

Impact of Microfinance Banks on the Performance of Small and Medium Enterprises in the North West, Nigeria

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Abstract

Despite efforts by the Federal Government of Nigeria to establish microfinance policy in 2005 that provides for the setting up of private sector driven microfinance banks for the purpose of making finance accessible to small and medium enterprises to undertake productive investment and expand their businesses and alleviate poverty nationwide, the North-West and the North-East still had the highest poverty rates in the country (National Bureau of statistics, 2010). It was as a result of the above, this study investigates the contribution of Microfinance Banks (MFBs) to the performance of Small and Medium Enterprises (SMEs) in the North West zone of Nigeria. It covers the period of 2006 to 2010. A survey approach was adopted while data was collected using two sets of questionnaire schedules. The statistical tool used to measure the influence of independent variables (microfinance facilities) on the dependent variables (performance of SMEs) is Paired Student's t - test. It was found that large percentage of the beneficiaries of microfinance banks reported high positive impact of microfinance bank loans on their performances. However, it was gathered that most of the MFBs lack adequate capital and low patronage. To this extent, some valuable recommendations are provided. Among these are: Government should set aside or raising direct fund to microfinance banks for onward lending to SMEs at little or no interest rate, Government should create enabling market environments that involve adequate channel of distribution and exhibition of SMEs' products, Microfinance banks and SMEs should be given tax relief till after ten years of existence to ensure their rapid development and economic growth of the country etc.

Keywords: *Microfinance banks, SMEs, North-West zone, Nigeria*

Background to the Study

Access to finance allows Small and Medium Enterprises (SMEs) to undertake productive investments, to expand their businesses and to acquire the latest technology that ensures their competitiveness and that of the nation as a whole, but unfortunately this finance has not been adequately made available for the SMEs by the traditional commercial banks. Thus, the government of Nigeria was prompted to make a policy that established microfinance banks in 2005 with the sole responsibility of servicing and promoting MSMEs. Microfinance bank is a formal financial institution that provides financial services to the active poor SMEs operators and entrepreneurs. According to CBN (2005) the establishment of Microfinance banks has become imperative to provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner that would enable them to undertake and develop long-term sustainable entrepreneurial activities. Hence, this forms the basis of this study to determine the operation and contributions of these microfinance banks (MFBs) to SMEs' performance in the study zone.

Concept of Microfinance

Microfinance according to Kpakol (2005) involves creating access to credit for the poor who ordinarily are locked out of financial services in the formal financial market for reason of their poverty, that is, lack of command over assets. Micro - Credit refers specifically to small loans. The average loan size varies from country to country, but in most cases the average loan is equivalent to \$ 120.0-150.0 in the respective currency (Iganiga, 2008). The emphasis on micro -credit in this century is such that the global conscience believes that if unemployment is reduced, the world would be a better place as there would be reductions in poverty, an improved living condition, increased productivity, and overall resultant effect of an enhanced economic performance (Ishola, 2008).

Concept of SMEs

Small and Medium Scale Enterprise can be defined as an enterprise whose total cost excluding cost of land but including working capital is with minimum of N200,000 but not exceeding N10,000,000 and with minimum number of 2 and maximum number of 50 employees. According to Central Bank of Nigeria (1987), SMEs is classified as those with annual turnover of a less than N500, 000.00 and not more than N3, 000,000.00.

Statement of Research Problem

Despite efforts by the Federal Government of Nigeria to create conducive environment for investment and private enterprises to boost employment opportunity and alleviate poverty nationwide, the North-west and the North-east still had the highest poverty rates in the country This is evident in the report by National Bureau of statistics, 2010, that the North-West and the North-East geo-political zones had the highest poverty rates of 77.7 per cent and 76.3 per cent respectively, while the South-West geo-political zone recorded the lowest 59.1 per cent. Hence, a nation's first goal must be to end poverty by putting in place a well focused programme like microfinance policy that provides for the setting up of private sector driven microfinance banks for the purpose of making finance accessible to small and medium enterprises to undertake productive investment and expand their businesses.

Therefore, this study investigates the operations of Microfinance Banks and the performance of Small and Medium Enterprises in the North West zone of Nigeria from 2006 to 2010. That is, the study considered year 2006 to be the adequate period for any SME to start obtaining Microfinance facilities if the policy proved to be operational towards achieving its objectives and targets, while 2010 is considered to be the appropriate period to start measuring the impact of MFBs on the performance of SMEs in any part of the country for urgent and effective recommendations on the policy. Hence, the study considers SME operators that have obtained Microfinance loans for their enterprises from year 2006 to 2010.

