International Journal of Business, Economics and Entrepreneurship Development in Africa

Volume 13, Issue 11, PP 195-223, ISSN: 2360-9402, November, 2024, DOI: 8370-0932-13134
Double Blind Peer Reviewed International Research Journal
http://arcnjournals.org
arcnjournals@gmail.com
©Africa Research Corps Network (ARCN)

INFLUENCE OF MICROFINANCE BANKS ON SMALL AND MEDIUM ENTERPRISES (SMES) SURVIVAL IN NIGERIA

Batishi Yusuf zirakuda, Yaya Manu, Ibrahim Musa & Ibrahim Usman Saleh
School of Management, Federal Polytechnic, Damaturu, Yobe State

Abstract: *The study is aimed at evaluating the extent to which Micro finance banks have helped in financing small and medium enterprises (SMEs) in Nigeria, how they access funds from the micro finance banksto finance their productions and how these accessed funds affect their performances. The study covered a periodof ten year from 2003-2013. The data used were both primary and secondary data generated from questionnaires and annual report of 300 randomly selected small and medium scale enterprises that have accessed funds from micro finance banks in Nigeria. These data were statistically analyzed based on the research hypothesis using regression analysis as a tool to determine the relationship between the variables considered. The results show strong evidence that access to microfinance significantly enhance growth of small and medium enterprises in Nigeria. This means that the operation of microfinance banks is an impetus for the performance and growth of small and medium enterprises. However, other firm level variables such as business size, business age, business location, loan size, loan maturity etc. are found to have positive effect on enterprises' growth. Therefore, this study recommends among other things a recapitalization of the microfinance banks to enhance their lending capacity to support small and medium business growth and expansion.*

Keywords: *Enterprises, Entrepreneurs, Finance, Medium, Micro, Small.*

Published by: Africa Research Corps Network (ARCN)

in Collaboration with: International Academic Journal for Global Research (iajgr) Publishing (USA)

I. INTRODUCTION

The level of financial inclusions in forms of credits transmissions for investments in an economy is one of the major elements in determining its future productive capacity and growth. As a matter of fact, the shortage of finance is a critical limiting factor facing the small and medium enterprises and the realization of an entrepreneurial dream globally, especially in developing economies. In the light of the above and in realization of the fact that the activities and contributions of small and medium enterprises are required for rapid economic growth, most developing economies formulated and developed many policies targeted to ease the financial problems of small holders ventures across the globe, Nigeria inclusive. In Nigeria, it is in this direction and vision that the ideal of microfinance-banks financing was articulated because the conventional banks frown at granting loans to SMEs. In supporting this assertion, [1] wrote that small business enterprises in Nigeria find it difficult to access loans from formal financial institutions because of their inability to meet the standard requirements for loan consideration. In his own contribution, [2] lamented that conventionally speaking, banks traditionally frown at giving loans to small and medium scale enterprises rather they prefer lending to large enterprises which are judged to be creditworthy. They avoid doing business with the poor and their micro enterprises because of the associated cost and risks involved which are considered to be relatively high. As a result, lack of access to finance has been identified as one of the major constraints to small business growth especially in the developing nations. This ugly situation provides a platform for microfinance institutions to attempt to fill the gap based mainly on informal social networks and this is what gave birth to micro-financing in Nigeria. Hence, microfinance institutions (MFIs) have become the main sources of funding small and medium scale enterprises in Nigeria and in African regions as a whole.

