

Influence of Microfinance Banks on Enterprise Growth, Resource Acquisition and Capability Development of Micro, Small and Medium Scale Enterprises (MSMEs) in Nigeria

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Abstract

Microfinance banks were setup by the Federal Government of Nigeria to provide micro financial services to the economically active poor, micro, small and medium scale enterprises (MSMEs) that need financial services to carry out and expand their business operations. The study investigated the influence of microfinance banks on enterprise growth, resource acquisition and capability development of micro, small and medium scale enterprises in the Nigerian context. The survey research design was used for the study. Four research questions and corresponding hypotheses were generated to guide the study. The participants for the study were 176 entrepreneurs who patronised Microfinance Banks for financial assistance in the Lagos Mainland, Apapa and Surulere Local Government Areas of Lagos State. They were selected through convenient sampling procedure. The data generated for the study was collected through the use of a questionnaire. The analysis of data collected was carried out with the use of both descriptive and inferential statistics. The result from the study showed that the influence of Microfinance banks on enterprise growth, resource acquisition and capability development of MSMEs is significant; however there is need to maintain this position as well to improve on it. The study therefore recommended that microfinance banks should make their financial services more accessible and available to MSMEs and to intensify efforts at monitoring the use of the funds being given to maximise achievement in the three core areas covered in the study, namely: capability development, resource acquisition and enterprise growth.

Keywords: *Microfinance bank, Entrepreneurs, Enterprises, MSMEs, Enterprise growth, Resource acquisition, Capability development*

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Background to the Study

Sequel to the suspension of community banking in Nigeria because of poor operational performance and flagrant mismanagement of funds, the government decided to provide a better and more sustainable outlet for entrepreneurs to access funds. A policy review by the Central Bank of Nigeria (CBN) culminated in the launching of a microfinance regulatory/supervisory framework in 2005 to create a sustainable and credible microfinance banks capable of mobilizing and providing funds to the Micro, Small and Medium Scale Enterprises (MSMEs) sub-sector (NBS, 2012). Microfinance is a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro- insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 2003).

The framework of Microfinance Banks (MFBs) emphasises “(a) governance and ownership structure (b) lending methodology (c) borrower characteristics (d) appropriate management information system (e) internal control mechanisms and procedures” CBN (2005:5), which had been the bane of previous micro-credit models like Peoples Bank of Nigeria, Community Bank, Sectoral Allocation of Credits, Agricultural Credit Guarantee Scheme, Nigerian Agricultural and Co-operative Bank (NACB) and Rural Banking Programme (Marx, 2004; Abraham and Balogun, 2012). With a new window created for providing financial services and access to funds to MSMEs, the CBN instructed all operating Community Banks in the country to recapitalize and upgrade to Micro Finance Banks (MFBs) effectively from December 2006 as stipulated in the micro-finance policy guidelines (Raimi, Shokunbi & Peluola, 2012).

The policy guidelines therefore ushered in the era of Micro Finance Institutions (MFIs) in Nigeria; which are simply atomistic banks “set up to meet the credit needs of the rural and urban poor, artisans, farmers, petty traders, vehicle mechanics etc...” (Raimi et al., 2012:112). MFBs were desirable because hitherto commercial banks lend to big enterprises with high credit reliability as opposed to MSMEs (Anyanwu, 2010). MFBs/MFIs are therefore viable “financing window to address the inadequate access to finance confronting the micro and small enterprises in Nigeria” (SMEDAN, 2010:26). Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas by assisting them to raise their income level and living standards in many countries.

The establishment of microfinance banks is to serve the following purposes according to Central of Nigeria, (2005); provide diversified, affordable and dependable financial services to the active poor; mobilize savings for intermediation; create employment opportunities and increase the productivity of the active poor in the country; enhance organised, systematic and focused participation of the poor in the socio-economic development and resource allocation process; provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on the non-recourse case basis. Furthermore, Babandi (2011) noted that MFBs perform three fundamental roles in Nigeria. These include: (a) main streaming economic growth, (b) provision of access to financial services/infrastructure to vulnerable segment of the society, and (c) acting as intervention mechanisms for people with low income. In Nigeria, several surveys had been undertaken to evaluate the performances of MFIs. The Central Bank of Nigeria (2010), reports a phenomenal growth in the sector with a total of 160 registered MFIs, aggregate savings of N99.4 million and micro credits to SMEs of N649.6 million (Anyanwu, 2004). Another CBN survey revealed that the customer base of MFIs in 2001 was 600,000 at least, which may hit 1.5 million by 2003

(CBN, 2005; Mohammed & Hassan, 2008). In another evaluation study, Abraham and Balogun (2012) identified a total of 665 MFBs with uneven geographical spread across Nigeria. Lagos has the highest of 181MFBs followed by Anambra State with 68 MFBs and Abuja with 48 MFBs. The conclusion deducible from the growth trend of MFBs is that the “operators and clients are concentrated in the Southern zone of the country” than the Northern zone with poor MFBs visibility (Abraham & Balogun. 2012:168).

