

Assessment of the Contribution of Micro Finance Institutions (MFIs) to Sustainable Growth of Small and Medium Scale Enterprises (SMEs) in Nigeria

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Abstract

Evolving strategies towards the promotion of entrepreneurship is sine qua non to propelling economic growth and development of a nation. The promulgation of the micro finance policy by the federal government of Nigeria in 2005 has three principal objectives of promoting both entrepreneurship activities in small and medium scale enterprises (SMEs), reducing poverty and enhancing economic growth. This research assesses the contributions of Micro Finance Institutions (MFIs) to the sustainable growth of SMEs. Data is collected from 360 randomly selected SMEs using the questionnaire instrument. The questionnaire was complimented with the interview method of data collection. The data elicited was analyzed using the simple percentage statistic. The analysis revealed that MFIs does and could contribute to the sustainable growth of SMEs in the country. Nevertheless, the study also found among others that MFIs services out-reach to SMEs at present is poor. The study recommends periodic review of MFIs activities by the regulatory authority-CBN base on policy objectives/targets. Appropriate modification should be made to address gaps for these institutions to effectively contribute to SMEs activities in the country. It is also suggested that apart from creating greater SMEs out-reach to MFIs services through establishment of rural branches, both government and MFIs through intensified campaigns at the local government and ward levels can increase SMEs access to MFIs services.

Key Words: Microfinance, Poverty Reduction, Entrepreneurship, Economic Growth

INTRODUCTION

The growing rate of unemployment in Nigeria poses a challenge not only to individuals but also to the government. At the individual level, the establishment of business enterprises particularly SMEs has been a resort to gainful employment (Olagunju, 2004 and Muktar, 2009). Unfortunately, several problems have presented limitations to most of the Nigerian entrepreneurs so much such that not only is the growth of their enterprises affected but survival threatened. Among these numerous limitations

are the problems of readily access to capital, lack of managerial acumen, poor or absence of infrastructural facilities—especially power to support smooth, effective and efficient operations (Olagunju, 2004; Onwubiko, 2006; Adejimola and Olufunmilayo, 2009; Oni, 2009; and Osalor, 2010). While the income accruing to the entrepreneurs and the expansion of their businesses is affected, a similar effect is exerted on the economy as a whole. The growth and development of the country is slowed. Research by Ariyo (2000), argued that enterprise, especially the small and medium scale enterprises significantly contributes to the growth of an economy. In fact, there are evidence of countries that has achieved economic transformation through the encouragement and promotion of entrepreneurship activities; among such is China. According to Bharti and Shylendra (2011) access to capital is critical in the promotion of entrepreneurship development particularly microenterprises. Similarly, Simtowe and Phiri (2007) and Muktar (2009) stated credit as a precondition to the growth of enterprises (entrepreneurship).

To curb unemployment and enhanced the growth and development of the nation, various efforts had been made by the Nigerian government to spur entrepreneurship activities in the country. Such efforts include the promulgation and establishment of the National Directorate for Employment (NDE), Nigerian Industrial Development Bank, (NIDB), Nigerian Enterprises Promotion Decree, Peoples Bank of Nigeria, Community Banks, Family Economic Advancement Programme (FEAP), National Poverty Eradication Programme (NAPEP) to mention but a few (Olagunju, 2004; Muktar, 2009; and Ojo, 2009). More recently; precisely in 2005, the desire of government to spur SMEs growth as well as that of the economy launched the microfinance policy. The policy provides for the establishment of microfinance institutions (MFIs) also known as microfinance banks (MFBs) to cater for the financing needs of small and micro enterprises as well as other non financial services (CBN, 2011).

Information disclosed on the CBN website shows that since the launch of the policy, not less than 900 microfinance institutions (though some had their license revoked) have been established and registered with the regulatory authority. With the spring up of such a large number of institutions in pursuance to the microfinance

objectives, it is necessary for an impact assessment to be made to determine how these institutions has influenced the development of SMEs in the country.

Indeed, such assessment has been made by some researchers; prominent is [Ojo \(2009\)](#). [Ojo \(2009\)](#) examined the impact of microfinance on entrepreneurial development in Nigeria. This work however takes a different dimension by specifically assessing the contributions of MFIs to sustainable growth of SMEs in Nigeria. To achieve this broad objective, the following four sub-objectives were formulated to: (1) determine the accessibility of SMEs to MFIs services; (2) examine the significance of MFIs contribution to sustainable growth of SMEs; (3) identify the problem(s) hindering MFIs from effective contribution to the growth of SMEs; and (4) examine the socio-economic challenges that militates the growth of SMEs in Nigeria.

