

Full Length Research Paper

The impact of microfinance institutions on the development of small scale enterprises in Nigeria

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The fundamental objective of this study is to access the impact of microfinance institutions on small scale enterprises in Nigeria. Simple random technique was employed in selecting the small scale enterprises used in the research. The findings reveal that significant number of the small scale enterprises benefited from the microfinance institution loan even though only few of them were suitable to secure the required amount needed. Interestingly, it was also found that the microfinance institutions have grown phenomenally in the last ten years. Majority of the small scale enterprises acknowledged positive contributions of microfinance institutions loan towards promoting their market excellence and overall economic company competitive advantage. Rather than tax incentives and financial supports, the study recommends that the government should provide adequate infrastructural facilities such as electricity, good road network, and training institutions to support small scale enterprises in Nigeria. This paper is organized into five sections, with review of literature following the introduction. The methodology of the study is presented in section three, while section four provides data analysis, and discussion of findings. Section five is for conclusion and recommendations.

Keywords: Microfinance institutions, small scale enterprises, loans, economic growth, infrastructural facilities.

INTRODUCTION

A microfinance institution is a semi-formal organization. It can be non-governmental or community development initiative. It is a subset of flexible structures and systems which provide a wide range of financial and saving needs of small scale enterprises in developing countries where top-down formal financial institutions have failed to address the credit need of the real sector of the economy.

The Nigeria microfinance institutions have come a long way, a central bank study has identified as at 2001, 160 registered microfinance institutions in Nigeria with aggregate savings worth N99.4m and outstanding credit of N649.6m indicating huge business transactions in the business (Anyanwu, 2004). Institutional structures for the provision of micro credit vary and may be Government, NGO supported, traditional, or mixture of two or more of these. There are all those that operate on the line of

informal models. They are credit and savings association which are based on the traditional experience, they provide savings and credit services to their members.

Despite the availability of microfinance and the establishment of microfinance institutions in Nigeria, there are yet no established Government policies and mechanisms for regulating and supervising activities in the sector (Anyanwu, 2004). In 2000, a National conference on microfinance was organized by the Federal Government of Nigeria and the World Bank recommended that the central bank of Nigeria to take up the responsibility of developing an appropriate policy as well as regulatory and supervisory framework for the operation of microfinance institutions. The workshop recognized that the development of appropriate microfinance policy was critical to the development of sustainable micro finance institutions and by implication through micro enterprises in Nigeria. (CBN, 2001).

Hence the Objective of this study was to undertake a survey of microfinance institutions impact on the development of small scale enterprises in Nigeria,

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Assess how small scale enterprises have benefited from the micro finance institutions. In addition the study is out to provide basis for financing by microfinance institutions.

Review of Literature

Small scale enterprises remains one of the most reviewed topics in literature especially as its impact on all kind of economics cannot be overlooked. World wide, they are accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The labour intensity of the small scale enterprises constitutes over 90% of total enterprises in cost of the economies it is credited with generating the highest rate of employment growth and account for major share of industrial production and exports. The rapid expansion of small scale enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as dynamic and innovative factor, they contribute directly to economic growth. (Pioty and Rekowski, 2008).

However, the unwillingness or inability of the formal financial institutions (commercial banks) to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sector-led micro finance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: "esusu" among the Yorubas, "efoto" for the Igbos in the East and "adashi" in the North of the Hausas (CBN, 2000).

The Non-traditional, formalized microfinance institutions are operating side by side with the informal sector. The financial services provided by the microfinance institutions in Nigeria include savings, credit and insurance facilities.

The Central Bank of Nigeria Survey (2001) indicated that the operations of formal microfinance institutions in Nigeria are relatively new, as most of them were registered after 1981.

The demand for micro finance services is high and increasing in Nigeria but the exact amount is not known. The continuous lay-off of labours from both the public sectors since the introduction of the structural adjustment program (SAP) in 1986 and the growing number of graduates from schools and colleges is pushing a large proportion of the population into informal sector activities (CBN 2000). Also the domestic market is large, with over 130 million people in need of various goods and services

including financial services. (Yousoufou, 2002).

The growth of microfinance activities reflects the expansion of informal sector activities and the exclusion of a large proportion of economically active population from the sector. Large volumes of financial transactions are concerned out by microfinance institutions, with little or no publicity around them. Their operations are not explicitly captured in official financial statistics and their activities are hardly reported on by the mass media yet their transactions impact directly on a large section of the population especially the poor and the small scale enterprises (CBN, 2001).

