarks
Does your bank provide skills	No	120	132	0.0909	0.28857	No
development services for SMEs clients?	Yes	12				
If yes, how did this facilitate provision of	Greatly	10	12	1.1667	0.38925	Greatly
services to the SMEs?	Mild	2				
Does your bank have financial literacy	No	120	132	0.0909	0.28857	No
training policy for its clients?	Yes	12				
If yes, how did this enhance the bank's	Greatly	10	12	1.1667	0.38925	Greatly
services to the SMEs clients?	Mildly	12				
If no, how did this affect the bank's	Greatly	108	120	1.1000	0.30126	Greatly
service rendition to the SMEs clients?	Mildly	12				

According to Paxton (2006), a World Bank survey that examined the array of financial and non financial services offered by more than 200 Microfinance Institutions around the world revealed that non-governmental organizations were more active than microfinance institutions in providing financial literacy training to their clients. The finding corroborates with the results of this study. Therefore, the limited service provision by MFBs on financial literacy and even group formations' is not a Nigerian phenomenon alone.

However, Schreiner (2002) believed that offering outreach financial training programmes by MFIs had great social benefits to both the clients and MFBs. Ledgerwood (1999) also asserts that provision of such financial literacy service will eliminate social isolation, enhanced self-confidence and promote entrepreneurial experience. Since the goal of microfinance is to reduce poverty and promote enterprise growth, then the SMEs need more than financial credit alone. They need educational services that specifically address these obstacles and that provide a framework for solutions. A study by Ukeje (2005) on poverty reduction through microfinance in Uganda indicated that direct services in the area of business skills training and financial literacy require sensitive attention by the operators of microfinance institutions. In Kenya, a study by Waithaka, Gakure and Wanjau (2013) on the effects of leadership characteristics on social performance among MFIs found that there is a strong positive association between board size, CEO non-duality and CEO experience with an MFI's social performance. The results also suggested that MFIs that separated the role of the CEO from the board chair have better social performance scores. In Nigeria, literature indicated that CEO duality in practice is real, while recruitment policy of hiring only qualified and experience CEOs are often compromised (Sanusi, 2010). These had severe negative consequences on the delivery of social intermediation services by the MFBs.

It can be inferred that literacy training for clients by MFBs is crucially important in building mutually beneficial relationship between the MFBs and SMEs clients. Since the goal of microfinance is to reduce poverty and promote enterprise growth, then the SMEs deserve more than financial services alone.

The findings on table 1.3 revealed that the association between the independent variable (Literacy training, skill development) and dependent variable (MFBs service to SMEs) in 0.663, which implies a strong relationship between the variables. The R^2 which is 0.440 from the table indicate that 44% of the variability present in the depend variable has been explained by the independent variable (Literacy training, skill development).

Table 1.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.663[a]	.440	.431	.56125

a. Predictors: (Constant), Literacy training, Skills development

In the ANOVA Table 1.4 depict that the model *service to SMEs=-0.255+0.099*skills development+2.377*literacy training,* is statistically significant since the p-value (0.00) from the able is less than 0.05 chosen level of significance.

Table 1.4: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.926	2	15.963	50.676	.000[b]
	Residual	40.635	129	.315		
	Total	72.561	131			

a. Dependent Variable: Department

b. Predictors: (Constant), Literacy training, Skills development

Table 1.5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.255	.193		-1.317	.190
	Skills development	.099	.206	.043	.482	.631
	Literacy training	2.377	.337	.633	7.048	.000

a. Dependent Variable: Department

The researcher the proceeded to analyze the sub-variable independently.

Conclusion

In conclusion, although skills development is an essential part of microfinance banks services to clients, limited provision of this service as found in this study has a negative consequence on service rendition impact of MFBs in Nigeria. Little attention accorded to social service provision by the MFBs can be counter-productive. Microfinance Banks (MFBs) in Nigeria can improve their social performance status by providing literacy training programmes for SMEs clients. This studies finding also revealed that the association between the independent variables (literacy training, skills development) and the dependent variable (service to SMEs) is 0.663. This implies a strong relationship between the variables. The R^2 which is 0.440 indicate that 44% of the variability present in the dependent variable is explained by both literacy training and skills development. Microfinance banks in Nigeria will improve their social performance services to SMEs if they focus attention to financial literacy training programmes.

Recommendations

The process of building the human and social capital required by sustainable financial intermediation services to the SMEs is very vital. To this end, MFBs should increase the level of other services as a means of improving the ability of the SMEs clients to utilize financial services. MFBs should strive to reach sustainability by ensuring that the social services offered meet the demand of SMEs clients. Provision of skills development and financial literacy training services will also motivate the SMEs clients to keep proper accounting records and repay loans on or before due dates. The Nigerian Government should provide infrastructural facilities, such as, electricity that will enhance social services provision by the MFBs.

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