The study was limited to Sokoto, Kano and Kaduna States for the purpose of even coverage of the ancient states that were considered having similar features with others in the zone and could serve as good representations. For instance, Sokoto state shares similar characteristics with Kebbi and Zamfara states since the two states were created from Sokoto state, likewise Kaduna state shares with Katsina state, which was also created from Kaduna state, and so Kano state has similar way of life with Jigawa state that was equally created from Kano state. Hence, the following indicators were used to measure the performance; utilization of installed capacity, asset base and workforce of the SMEs. Therefore, the study was guided by the following research questions.

Research Questions

- (1) What is the contribution of microfinance facilities to the utilization of installed capacity of SMEs?
- (2) How do microfinance facilities improve asset base of SMEs?
- (3) What is the contribution of microfinance facilities to the number of workforce of SMEs?

Objectives of the Study

It is the main aim of this study to critically investigate the operations of microfinance banks and its impact on the performance of SMEs in the North West zone of Nigeria. The specific aims of the study are to determine the:

- 1) Contribution of microfinance facilities to the utilization of installed capacity of SMEs.
- 2) asset base of smes that have benefited from mf facilities.
- 3) contribution of mf facilities to the number of workforce of smes

Hypotheses

1. There is no significant increase in the utilization of installed capacity of smes after obtaining microfinance loans
2. There is no significant increase in the asset base of smes that have benefited from mf facilities
3. There is no significant increase in the number of workforce of smes after obtaining microfinance loans

Review of Related Literature

Several studies have been undertaken either on the contribution or on the impact of microfinance on the beneficiaries across the globe. The findings of these studies vary from

study to study, indicating the great impact of microfinance across the world. Iheduru (2002) investigates the ways in which microfinance programmes have driven financial sustainability and integrated community development among women in Nigeria. She finds that the development of sound micro credit or microfinance policies underlies the course of a good approach to solving the incapacitation of the poor in rural and disadvantaged areas of Nigeria to move out of poverty.

Similarly, a study conducted by K'Aol (2008) revealed that most of the beneficiaries of microfinance institutions in Kenya reported that their businesses had expanded and their household income had increased significantly as a result of having taken microfinance loans. Dessy and Ewoudou (2006) contributed that access to credit was necessary, but not sufficient for female empowerment. They added that a sufficient condition for MFIs to succeed in nurturing female empowerment is that women's access to credit be conditioned to their adoption of high- productive activities in the informal economy. While Mayoux (2000) stated that women's access to savings and credit gives them a greater role in decision making through their decision about savings and credit. Empowerment is about change, choice and power. It is the process of change by which individuals or group of individuals with little or no power gain the power and ability to make choices that affect their lives.

In an empirical study conducted by Sinha (2005) on 20 MFIs across different states of India it was found that "Microfinance is making a significant contribution to both the savings and borrowings of the poor in the country. The main use of micro credit is for direct investment. Similarly, Kuzilwa (2005) reported in another study at Tanzania that credit has been instrumental to the success of the enterprises at different stages of the life cycle of the businesses. It was observed that inadequate credit either hindered or postponed the entrepreneurial activities. It has also been concluded that not very significantly but credit seemed to have contributed to the growth of enterprises as well as employment.

In summary, it could be observed from the relevant literature and empirical studies reviewed so far, that none of the previous researches to the best of our knowledge provides detail knowledge on the impact of microfinance banks on the performance of SMEs in the North West part of Nigeria, Sokoto, Kano and Kaduna states in particular. Similarly, neither satisfactory reasons nor solutions were provided for the high level of poverty and unemployment in the three states, despite growing investments on SMEs sector in various parts of the country under Microfinance facilities. In all, to the best of our knowledge since inception of microfinance policy in 2005, no empirical study was found on the impact of microfinance banks in Nigeria context, a little found which focused on women empowerment were either on informal or semi formal microfinance institutions. Thus, these necessitated this study and constitute its focus in order to determine the contributions of MFBs to the SMEs development in the states and provide lasting solutions to high poverty level in the zone.

Research Methodology

A survey approach was adopted for this study. The data were taken from four different types of enterprises, namely; Agro-allied (including table water), Manufacturing (including aluminum production), Educational establishment (private operators) and Services/Trading stores (such as cyber café and provision stores). The target population of the study comprises 1750 SMEs operators in Sokoto, Kano and Kaduna states. Also, since this study is designed to measure the relationship between X (i.e MF facilities) and Y (SMEs' performance) the study similarly targets the 31 Microfinance Banks in the three states. Out of this number, fifteen (15) are randomly selected as sample, See appendix. Meanwhile, based on the records available at the 15 sampled banks, 855 enterprises have so far benefited from various microfinance facilities offered by the banks at the time of this investigation. A total of one hundred and fifty (150) enterprises that have benefited from MFBs located in different parts of the states were selected as sample using multistage sampling method from the four sectors of the study. That is, fifty (50) SMEs from each of the three states under study. Two sets of questionnaire were administered to the respondents. The first set addressed MFBs executives while the second set addressed SMEs that have benefited from Microfinance facilities. The appropriate statistical tool used in presenting and analyzing data is Paired student's t-test.