Role of Development Finance Institutions to Microfinance Institutions in Nigeria

The Development Finance Institutions (DFIS) can provide an additional funding source to the microfinance institutions, on on-lending basis, instead of the current practice of dealing directly with micro enterprises owners. The microfinance institutions have grassroots orientation and greater expertise in financing smaller enterprises.

Between 1964 and 1977, DFIs were established at both the national and state levels in Nigeria. The National development finance Institution include the Nigeria Industrial Development Bank (NIDB), Nigeria Bank for Commerce and Industry (NBCI), Nigerian Agricultural and Cooperative Bank (NACB) each of these institution was given the responsibility of promoting development of a specific sector or sub-sector of the economy.

Prospect of micro finance Institutions in Nigeria

Nigerians, the rich and the poor are enterprising and industrious. But the poor who account for over-half of the population do not have access to formal banking services and they rely heavily on formal and informal microfinance institutions for credit.

Nigeria's large population, (over 130million people) requires the production of goods and services on daily basis and funding is required for the production. The microfinance institutions operations are therefore expanding and have a prominent role to play in the development of small scale enterprises in Nigeria.

Since the microfinance institutions are in everyday financing the small scale enterprises in order to keep them in line and also ensure that funds which they need are available and at the right time, the future of the small scale industry therefore is very bright in Nigeria.

Microfinance industry is faced with enormous challenges. The first is for the microfinance institutions to reach a greater number of the poor. The CBN survey 2005 indicated that their client base was about 600,000 in 2001 and there are indications that they may not be above 1.5 million in 2003. The government and its

institutions, including the Central Bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

Also there is need for comprehensive study on the MFIs in Nigeria that will cover the entire population estimate the level of financial activities and number of clients and determine the financial and operational sustainability of the MFIs sector.

Funding of Small Scale Enterprises in Nigeria

A major barrier to rapid development of the small scale enterprises is a shortage to both debt and equity financing. Accessing finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and contribute to poverty alleviation in developing countries.

Small scale enterprises as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, small scale enterprises cannot acquire or absorb new technologies.

Although the banking sector is the largest and most important source of external financing for small scale enterprises, by and large, it is believed to be underserving the needs of this sector. Small scale enterprises alternatively draw financing from a variety of sources. Small firms rely proportionally more on non-bank services such as internal funds (savings, reformed earning family network) and the informal sector (money lender) as a result of their inability to produce the collateral needed by the commercial banks (Salta, 2003).

In Nigeria, it is common practice in the country for small business owners to organize themselves into cooperatives commonly called "esusu" members of an esusu would generally contribute a fixed amount freely, weekly or monthly to be pulled and when collected in turns to fund their business or personal projects.

The microfinance institutions have gone a long way to improve the small scale enterprises by granting them loans and also they help the small scale industries or enterprise to finance their projects. Without microfinance institutions loans the small scale enterprises will suffer, since they lack huge capital base.

METHODOLOGY

The research is descriptive in nature and a survey method was employed. Combinations of primary and secondary data were used in obtaining information. Structured questionnaires were drawn and administered, Bar charts were also used to depict the responses from respondents, and analysis was made on the basis of field

survey.

DATA ANALYSIS AND FINDINGS

The research is descriptive in nature and employs the survey method in assessing the impact of microfinance institutions on small scale development in Nigeria. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the field. The researcher used descriptive statistics like charts to depict the relevant data.

The purpose is to generate data about the effectiveness of microfinance institutions loans to the performance of small scale enterprises.

Accessibility of Microfinance Loans

As access to loans is one of the major problems facing small scale enterprises in Nigeria. The idea of creating microfinance institutions is to provide an easy accessibility. Small scale enterprises do not have access to loans and these will bring effect on them because they will not be able to satisfy their clients.

In figure 1, In order to determine small scale enterprises accessibility to MFIs loans, this question was asked "does your company have any access to MFIs loans?" and the result shows that 55 of the respondents which represents 92% claimed they have an access to MFIs and 5 respondents which represents 8% respondents disclosed that they have no access to MFIs loans.