Microfinance institutions have been established to grant micro-credit to poor people to enable them develop small businesses with expectations of higher returns capable of improving their standards of living. In his own work, [3] described microfinance as a specialized scheme aims at providing funds in form of loans to poor households who are mainly small savers that cannot affords obtaining loans from conventional banks or other money lending institutions. In this same view, [4] noted that about 80% of the populations of most developing economies in which Nigeria is one of them are engaged in informal sector financing in which microfinance institutions are the major players as they play notable roles of making finance available for SMEs at favorable conditions. As a matter of necessity, in Nigeria, both the federal and state governments have recognized that for sustainable growth and development to be achieved, the financial empowerment of the small-scale entrepreneurs is very vital in repositioning the predominantly poor in the society. If this growth strategy envisaged is to be seriously supported and the latent entrepreneurial capabilities of this large segment of the artisans is sufficiently stimulated and sustained, their cottage industries, skill acquisition will spread further and positive multipliers will be felt throughout the economy, [5].This will lead to economic development through rural transformation and the improvement in the economic conditions of the artisans and small-scale industrialists. In regret to the poor situation faced by small and medium enterprises in Nigeria, [6] lamented that the small and medium scale entrepreneurs lack the necessary financial inclusion, especially credits from the conventional banks because of inability to meet the stringent loan conditions such as provision of adequate collaterals and the likes. Although the commercial banks on their part have claim at the point that they play vital role towards industrial revolution in Nigeria through financial support, the corresponding volumes of industrial production is insignificant. This study is aimed at examining the part played by the micro-finance banks towards promoting entrepreneurship in small and medium-scale businesses in Nigeria. Considering the fact that their programs are designed to support clients to be engaged in small and medium-scale businesses, which paves way to be self-employed, and in the meantime to contribute to the family income, their programs are recently focusing to support members in various forms. Some of the programs are designed strictly to follow a credit system, while some are designed in an integrated manner by incorporating a package of programs on entrepreneurial financial needs. As a matter of principle, micro-finance institutions see the background of their clients‟ situation in the economy and conceptualize empowerment by emphasizing on the economical participation which is necessary to change their levels. They lend usually insignificant amount of money to small enterprises in tailoring, soap-making, shoe- making, upholstery work, farming, poultry, fishery, distribution, crafts, trading and other similar activities. [7] noted that the participatory nature of these projects, together with the emphasis on women entrepreneurs and employment creation, has raised hopes of reducing poverty through this approach. Experience has shown that promoting small and medium scale enterprises (SMEs) through adequate micro credits reduces poverty by increasing and sustaining income, human resources development and improved problem solving capacity of the beneficiaries.[8] noted that, for the majority of urban and rural areas in Nigeria, it is the positions of small and medium enterprises such as artisans, peasant farmers, fishermen, butchers, craft men, petty traders, seamstresses, soap-makers and the likes that help reduce poverty. Such ways of reducing poverty include generating income, providing for children to go to school, creating job opportunities, providing health-care services to the families, encouraging girls to go to school as against giving them to earlier marriages, supporting boys to learn trades and crafts etc. In order to enhance the flow of financial services to the Small and Medium Enterprises (SME) subsector, government has, in the past, initiated a series of programs and policies targeted at the SMEs. Despite all these efforts, the contribution of SMEs to Nigeria Gross Domestic Product (GDP) remains very poor, hence; the need for alternative funding windows. Sequel to this, in 2005, the Federal Government of Nigeria adopted microfinance institutions as the main financing windows for small and medium enterprises in Nigeria. The microfinance arrangement makes it possible for SMEs to secure credit from Microfinance Banks (MFBs) and other Microfinance Institutions (MFIs) on more favorable terms. There is needto find out the journey so far, as everything seems to be a guise, to the best of my knowledge. To support this notion, [9] noted that while the literature shows different perception on enterprise growth, there is a paucity of studies of how financing with microcredit contributes to SMEs growth in the specific context of Nigeria. However, there have been a number of survey-based studies that highlighted the microfinance institutions financial inclusion and SMEs development in Nigeria but not extensively and remotely as supposed to. It is on this platform that this study anchors to examine the impact of microfinance banks financial inclusion on small and medium enterprises growth in Nigeria and to examine the impact of both microfinance and SMEs variables on the growth rate of the enterprises.

Studies have shown that there is no generally acceptable definition of small scale industry; in other words, there are no yard sticks for grouping a business unit as small or big. [1] confirmed that the classification depends on the economic sectors of the economy, purpose for setting up the business, amount invested and time of classification. Invariably, in distinguishing between big and small business, some criteria that are used include relative sizes, types of customers, financial strength, and the number of employees. [10] defines small scale business as comprising those enterprises that have relatively little capital investment that produce in small quantities and as a result control a small share of the market, employ not more than fifty workers and the planning, management, marketing and entrepreneurial functions are vested in the proprietor. This definition is faulty because it did not fix minimum fund requirement for setting up such small business. Though, the author defended this omission based on the violability and hindrances to capital formation and this makes it imperative to accept his definition as it is. The correct definition of small scale industrialists as given by [1] embraces the shoe makers, basket makers, seamstresses, salon hairdressers, mesons, carpenters, small scale garri processors, small scale confectionaries (bakeries) and makers of gift items like photo frames, glasses and other house hold durables. The National Directorate of Employment (1989) defined small scale business to include projects with capital investment as low as ₦5000 and employing as few as three persons. This definition lacks merit because ashoe maker, a salon hairdresser or a seamstress for instance need more that ₦5000 to start up a business becauseof the cost of working tools like machines, dryers and other accessories. However, [11] confirmed that the most functional definition of SMEs is the one given by the United Nations Industrial Development Organization (UNIDO) which specified that a small scale enterprise should be characterized by the following variables:

(1) Ownership and management are usually vested in the same individual, that is, the management is notseparated from the owner as the manager is in most cases the owner.