Data Presentation and Analysis

Qualitative data gathered from the responding bank executives indicated that the banks offered a wide range of services to Small and Medium Enterprises in their domain. Among the services or products offered at the request of the SMEs are; Personal loan/Individual loan, Group lending, Micro loan, Small and Medium Enterprises loan, Agricultural loan etc. It was also gathered from the respondents that outreach performance, which means the number of clients (SMEs) served and the socio-economic level of clients the MFBs reached, depended on the capital base of the banks. Thus, most of the banks that were satisfied with their capital base reached more SMEs than those with inadequate capital.

It was also reported that the socio-economic conditions of the most of the clients in terms of average balances of outstanding savings and loans was considered adequately satisfactory by the banks. The SMEs responded positively when it comes to repayment of outstanding loan, most especially, group lending SMEs.

Therefore, having determined the actual existence and operations/activities of MFBs as well as the performance of SMEs from the bank point of view, it was considered necessary to determine this performance from the point of view of the SMEs that were reached by these banks. To achieve this, information was collected mainly on the performance of microfinance banks' beneficiaries using the (3) indicators developed by the study in the earlier section. The levels of the indicators on the SMEs before and after the microfinance facilities were determined as presented in table 1 below

Table1: Performance of SMEs before and after benefitting from microfinance facilities

Indicators/Frequency Utilization of Installed capacity (%) / Number of SMEs	Performance	
	Before MF loans (%)	After MF loans (%)
12	Less than 20	30
18	20 – 40	50
20	40 < and ≤ 60	80
30	60 < and ≤ 80	90
70	Above 80	100
150		
Asset base quantified in Naira(N)/ Number of SMEs		
25	500,000	900,000
30	2,300,000	5,000,000
35	3,500,000	7,200,000
60	1,500,000	2,800,000
150		
Work force/ Number of SMEs		
5	2	25
10	6	14
24	7	15
30	8	15
31	4	8
50	3	6
150		

Source: Field Survey, 2011

Results of statistical tool used to determine impact of Microfinance Banks on the performance of SMEs

Paired Student's t-test Results

Table 2 below presents the results obtained from the application of student's t-test to the three indicators or variables of the study; utilization of install capacity, asset base and workforce of SMEs

Table 2.1: Paired Student's T-Test Results

Indicators / Variables	Number of SMEs	Mean values		Std. Deviation		Std. Error Mean	
		Before	After	Before	After	Before	After
Utilization of installed capacity	150	66.80	83.73	17.43	22.45	1.42	1.83
Asset base	150	1960000	3950000	1011544.11	2190085.96	82592.23	178819.77
Workforce	150	5.01	10.82	2.09	4.82	.17080	.39335

Table 2.2: Paired Samples Test

	Paired Differences					T	d.f	Sig.
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
UICBMF UICAMF	-16.93333	10.98789	.89716	-18.7061	-15.16054	-18.9	149	.000
AB BMF AB AMF	-1990000	1185015.50	96756.11	-2181191.	-1798809	-20.6	149	.000
WFBMF WF MF	-5.80667	3.82450	.31227	-6.4237	-5.18962	-18.6	149	.000

Source: Result of SPSS from the field survey, 2011

Note: UIC BMF= Utilization of install capacity before microfinance loans
 UIC AMF= Utilization of install capacity after microfinance loans
 AB BMF = Asset base before microfinance loans
 AB AMF= Asset base after microfinance loans
 WF BFM= Workforce before microfinance loans
 WF AMF= Workforce after microfinance loans

Results in tables 2.1 and 2.2 above, indicate that due to the microfinance facilities, small and medium enterprises in the study states have experienced significant improvement in the utilization of installed capacity since mean value (83.73) after microfinance loans is significantly greater than mean value (66.80). Hence, since the t-value (-18.9) is significant at 0.01% level of significance, we reject the null hypothesis which stated that there is no significant increase in the utilization of installed capacity of SMEs after obtaining microfinance loans. Also, the results showed that asset base of SMEs had significantly increased (3950000 mean values) after microfinance facilities as against (1960000 mean values) before obtaining the facilities. Since the t-value (-20.6) is highly significant at 0.01% level of significance the null hypothesis which stated that there is no significant increase in the asset base of SMEs that have benefited from MF facilities is rejected. Similarly, the results from the tables indicated greater increase in the number of workforce after MF loans (10.82 mean values) than before obtaining the loans (5.01) mean value. Therefore, since (-18.6) is equally significant at 0.01 level of significance the null hypothesis which state that there is no significant increase in the number of workforce of SMEs after obtaining microfinance loans is rejected.