To measure the percentage level of small scale enterprises goals achievement using MFIS loans likely question was asked thus "what percentage level of goal achievement did your company derive from the loans obtained from MFIs?" figure 2 represents the articulated assertion of the 55 respondents in which 16% of them disclosed that they recorded 70-100 percent goals achievement using loans granted, 49% which represents almost half of the respondents claimed that they achieved more than half of their goals which are 50 – 69 percent rising MFIs loans 35% of the respondents said that they only met 10 – 49 percent of their targeted goals.

Microfinance Institutions and Competition

For small scale enterprises to survive in Nigeria there is the need to achieve a substantial market share, moreover, market, competitions have to take place between them and other companies.

The figures 4 – 3, 4 – 4, and 4 – 5 below indicate opinion of respondents on the impact of MFIs loans on small scale enterprises ability to compete and secure market share.

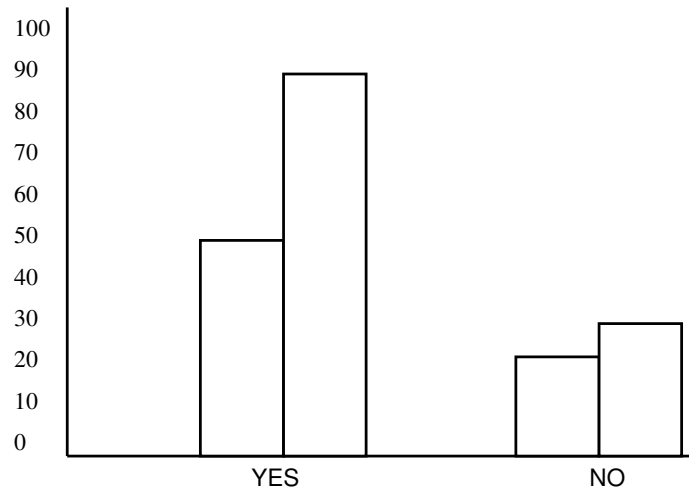


Figure 1. small scale enterprises accessibility to MFIs loans

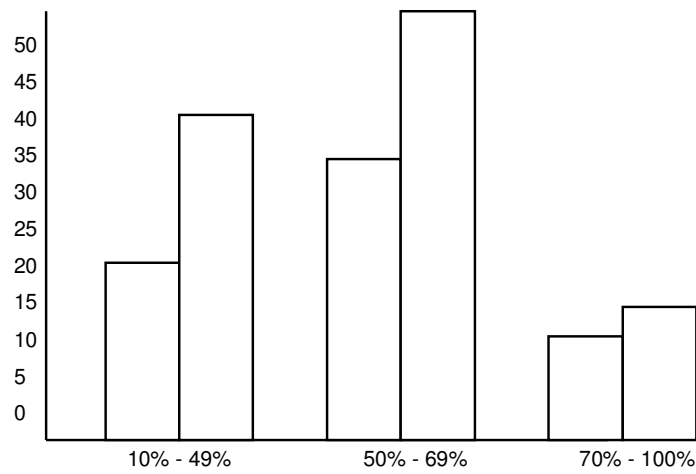


Figure 2. Percentage level of small scale enterprises goals achievement using MFIS loans. Source: Field Survey 2011

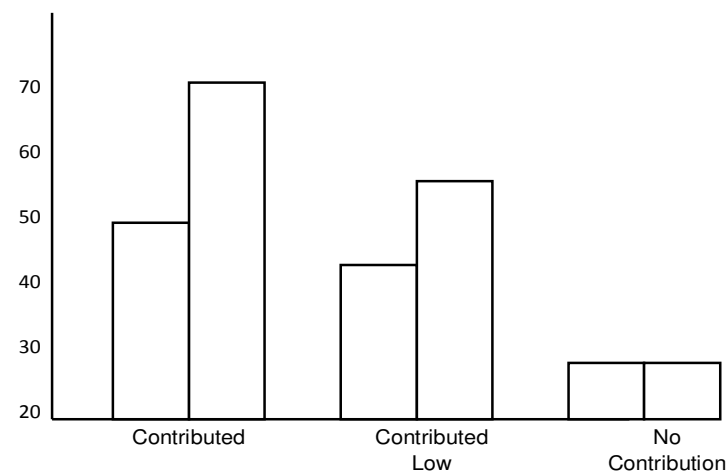


Figure 3. MFIs Contributions towards Small Scale Enterprises Sales and Marketing Activities. Source: Field Survey 2011