(2) The enterprise controls small share of the market and therefore constitutes a little quota in the larger sizemarket.

(3) Capital is provided by the owners of the enterprise and policy decisions are in the hands of the sameentrepreneurs.

(4) In most cases the area of operation is localized and workers and owners rely on the local community forpatronage and supply.

(5) In most cases, there is no branch network as expansion is not easy because of little capital outlay, only fewhave branches which usually serve as depots.

As already noted, there would not be any widely accepted definition of small scale enterprises unless it incorporates all these features and the more. Medium scale enterprise equally known as cottage industry is defined as any industry with a labour size of not more than ten (10) workers and with a total cost of not more than ₦1.50 million including working capital but excluding cost of land.

1.1 Microfinance Concept

Micro finance concept has been in operation for centuries in different parts of the world but unfortunately its notion has long been misinterpreted as micro-credit to household-based entrepreneurs. [12] confirmed that these two terms are used interchangeably but the term microfinance connotes broader activities than micro-credit. [4] defined microfinance as the provision of small amount of money to individuals or group of individuals who are mainly low income earners for a short period without demanding collateral securities for the loans. Microfinance can be described as an appropriate tool which is designed to reach the Millennium goals. In practice, microfinance is much more than disbursement, management and collection of little bits of loan primarily, it seeks to create access to credit for the poor who ordinarily are locked out of financial services in theformal financial mainly for reason of their poverty, that is lack of command over assets. It therefore, places obligation on the borrowers for proper utilization and complete repayment of the borrowed amounts even at commercial interest rate. [13] described microfinance as the entire flexible structures and processes by which financial services are delivered to micro-entrepreneurs as well as the poor and low income earners on a sustainable basis. Simply put, micro-financing can be seen as the supply of loan, savings and other financial inclusions to the poor and less privileged in the society. It is the practice which realized that delivering those services in a sustainable manner would help the poor household has access to finance to build micro-enterprises necessary to provide enough food and employment opportunities. Credits to small scale enterprises by the microfinance banks are assuming greater importance in rural areas; this is in response to the need to promote massive economic growth and development through provision of adequate financial assistance to less privileged entrepreneurs operating with low capital outlay.

1.2. An Overview of Microfinance Banks in Nigeria

In Nigerian concept, microfinance banks are institutions constructed as a company, licensed to carry on the business of providing microfinance services such as micro credit loans, insurance, money transfer services and other non-financial services that are needed by the poor as well as the small-holder or micro enterprises. Microfinance banks are licensed to operate as a unit to meet the financial needs of clients who supposed to be mostly the poor and the low income earners in a particular community. As a matter of fact, microfinance banks are supposed to be community/rural oriented but what we are seeing in Nigeria today is a sort of misdirected location target from community to macro settings as most of them are located in the urban cities without having a particular community as a target. Currently, micro finance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to microfinance banks. The first category isthe microfinance banks that are hitherto community banks licensed to operate branchless network with cash centers subject to meeting the prescribed prudential requirements and availability of free funds for opening such cash centers. The minimum paid-up capital for this category of banks is ₦20 million for each autonomous center. The next category is microfinance banks licensed to operate at state levels which are authorized to operate in all parts of the state including the federal capital territory in which they are registered subject to meeting the prescribed prudent requirements and availability of free funds for opening cash centers. The minimum paid-up capital for this category of banks shall be ₦1.0 billion. [14] noted that diversification of ownership is encouraged to enhance good cooperate governance of licensed MFB, hence, microfinance institutions can be established by individuals, groups of individual, churches, community development associations, private corporate entities, missionaries and foreign investors. [4] noted that the major participants in the microfinance activities in Nigeria are Universal banks, Community banks and Non-Governmental Organization (NGO). Governments can join with co-operatives to partner with the microfinance banks to raise bulk loans to be disbursed to the beneficiaries who supposed to be mainly the less privileged in the society. In this context, the microfinance banks comprise both some of the commercial banks that want to venture into suchand the hitherto the community banks. These institutions are licensed by the regulatory authority to offer credit facilities to small and medium scale enterprises (SMEs) in Nigeria. By so doing, the banks are increasing and sustaining the sizeable number of people that venture into small and medium-scale businesses.