Discussion of findings

We found from the study that microfinance banks are actually in operation and offered a wide range of loan facilities or services to small and medium enterprises across the studied states. Among the facilities they offered are; microfinance loans, SMEs loans, agricultural loans, working capital loans, motorcycle loans etc. they offered mostly to group or registered

members of trade associations with concrete business proposal and without collateral security. This is in line with the microfinance policy in Nigeria.

Most of the banks lack adequate capital as a result of small capital base, poor funding, inability to issue shares and low patronage by the relevant stakeholders. This was discovered limits the amount of loan granted to SMEs.

Despite the inadequate capital base of most of the microfinance banks, the qualitative data obtained from the executive of MFBs indicated that microfinance banks provided the major source of initial capital to some SMEs that are newly engaged in productive business and the expansion of the existing ones, which is the basis of establishing microfinance policy in Nigeria. Interestingly, the socio-economic conditions of the SMEs in terms of average balances of outstanding loans and savings were considered satisfactory by the Microfinance Banks Executives.

The analysis of empirical data in table 2.1 on the impact of microfinance loans on the performance of SMEs revealed that most of the SMEs demonstrated high level of performance in the utilization of installed capacity, asset base and number of workforce having obtained microfinance loans. This corroborates the findings of K'AOI (2008), which determined the impact of microfinance on women entrepreneurship in Kenya and found that there was high number of employment and volume of output.

Conclusion and Recommendations

Based on the research findings, microfinance activities in Nigeria can yield the desired results of generating adequate employment and reducing poverty if adequate capital is made available to MFBs for onward lending to SMEs. Based on the conclusion of the study, the following recommendations that ensure sustainability, successful operation of microfinance banks and SMEs development in Nigeria are provided:

1. Federal Government of Nigeria should set aside or raising direct fund to microfinance banks for onward lending to SMEs at little or no interest rate. This would empower microfinance banks and ensure the achievement of the poverty alleviation target of microfinance banks in Nigeria, the government at all levels should equally channel all such funds for poverty alleviation program through microfinance banks across the country.
2. Similarly, Federal Government of Nigeria in collaboration with the CBN should ensure adequate removal of the mandatory one percent of the annual allocation of states and local government councils all over the country for onward transfer to the targets MFBs before distributing to both state and local government accounts, if we are to move from rhetoric to actual implementation of this promising policy.
3. Apart from making finance available to the SMEs through microfinance policy, the governments should provide enabling market environments that involve adequate channel of distribution and exhibition of SMEs' products. That is government should support SMEs by purchasing their products in large quantities for onward marketing to retailer or consumers. If Nigeria and its people can recognize and patronize SMEs' products, there is no doubt the sector would record success and the problem of

- unemployment as well as poverty will be surely reduced if not eradicated in Nigeria.
4. Although, taxation is one of the major sources of revenue to the government for the provision of basic amenities, government must see to the tax payment of the SMEs. In this regard, various multiple taxes imposed on newly established SMEs that carry away their income and kill their businesses should be removed for the first ten years of their operations to ensure rapid growth and development which will surely generate more employment opportunities and improve the socio-economic conditions of entrepreneurs.
 5. Microfinance banks should be equally treated as infant banks or industries and should be subsidized or given total tax relief from various government taxes till after ten years of existence. This would surely reduce high cost of operations and ensure the sustainability of the existing microfinance banks in Nigeria. This is necessary since microfinance bank is recognized as the basic strategy to reduce poverty by providing employment through SMEs development in the country.

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Appendix

Sampled Microfinance banks

- Nagarta Microfinance Bank Nigeria Limited, Abdullahi Fodio Road, Sokoto
- NPF MFB Ltd, Sokoto*
- Yabo MFB Nig. Ltd, No3 Shehu Shagari Road, Yabo
- Gwadabawa MFB Nig. Ltd, Gwadabawa
- Rima MFB Nig. Ltd, Sambo Road, Goronyo
- Women Development MFB Ltd, Niger Street, Kano
- North Bridge MFB Ltd, Yankura, Kano
- Grassroot MFB Ltd, Maiduguri Road, Kano*
- Danbata Makoda MFB Ltd, kano Road, Danbata
- Gidauniyar Alheri MFB Ltd, Aminu Kano Way, Goron Dutse, Kano
- Abokie MFB Ltd, Independent Road, Kaduna
- Fahinta MFB Nig. Ltd, Muh'd Buhari Road, Kaduna
- Kada MFB Ltd, Tudunwada, Kaduna
- Kadpoly MFB Nig. Ltd, Central Administration, Kaduna
- Banawa MFB Ltd, Banawa-kaduna

* = **State Microfinance Banks**