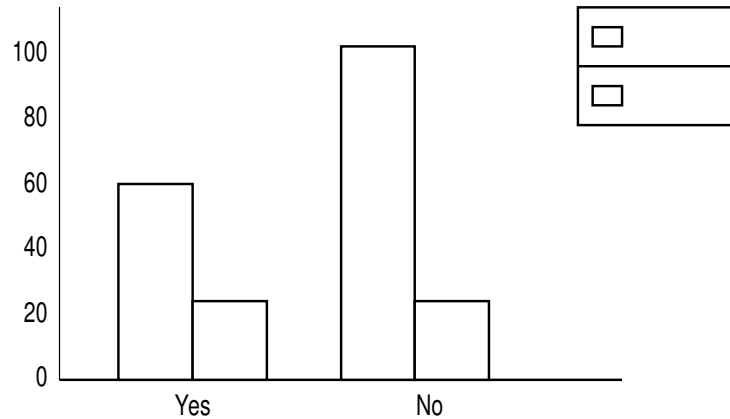


Figure 4. MFIs contribution towards Small Scales Enterprises Market share. Source: Field Survey 2011

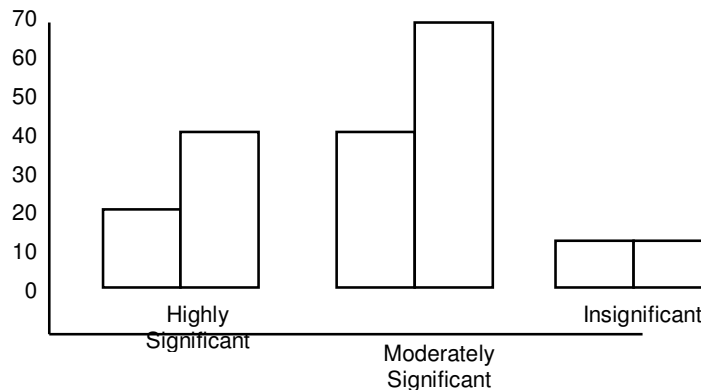


Figure 5. MFIs Contributions to the overall Competitiveness of Small Scale Enterprises

Figure 3 depicts the opinions of the respondents about the MFIs contribution to small scale enterprises sales and marketing. The question asked was “Has the loan secured from the MFIs contributed to the sales and marketing activities of your company?” In their view, 62% of the respondents asserted that MFIs loans contributed much to their sales and marketing and 38% posited that these loans contributions were low.

However, none of the respondents claimed that MF loans did not contribute to their sales and marketing activities. This implies that access to MFIs loans have contributed to small scale enterprises no matter how little.

A question was asked thus: “Does the loan actually help your company to standardize your product/service to the extent that you achieved substantial market share?” All the respondents agreed that MFIs loans contribute to their market share.

The question raised was; to what significant level does the MFI contribute to the overall competitiveness of your company?” 35% of the respondents who have access to the loans believed that MFIs loans contribute to their companies, while 65% believed that loans granted to

them contributed a moderate significant level to their competition.

Microfinance loan to Small Scale Enterprises Competition

Microfinance institutions loans have contributed generally to the overall competitiveness of many small scale enterprises. The micro finance institution loans have contributed to the small scale enterprises competition at a highly significant level. The loans granted to them contributed at a moderate significant level to their competition. No small scale enterprises have claimed that microfinance institution did not contribute to their market share.

CONCLUSION AND RECOMMENDATION

This study attempts to empirically ascertain the impact of Microfinance institution on small scale enterprises in

Nigeria. Positive and significant relationship has been established between microfinance institutions loans and small scale performance. The study confirms the positive contributions of microfinance institutions loans towards promoting small scale enterprises market share, production efficiencies and competitiveness.

Although microfinance institutions in Nigeria are faced with insufficient funds problems which militates against their efforts to grant sufficient loans to small scale enterprises (Isern J. et al., 2009), yet their tendencies to augment the financial needs of small scale enterprises is considerable acknowledged.

Furthermore, it has been unveiled that government policies and programs designed to develop small scale enterprises in Nigeria are ineffective and thereby need to be reconceptualized.

Apart from provision of tax incentives and financial support, it is recommended that government should try to provide sufficient infrastructural facilities such as, good road network and training institutions. Further study should be conducted on how best the small scale enterprises can make use of equity finances (such as venture capital) and other alternative sources of finance available.

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