1.3 Relevance of small and medium scale enterprises in the growth of an economy

The assistance of the microfinance banks in funding small scale enterprises through micro financial inclusion will considerably lead to increased efficiency of operation and national economic advancement of the country.
[15] supported this assertion when he emphasized that the hidden potentials and creativity embedded in ourlocal entrepreneurs‟ talents will be optimally maximized in boosting local production when funds are made available at affordable rate. According to him, this will invariably result to a rise in the nation's gross domestic product (GDP) and increase in her foreign exchange earnings. With the accruing foreign exchange, it will offset our debts burden accrued from importation and lessen our dependence on the rest of the world for sustainability. Moreover, the small scale industries are relevant in any economy because of the peculiar nature of the services they render. The reasons for treading through this path to industrial growth are because of the relative cheap labour and the availability of local material resources. Several attempts have been made by previous researchers to link the relevance of SMEs with the growth of an economy. To link up this, [16] explained that the general characteristics of less developed regions of the world indicate the nature of the

needs that require adequate finance to cushion or met. Such needs include; unemployed and underemployed labour, low rate of growth of per capita income, grossly unequal income distribution, low investment rates, scarce capital, high dead rate, over explosion of population, high rate of infant mortality, low life expectancy, high level of poverty, high inflation rate, high level of insecurity, political and economic instability. These unfavorable socio-economic conditions showcased a vivid picture of Nigerian's industrial landscape which like any other developing country, is litteredwith many small and medium enterprises with little or no finance to coop with. They are expected to provide thedriving force for the industrialization and overall development of the Nigerian economy. This explains the increasing policy attention given to the SMEs in addition to the recognition of the fact that they play significant roles in meeting some basic economic and industrial developmental goals. Few among the significant roles played by the SMEs are as follows: First, provision of training ground for the development and growth of indigenous entrepreneurs. In other words, the SMEs serve as vehicles for the propagation and diffusion of innovative ideas for the reaching dimension by acting as bedrocks for the indigenous population, [17] Second, transformation of traditional industries in both developed and developing countries into vibrant modern sectorsis a big feather on SMEs. In support of this, [18] noted that the traditional sector has served and continues to serve as the springboard for launching into a vibrant modern sector. Thus, a fledging SMEs sector can be a means of achieving a smooth transition from the traditional to the modern industrial sector, [19]. Third, usage of available cheap local resources, both human resources (labour) and raw material resources is applause to SMEs.

[20] noted that small and medium enterprises due to their labor intensive and usage of low level technology are able to garner and use the widely available cheap local labour supply. This is consistent with the nation‟s income distribution objectives. [21] supported this assertion by noting that SMEs create more jobs per unit of energy consumed than large scale ones do.

Fourth, assisting in the dispersal of economic activities through encouraging the development and modernization of such activities outside the major metropolitan areas add glamour to SMEs existence. Thus, the activities of SMEs are able to stem the tide of rural-urban drift which is the major cause of social vices like armed robbery, kidnapping and prostitution to mention but a few. Fifth, mobilizing financial resources which would otherwise be idle or untapped by the formal financial sector is a big score to SMEs, [22]. Sixth, facilitating of the conservation of foreign exchange and the development of the scarce resources of management in developing countries gave SMEs another loud applause. This is possible because of their size or scale of operations and unsophisticated management structure. To buttress this fact, the Committee of inquiry on small and medium firm operation noted that a high percentage of the profit of most SMEs, most of which are locally owned is known to be ploughed back to ensure a higher rate of future growth. As a matter of fact, the development is not peculiar to only the developing nations in which Nigeria is one of them, therefore it is pertinent to highlight the contributions of SMEs to the economies of some developed countries like United Kingdom, USA, Japan etc. For instance, a study carried out by [23] on small business units in the United Kingdom, between the period 1999 and 2004 revealed that SMEs created between 8000,000 and 10,000,000new jobs in the economies studied. Also, the study carried out by [24] revealed that small and medium scale enterprises were by far the most common forms of enterprises that play vital roles towards economic growth in Europe and constitute over 98% of all registered companies. Another study carried out by [25] on the economic growth and development of Japan found out that the industrial strength of the nation is premised on SMEs industries performance. The result further revealed that SMEs industries employ more than 82% of the total labor force and account for more than 50% of the total manufacturing value added. In Nigeria, the work of [26] on the impact of SMEs on Nigerian economy revealed that the SMEs have through NIDB and NACB assisted projects created more than 300,000 jobs and more than 700,000 jobs respectively. Many literatures have agreed that the path towards industrialization differs from one country to another but the objectives for industrial development are almost the same and these include but are not limited to the followings:

i. Expanding the range of economics choice to individuals by making them to be independent from otherpeople and nations.