Microfinance has been defined as a development tool used to create access for the economically active poor to financial services at an affordable price ([CBN, 2011](#)). It is the provision of credit and other financial services to the low-income group and micro entrepreneurs to enable them build sustainable microenterprises ([Otero, 2000](#); [Nkamnebe, 2008](#); and [Muktar, 2009](#)). The Syngenta Foundation Discussion (SFD) is quoted by [Seibel, 2007](#) to view the concept from a more general perspective. SFD defined the concept to include provision of small-size financial services especially but not limited to the lower segment of the rural and urban population. These financial services are provided by formal and informal financial institutions; both small and large. A microfinance institution (MFI) or bank (MFB) is any company licensed to carry on the business of providing microfinance services ([CBN, 2005](#)).

The concept of SMEs has no any universal accepted definition. Whereas the CBN in 1985 in its credit policy guideline to banks defined small scale business as those with annual turnover not exceeding ₦5, 000 (excluding cost of land) or maximum turnover of ₦5 million. The World Bank in 1988 contended small scale enterprises as those with fixed assets excluding land plus cost of investment project not exceeding ₦10 million. The Small and Medium Industries Equity Investment Scheme states that SMEs are enterprises with a maximum asset base of ₦200 million excluding land and working capital and staff not less than 10 or not more than 300 ([Ebito, 2006](#)). It is instructive that

the criteria of size, amount of capital invested in assets, total turnover and the number of employees are basis used in categorization of enterprises as small or medium. In the context of this research, SMEs are perceived as enterprises with capital investment not exceeding ₦2 million, excluding land and premises and a total number of employees not exceeding 50.

In Nigeria, SMEs has played a great role. It has been a significant provider of employment. About 70 percentage of Nigerian engage in SMEs (Olaitan, 2006). It is both an instrument of poverty alleviation and curbing social ills associated with unemployment in the economy (Ndiaye, 2005). It provides the raw materials needed by the manufacturing sector hence vehicle for industrialization. Its role in the local supply of raw materials has twin positive effects of cost-saving to the manufacturing firms as well as moderation of tendency of balance of payment deficit. From the foregoing, it is logical to conclude that SMEs contributes tremendously to the growth of the economy. In countries like Indonesia, India and Thailand these categories of enterprises are noted as contributing as much as 40 percent of GDP. This is not any exception in Nigeria if the right conditions exist for SMEs to thrive.

The contribution of MF to SME's growth lies in it assisting to overcome their capital problem. Due to low assets base, bank demand for collateral denies most SMEs access to capital. Kanak and Iguni (2007) explains that the poor who often engage in SMEs produce at subsistence level hence difficulty to accumulate savings or assets that could guarantee access to credit from formal finance. MFIs type of loans are usually small size and because collateral is de-emphasized, greater access is avail SMEs to capital. Most SMEs operators are illiterate thus lack the knowledge and skills in certain acts of business such as record keeping; an act Ormin (2008) has noted as an imperative for business success. This scenario is both a limitation to access to bank finance and reliable source for business decisions. The absence of record keeping couple with poor managerial skills results to poor decision making which impacts on the performance and growth of the enterprises. It could be in realization of this that Matu and Kimani (2010) advocated MFIs greater commitment to the provision of non-financial services especially basic entrepreneurial training. Kessy and Temu (2010) confirm the importance of this

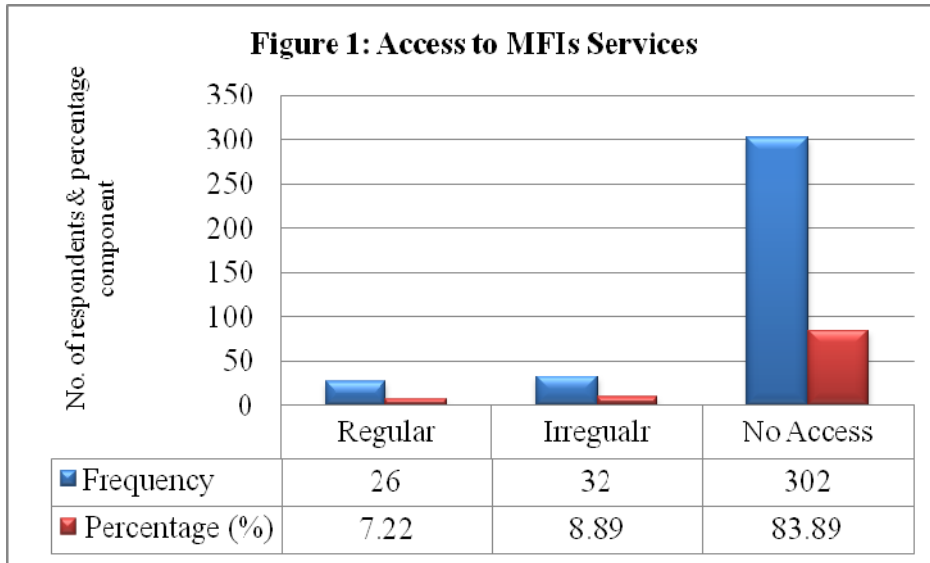
service. *Kessy and Temu (2010)* studies found that firms that are recipient of business training record higher levels of performance than enterprises without this training. By providing these non-financial services to SMEs, therefore, the performance of SMEs is bound to improve. MFIs can also intervene in SMEs growth by providing the funds required for the acquisition of generators at least to those SMEs that cannot afford cash payment to do so and then repay installmentally. This will help in part resolve the problem of power supply confronting SMEs in the country.