Micro, Small and Medium Scale Enterprises (MSMEs) are non-subsidary and independent firms. The classification of these enterprises depends on either of or both of the capital employed or number of staff engaged by the enterprise. This classification varies across countries. The Federal Republic of Nigeria has classified MSMEs as follows; micro enterprises are those whose total investment does not exceed #1.5m including working capital but excluding land and the workforce is not more than 10. Small enterprises are those whose total investment is between #1.5m-#50m and including working capital but excluding land and the workforce is between 11-100 and medium enterprises are those whose total investment is between #50m-#200m including working capital but excluding land and the workforce is between 101-300. Micro, Small and Medium Scale Enterprises (MSMEs) represent about 87% of all firms operating in Nigeria (USAID, 2005). In Nigeria credit has been identified as an essential tool for promoting MSMEs. Many of the MSMEs in Nigeria are still low at the level of development, particularly in terms of the number of jobs, wealth and value creation. This is because 65% of the active population who are entrepreneurs remain unattended to by the formal financial institutions (Awoyemi, Osunkanmi & Akomolafe, 2014). Kolawole (2013) is of the opinion that promotion of MSMEs in developing countries is justified because of their abilities to foster economic development. Finance is therefore an indispensable tool for the growth and existence of MSMEs. With the adoption of micro finance as the main source of financing MSMEs in Nigeria, this study is therefore relevant as it will reveal the extent to which microfinance banks can influence enterprise growth, resource acquisition and capability development of MSMEs because these are also vital areas of MSMEs operations which can contribute to the rapid development and survival of these enterprises. Enterprise growth of MSMEs entails many dimensions, such as profits, revenues, market share, brand, community influence among others. It could also be seen as boosting the revenue of the business with greater product sales or service income, or by increasing the profitability of the operation by minimising costs. Micro, Small and Medium Scale entrepreneurs need to acquire resources in order to translate their business ideas and opportunities into a planned and satisfactorily implemented economic activity. Efficient and effective resource acquisition will require the entrepreneur to define the needs of the business, obtain the right resources and tools to manage the enterprise. Capability development for MSMEs focuses on the continuous development of skill and knowledge of the entrepreneur as well as the employees, through a range of strategies or activities that aims to achieve enterprise objective, meet future challenges and build capacity for change. Without adequate financial resources, enterprise growth, resource acquisition and capabilities development will not be achievable for MSMEs.

Statement of the Problem

Microfinance is about providing financial services to the economically active, which are traditionally not served by the formal financial institutions. Empirical studies have revealed that the operation of microfinance institutions have grown phenomenally (Ashamu, 2014). This growth in its scope of operation is attributed to the expanding informal sector activities and the reluctance of banks to fund the emerging micro and small and medium scale

enterprises. In addition, access to funds by Small and Medium Scale Enterprises has also improved, coupled with increase in MFB branches and employees. Their asset base and clients, as well as the value of outstanding loans and savings are commendable. Despite this accolade on MFBs, there are a number of weaknesses and criticisms of MFBs. Mohammed and Hassan, (2008), are of the opinion that, MFBs in the country provide access to “less than 1 million people out of 40 million” prospective customer/MSMEs and the contribution of MFBs to GDP was just a pittance of 0.2 percent. They concluded that MFBs cannot alleviate poverty nor accelerate “growth and development” in the country. The deduction from the foregoing is that MFBs are basically private-sector driven initiatives, the government through the CBN only provided regulatory framework and supervisory mechanism for the operators unlike the extant People's Bank of Nigeria (PBN), which failed across the country because it was owned, managed and supervised by the government (Raimi et al., 2012). In addition, Abiola (2012) conducted a study to determine the effect of microfinance growth of MSMEs in Nigeria; the result reveals that access to microfinance loan does not enhance the growth of these enterprises. Oni, Paiko and Ormin, (2012) in their research, assessed the contributions of microfinance institutions to the sustainable growth of small and medium enterprises; they conclude that microfinance institutions do not contribute to the sustainable growth of SMEs in the country. Furthermore, MFBs variables such as high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria (Olowe, Moradeyo and Babalola, 2013). This study was therefore set out to investigate the influence of microfinance banks on entrepreneurship development in Nigeria. In other words, the study seeks deeper understanding of how well microfinance fosters performance measures (enterprise growth, resource acquisition and capability development) amongst borrowers. Previous studies focused more on impact of microfinance on broad development outcomes such as poverty alleviation rather than examining its impact on entrepreneurial outcomes especially venture growth, performance and survival of entrepreneurs (Chliova, Brinckmann & Rosenbusch, 2015).