MATERIAL AND METHODS

This study employed the survey research method. Secondary sources and primary data were explored by the study. Secondary sources consisted of papers published in academic journals, paper presentation at conferences, text books, government gazette, and materials posted on the internet. Primary data consisted of first hand information collected from the field through questionnaire and interview. The questionnaire design was more or less the closed-ended type (see appendix I) in which options are provided for the respondents to fit in their opinion on issues of interest. The questionnaire contained a total of ten questions on relevant issues on the topic of interest to the research consisting of respondent's bio-data and topical issues. The population of the study consists of all SMEs operating in Nigeria. However, the study was restricted to SMEs in Adamawa State. A total of 420 questionnaires were distributed to operators of SMEs via research assistants. However, only 360 of the administered questionnaire were returned. This implies that 360 SMEs were included for the study. The SMEs studied were randomly drawn from six (6) local government areas; namely, Yola North, Yola South, Mubi North, Mubi South, Michika and Numan. These local governments were chosen because they constitute the main commercial areas hence have greater number of SMEs in the state. The interview method was used to probe into some core issues raised on the questionnaire. A total of 40 respondents were interviewed face to face at random across the study area by the co-author. The collected study data is presented with the aid of bar chart using Microsoft Office Excess 2003. The simple percentage statistic was utilized in the analysis of the data.

RESULTS AND DISCUSSION

This section presents and discusses the results of the study data. Access to MFIs services by SMEs is crucial to the realization of the microfinance policy objectives. The data collected from the sampled SMEs on access to microfinance services is presented in figure 1.

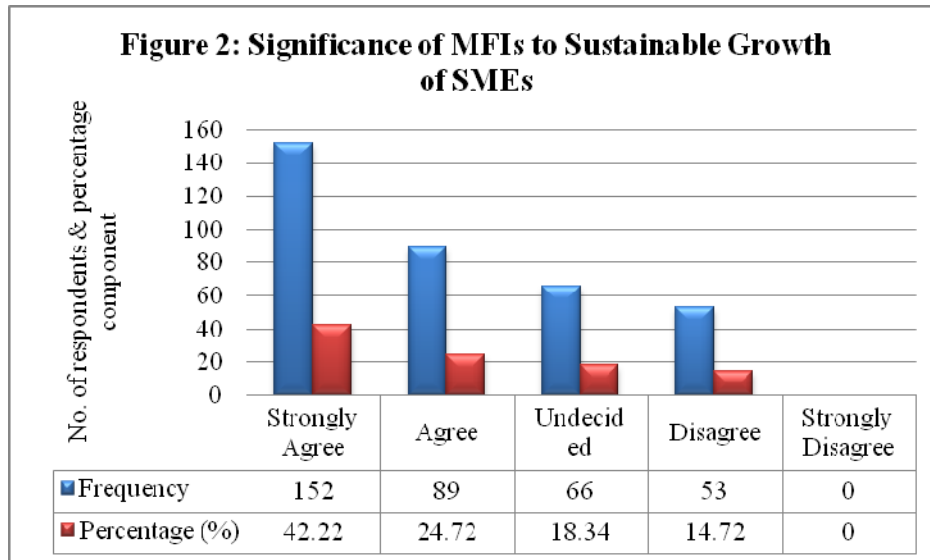


Source: Field Survey, 2010

*NOTE TO ASSESSOR: Figures 1-4 are imported from Microsoft Excel thus are not easily amendable in Microsoft Word. The Excel version is provided as addendum with this paper in case of need for edition.

The data and corresponding analysis displayed in figure 1 above shows that 26 representing 7.22% of the sample have regular access to MFIs services. It is also clear that 32 respondents constituting 8.89% have irregular access to microfinance services. However, a greater majority of the sample 302 representing 83.89% have no access to MFIs services. It could be infer from the analysis that access to MFI services by SMEs is poor. From the interview conducted, most of the SMEs operators stated that MFIs are not within their reach. Thus, they fall back on self-help groups such as Adashi and other means to meet their finance needs. This finding reiterates earlier submission by [Nkamnebe \(2008\)](#) that entrepreneurs look for credit from other sources like friends and tribal association than from MFIs. To address this access gap is imperative for MFIs to effectively contribute to the sustainable growth of entrepreneurship in the country.

The data elicited from the respondents administered questionnaire to investigate how significant MFIs could contribute to the sustainable growth of SMEs is presented in figure 2.

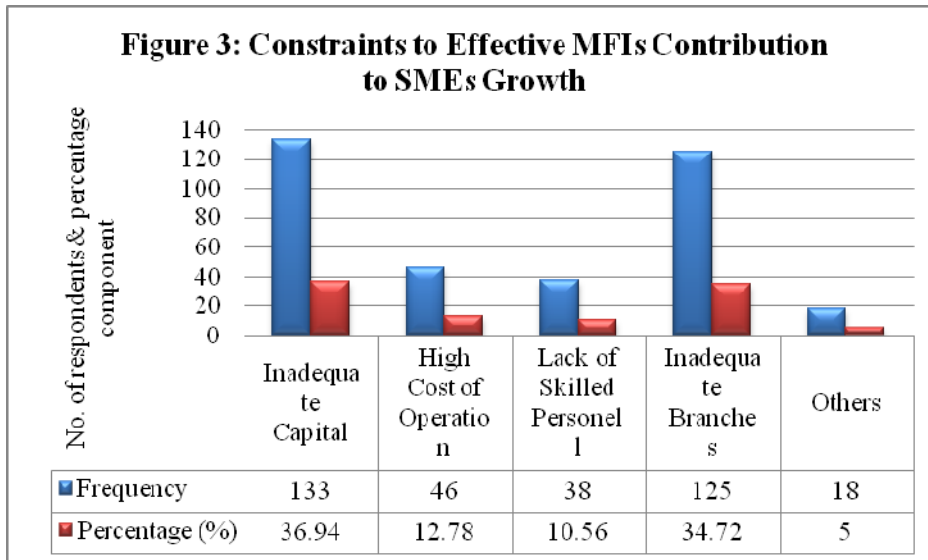


Source: Field Survey, 2010

The responses as depicted in figure 2 shows that 152 representing 42.22% out of the 360 respondents vehemently accepts that MFIs can significantly contribute to the growth of SMEs, 89 respondents representing 24.72% agree to the fact. On the contrary, 53 representing 14.72% refuse the contribution of MFIs to the sustainable growth of SMEs where as 66 respondents constituting 18.34% were undecided on the matter. On the weighted the responses indicates that 241 of the respondents representing 66.94% retain that MFIs does and could contribute significantly to the sustainable growth of SMEs while 119 representing 33.06% retain otherwise. It is therefore logical to conclude that MFIs could significantly contribute to the sustainable growth of SMEs in Nigeria. This finding proves [Fasehun and Bewayo \(2009\)](#) argument that the microfinance policy if well implemented could cause higher returns on equity and enhance access to credit, therefore spur entrepreneurship in Nigeria.

[Bharti and Shylendra \(2011\)](#) posit microfinance as an important requirement for promoting sustainable micro entrepreneurship. A key objective for the introduction of the microfinance policy by the Nigerian government was to boost SMEs activities. After five years since the promulgation of the policy, activities in the sector seen not to be

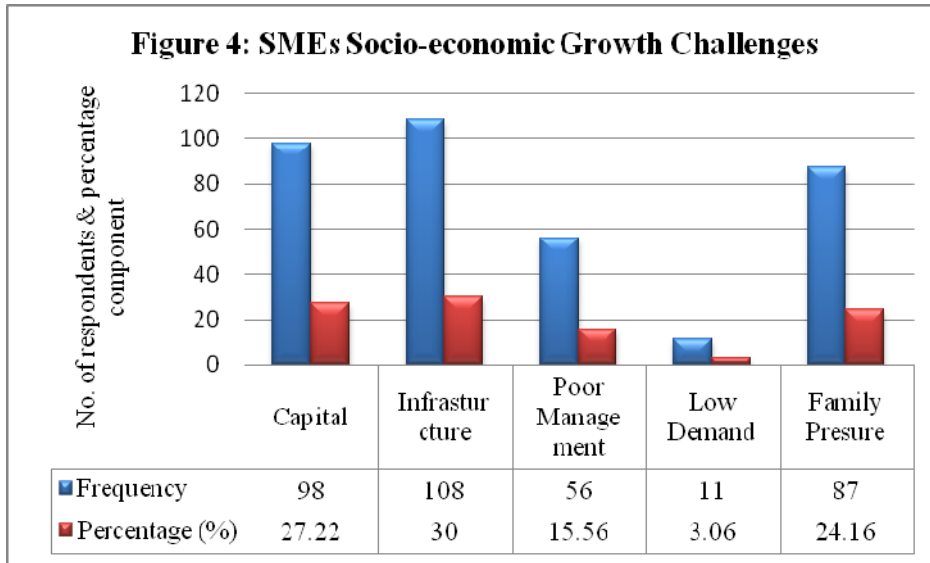
stimulated as desired. It was therefore the objective of this study to identify the problem(s) hindering MFIs from effective contribution to the growth of SMEs. The data generated from the questionnaire administered is presented in figure 3.