Objectives of the Study

The objective of the study is to investigate the influence of Microfinance Banks on MSMEs. Specifically the study set out to:

1. Determine the influence of Microfinance Banks on enterprise growth of MSMEs.
2. Examine the influence of Microfinance Banks on resource acquisition of MSMEs.
3. Determine the influence of Microfinance Banks on capability development of MSMEs.
4. Find out if there is any difference in Enterprise Growth, Resource Acquisition and Capability development of MSMEs due to type of enterprise.

Research Questions

The following research questions were raised to guide the study:

1. To what extent has Microfinance Banks Influenced enterprise growth of MSMEs?
2. In what way can Microfinance Bank influence resource acquisition of MSMEs?
3. To what extent has Microfinance Bank influenced capability development of MSMEs?
4. To what extent has Enterprise Growth, Resource Acquisition and capability Development of MSMEs differ due to type of enterprise?

Research Hypotheses

The following research hypotheses were formulated in null and tested in the study:

- H₀₁:** Microfinance Banks has not significantly influence Enterprise Growth of MSMEs
- H₀₂:** Microfinance Banks has not significantly influence Resource Acquisition of MSMEs.
- H₀₃:** Microfinance Banks has not significantly influence Capability Development of MSMEs
- H₀₄:** There is no significant difference in Enterprise Growth, Resource Acquisition and Capability Development of MSMEs due to type of enterprise.

Research Methodology

In view of the purpose for the study, which is to investigate the Influence of Microfinance Banks on enterprise growth, resource acquisition and capability development of Micro, Small and Medium Scale Enterprises (MSMEs) in Nigeria, the research design for the study is descriptive (survey) research design. The study is carried out in Lagos State. The population for the study comprise all the MSMEs in Lagos Mainland, Apapa and Surulere Local Government Areas of Lagos State. A sample size of 176 entrepreneurs who are customers/clients of Microfinance Banks drawn from the study population through purposive and simple random sampling procedure. The instrument for data collection is a questionnaire which had a Cronbach Alpha reliability coefficient of 0.64. The questionnaire is structured into two sections A and B. Section A required the bio-data of the respondents' while section B consist 18 items structured to elicit information from the respondents' on their views and opinions about how MFB has been able to influence the enterprise growth, resource acquisition and capability development of these enterprises. The responses format is on a four point likert scale with options of SA- Strongly Agreed, A- Agreed, D- Disagree, and SD- Strongly Disagreed. Data collected from the study is analysed using descriptive and inferential statistical tools which include frequency table, percentages, chi-square and analysis of variance. All hypotheses were tested at 0.05 significant Level.

Data Presentation and Analysis

This section focuses on analysis of data obtained from respondents through the survey field. The analysis is based on the number of questionnaires retrieved from the respondents. Descriptive analysis using frequency distribution is used to describe the personal data of the respondents, while Chi-Square and Anova is used to test the hypotheses raised for the study.

Socio-Demographic Analysis of Respondents

Table 1: Classification of the Respondents by Gender

Gender	Frequency	Percentage
Male	116	65.9%
Female	60	34.1%
Total	176	100

In the distribution of respondent by gender; 116 (65.9%) were male while 60 (34.1%) were female; this shows that a larger percentage of MSMEs are owned by men. What may be responsible for this large percentage of men constituting entrepreneurs is the increase in the number of workers being laid off by organisations, hence putting the skill and the knowledge they have acquired during their years of paid employment into use.

Table 2: Classification of the Respondents by Type of Enterprise

Type of Enterprise	Frequency	Percentage
Manufacturing	65	36.9
Services	76	43.1
Others	35	19.8
Total	176	100

In the distribution of respondents by type of enterprise, the services sector had the largest percentage constituting 43.1% of the total number of MSMEs that were involved in the study, 36.9% were in the manufacturing sector while 19.8% of the respondents could either be traders, artisans or those involved in agro-allied businesses. This large percentage of respondents, who are service providers, may be indicating an increase in categories of services springing up as a result of creativity and innovation which is the thrust of entrepreneurship development.

Analysis of Responses/Testing of Hypotheses

H₀₁: Microfinance Banks has not significantly influence Enterprise Growth of MSMEs

Table 3: Chi-square Analysis of Microfinance Banks Influence on Enterprise Growth of MSMEs

Items on Enterprise Growth	No	Df	X ² c	X ² t	Asymp.Sig
Strongly Agree	37	14	86.50	21.06	.000
Agree	66				
Disagree	48				
Strongly Disagree	24				
Total	176				

P<0.05 Significant

Table 3 show that X² calculated value is (86.50) while X² table value is (21.06) that is X²c is greater X²t with degree of freedom 14 at 0.05 level of significance. The Null hypothesis (H₀₁) is rejected. Therefore Microfinance Banks financial services have a significant influence on the enterprise growth of MSMEs.

H₀₂: Microfinance Banks has not significantly influence Resource Acquisition of MSMEs.

Table 4: Chi-Square Analysis of Microfinance Banks Influence on Resource Acquisition of MSMEs

Items on Resource Acquisition	No	Df	X ² c	X ² t	Asymp.Sig.
Strongly Agree	43	14	149.82	21.06	.000
Agree	71				
Disagree	48				
Strongly Disagree	14				
Total	176				

P<0.05 Significant

Table 4 show that X^2 calculated value is (149.82) while the X^2 table value is (21.06), that is X^2c is greater than X^2t with degree of freedom 14 at 0.05 level of significance. The Null hypothesis (H_{02}) is rejected. Therefore Microfinance Banks financial services have a significant influence on the resource acquisition of MSMEs.

H_{03} : Microfinance Banks has not significantly influence Capability Development of MSMEs

Table 5: Chi-Square Analysis of Microfinance Banks Influence on Capability Development of MSMEs

Items on Capability Development	No	Df	X^2c	X^2t	Asymp.Sig.
Strongly Agree	38	14	96.21	21.06	.000
Agree	65				
Disagree	59				
Strongly Disagree	13				
Total	176				

$P < 0.05$ Significant

Table 5 show that X^2 calculated is (96.21) while X^2 table value is (21.06), that is X^2c is greater than X^2t with degree of freedom 14 at 0.05 level of significance. The Null hypothesis (H_{03}) is rejected. Therefore Microfinance Banks financial services have a significant influence on the capability development of MSMEs.

H_{04} : There is no significant difference in Enterprise Growth, Resource Acquisition and Capability Development of MSMEs due to type of enterprise.

Table 6: Anova of Enterprise Growth, Resource Acquisition and Capability Development of MSMEs due to type of enterprise

Performance Measures	Mean	SD	Df	F-cal	F-table	Sig.
Enterprise Growth	15.9	2.8	2,173	2.462	19.49	.088
Resource Acquisition	16.8	2.6		0.407	19.49	.666
Capability Development	16.3	2.7		1.648	19.49	.195

$P > 0.05$ Not Significant F-critical= 19.49

Table 6 show the Analysis of variance among the three variables considered in the study, enterprise growth, resource acquisition and capability development due to the types of enterprise (manufacturing, services and others) operated by MSMEs. The F-calculated values (2.46, 0.41, and 1.65 respectively) are less than the F-table Value (19.49) with degree of freedom 2 and 173 at at 0.05 level of significance. The Null hypothesis (H_{04}) is retained. Therefore type of enterprise established and operated by MSMEs does not influence enterprise growth, resource acquisition and capability development.

Discussion of Findings

This study used Chi Square and Analysis of Variance (ANOVA) to analyse the influence of Microfinance Banks (MFBs) financial services on enterprise growth, resource acquisition and capability development of Micro, Small and Medium Scale Enterprise (MSMEs) in Nigeria.

The result from the study conducted revealed that MFBs financial services have a significant influence on the three variables covered in the study. This is evident in the Chi-Square calculated values (X^2_c) obtained from the data collected which had significant values. Microfinance banks financial services rendered to MSMEs has contributed immensely to enterprise growth, resources acquisition and capability development of these enterprises as revealed from the study conducted. This could readily serve as means through which the much desired goal for overall development and long term survival of MSMEs could be achieved. This will hence puts the Nigeria economy on the path of sustained economic growth and rapid economic development. From empirical studies conducted MSMEs are seen as a potent vehicle for the achievement of economic growth and development as they provide the best opportunity for job creation and rural development (Akpan and Nneji, 2015). However, a further analysis of the results obtained from the study showed that resource acquisition, one of the variables considered in the study had the highest X^2 calculated value of 149.82, while enterprise growth had the lowest X^2 calculated value of 86.50. It could be therefore inferred that utilization of economic resources in Nigeria is virtually on the increase and as such under utilization of economic resources which is one of the features of less developed countries will in no time be eliminated within the country.