Source: Field Survey, 2010

Figure 3 depicts that out of the 360 respondents, 133 representing 36.94% believe that inadequate capital is the most important problem that stand in the way of MFIs to effectively contribute to the growth of SMEs in the country. It is also obvious that 46 representing 12.78% attributed the problem to MFIs high cost of operation and 38 representing 10.56% settle for lack of skill personnel. A total of 125 respondents representing 34.72% identified inadequate branch network. While 18 respondents representing 5% attributed the constraint to other factors not captured on the questionnaire. It is clear from the analysis that though a number of factors militates MFIs from effective contribution to the growth of SMEs, inadequate capital stand out as a major problem. The interview conducted revealed that the problem of inadequate capital affects both the expansion of branch networks and is also responsible for MFIs preference to finance small and short-term loans than large scale and long-term loans. This revelation implicitly suggests that despite the N20 million minimum capitalizations for MFIs, sooner or later, there will be need for an increment for these institutions to be able to effectively support entrepreneurship development in the country.

The slow pace of entrepreneurial activities in developing countries is attributed to several factors. To investigate the most challenging factor (s) confronting SMEs growth in contemporary Nigeria, some socio-economic factors believed to affect the performance of SMEs were included on the questionnaire administered to the study sample. Displayed in figure 4 is the data and results in respect to these socio-economic factors.



Source: Field Survey, 2010

Figure 4 clearly shows that infrastructure poses the most significant challenge to the growth of SMEs in the country. This could be inferred from the Responses. A total of 98 respondents representing 27.22% stated capital as the greatest factor, 108 representing 30% argue it on poor and inadequate infrastructure and 56 representing 15.56% tie the problem to poor management by the operators of SMEs. Also, 11 respondents representing 3.06% contends low demand while 87 representing 24.16% stresses the challenge to hinge on family pressure. In the course of the interview, most of the respondents interviewed buttress that the poor infrastructural state in the country has negative influence on the establishment, growth and survival of SMEs. It was further pointed out that most SMEs business essentially depend on power and water. The absences of these amenities causes increase in operation cost, and serve as a serious disincentive. This finding concurs to the position of several other studies including Onwubiko (2006), and Adejmolola and Olufunmilayo (2009) that the poor state of infrastructure in the country is a great bottleneck to entrepreneurship.

CONCLUSION AND RECOMMENDATIONS

The role of SMEs in improving the standard of living of the populace and transforming the economy of a nation at large cannot be overemphasized. The challenge of capital and other non-financial measures confronting the establishment and growth of SMEs in Nigeria has remarkably not only promoted poverty among its people but has affected the pace of economic growth and development of the nation. The establishment of MFIs is indeed a step in the right direction to overcoming these challenges hence promoting participation in SMEs and their sustainable growth in the country.

To ensure that MFIs enhance participation in SMEs, sustain the growth and maximal contribution to economic growth and development of the nation, the following recommendations are hereby proffered. Government and MFIs themselves should enhance the out-reach of microfinance through creating awareness of the activities and operations to SMEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme. Regular campaigns at the local government and ward levels will help to achieve this effectively. More so, the expansion of MFIs through the establishment of rural branches is an imperative for increase access to MFIs services. Also, the CBN should undertake periodic review of the activities of MFIs in line with the microfinance policy objectives/targets so that modifications and corrective action could be taken where necessary. Such an exercise is important if MFIs must effectively support the sustainable growth of SMEs in the country. To overcome the problem of inadequate capital identified as constraining MFIs from effective contribution to the growth of SMEs, the CBN should impress on government at all levels to take up substantial equity investment in MFIs in their domain. Finally, government should more urgently look into the infrastructural decay in the country especially power which most SMEs depend on.

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