The finding from the study is in agreement with the study carried out by Olowe et al, (2013) on the impact of microfinance banks on MSMEs, it was reported that that loan disbursement is a key for expansion of MSMEs in Nigeria. In other words, microfinance loan contributes 98.5% to the expansion capacity of MSMEs and concluding that financial services obtained from MFBs have positive significant impact on MSMEs growth in Nigeria. This is further supported by the study conducted by Ibrahim (2015), in which it was reported that microfinance loan have positive significant impact on all the variables used for measuring growth of MSMEs. These variables were increase in profitability, increase in number of employees, technological advancement, innovation and expansion in size of operation. Contrary to the report of the study, is the research conducted by Awoyemi, Osunyikanmi and Akmomlafe (2014) on the impact of microfinance banks on small scale enterprises in Nigeria: empirical analysis from Abuja. The study revealed that Microfinance banks do not have a significant impact on the growth of small scale enterprises (SSEs) in Abuja city. By implication, the MFBs loans are not easily accessible, the interest rate charge on the loan is also too high and the repayment period is also not satisfactory. In addition, most entrepreneurs do not start their business with the loan offered by Microfinance banks, all these factors reduces the impact and contribution of MFBs to the growth of SSEs. The findings from the study above seem to be supported by Ojiegbe, Nwaru and Duruechi (2015), on the role of Microfinance Banks operation on poverty alleviation. It was revealed that there is inefficient use of loans and advances given by MFBs to the economically active but poor, which MSMEs are known to be. What may be accountable for this could be not having the managerial know-how, poor management of loans and improper monitoring of the loans advanced and hence it could be concluded that MSMEs are not being the beneficiaries of MFBs loans and advances.

In addition, the study examined if type of enterprise operated by MSMEs had any significant influence on enterprise growth, resource acquisition and capability development. The analysis carried out revealed that type of enterprise does not have a significant influence because the calculated F-values (2.46, 0.41, and 1.65 respectively) are less than the F-table value (19.49). This shows from the study that MSMEs who are manufacturers, service providers and others (traders, artisans and agro-allied) have not differed in terms of the influence of MFBs financial

services in enhancing enterprise growth, resource acquisition and capability development. This could mean that proper channelling and deliberate allocation of these MFBs loans by MSMEs will bring about utmost benefit and profitability irrespective of the type of enterprise operated.

Conclusion

Access to funds is one of the important factors for the growth and survival of MSMEs in Nigeria. The introduction of MFBs in 2005 is an initiative of the Federal Government to enable MSMEs to obtain easy access to micro credit which were not being offered by the formal financial institutions. Microfinance banks (MFBs) were meant to provide dependable financial services to the economically active but poor, mobilise savings, create job opportunities and to be a valuable tool in assisting the economic development process. This study used descriptive and inferential statistical tools to analyse the data collected from respondents on the influence of MFBs on enterprise growth, resource acquisition and capability development of MSMEs in Nigeria. The findings from the study show that MFBs financial services have a significant influence on the enterprise growth, resource acquisition and capability development of MSMEs in Nigeria. Consequently, this will provide an avenue for the development and long term survival of MSMEs. These enterprises have been known to serve as an engine of growth and agent for the socio-economic transformation of any country, then it could be concluded that Nigeria economic growth can be sustained and the much desired economic development can be as evident in other recently categorised developed countries such as Malaysia, Singapore, India and others.

Recommendations

The study recommended that MFBs financial services be improved upon through re-capitalisation enable them expand loans and advances to the teeming MSMEs in existences as well as many more that will spring up as a result of Government emphasis on increased private participation in economic activities as well as efforts being put in place by tertiary institutions in providing entrepreneurship education to students geared towards encouraging self-employment. Entrepreneurs should increase the level of their capability development through regular attendance to workshops, seminars and conferences which can go a long way in enhancing their capacity to build and sustain their enterprises. In addition, it is also recommended that MFBs should establish a strong and virile monitoring unit to oversee the proper utilisation of funds disbursed to MSMEs in other to sustain the findings from the study which revealed significant influence of MFBs on enterprise growth, resource acquisition and capability development of MSMEs in Nigeria.

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