ii. Raising standards of living of the less-privileged populace

iii. Expanding the availability and distribution of basic life sustaining goods

iv. Creating job opportunities to reduce social vices

In line with the above objectives, [27] in his own contributions agrees that industrialization is the key to economic progression in both developing and developed economies because it tends to increase physical outputsper head. The ripple effect of this is the increase in the shares of manufacturing sector which add flavor to increase in the national outputs and employment opportunities. In throwing more light on the issue of industrialization, [28] wrote that a country is said to be industrialized if her industrial output is at least 25% of her Gross Domestic Product (GDP), 60% of this output is contributed by the manufacturing sub-sector. And that out of the population, at least 10% are engaged in manufacturing activities. As a matter of facts, the industrial profile of Nigeria shows different levels of organizational administration, managerial and technical skills because Nigeria adopted the classical approach to industrialization. For instance, the industrial development of the 1960s and 1970s concentrated more on large scale industries (LSIs). These industries subscribed to by the federal government and foreign multi-nationals had a dramatic turnaround in the early 1980s as a result of the collapse of the oil boom. The reduction in the foreign exchange allocated for the importation of raw materials and spare parts for these LSIs, led to the general shut-down or reduction in capacity utilization of these firms between 1983 and 1996. Accompanying this economic downturn was massive retrenchment by the industries, shot-down of most of the industries, scarcity of basic goods and services and the subsequent devaluation of the nation's currency (the naira). [29] confirmed that the above economic scenario led to the adoption of the Structural Adjustment Program (SAP) in 1986 and a change in the industrial policy in 1988. The change shifted the priority focus from large scale industries to small and medium scale enterprises. The change was highly necessary hence a welcome device. [1] commended the shift on the ground that the biased strategy towards large scale production activities invariably undermined the growth and development of indigenous industries most of which are small and medium scale in sizes, hence the need to make necessary adjustments. Also, the SMEs are widely accepted as having greater capacities to utilize locally available raw materials, technologies, manpower needed to promote a balanced industrial development but unfortunately, lack of infrastructural development makes the result non-effective. The performance of SMEs especially in Nigeria is not impressive because of inadequate attention to the development of infrastructural facilities such as motor-able roads and railways, pipe- born water, health facilities and human resources development, telecommunications and lastly electricity and other energy supplies especially in remote areas. However, the major activities in the SMEs development occurred between 1987 and 1989 with the establishment of several institutions to provide financial inclusions to small and medium enterprises which somehow improved their growth But very unfortunately, by the mid-1990s,most of the SMEs being financed and sponsored by these institutions became sick and some of them went down because of the debt burden and the depreciation of the naira exchange value. Hence, the contributions made by the SMEs to the economy were low and statistically insignificant. The above scenario necessitated the formulation of new policies and attitudes towards the growth and development of SMEs in Nigeria, [1]

2.4 Government established Credit Financing Schemes and Institutions to help SMEs

It has been observed by so many writers that the access to institutional finance by SMEs has remained a problemto the development of the sub-sector in Nigeria. In the area of working capital the conventional banks edge out the small and medium scale enterprises as they are classified as high risk ventures by financial market operators and therefore remain unassisted financially. By and large this problem led the government to establish specialized institutions and credit schemes to support SMEs development in Nigeria. [30] confirmed thisassertion by stating that government has made series of efforts to establish credit financing institutions to help provide funds for the operation of small and medium enterprises in Nigeria. To buttress this confirmation, [31] noted that government has set up many financial institutions from time to time to assist in the provision of the needed capital for small and medium scale enterprises (SMEs) in Nigeria. In his own contribution [32] confirmed that several efforts were made by government of Nigeria towards enhancing the flows offinancial inclusions to the small and medium enterprises subsectors. Notable among such schemes were the establishment of Nigerian Industrial Development Bank (NIDB) in 1964 to provide soft loans to small and medium enterprises and also undertake equity participation, the establishment of Small Scale Industries Credit Guarantee Scheme (SSICS) in 1971, in the same 1971, Small Industries Credit Committee (SICC) was established to administer small industries credit funds (SCIFs) to SMEs throughout the country. Next was the establishment of Nigerian Bank for Commerce and Industry (NBCI) in 1973 to provide equity capital fund for small and medium scale industrialists. The Nigerian Agricultural and Cooperative Bank (NACB) was established in 1974 to finance viable agricultural projects necessary for enhancing the level and quality of agric production in the country. At this juncture, it is worthy to note that in the third National Development Plan (1975-1980) SICF as discussed above was formerly launched as Small Scale Industries Credit Scheme (SSICS) which operated as a matching grant between the federal and state government on liberal terms to enterpriseswith capital investment outlay of not more than ₦150,000. However, re-structural changes took place in 2001and this brought about the merging of NIDB, NBCI, and NERFUND to form the Bank of Industry (BOI). BOI is expected to help improve production capacity of the economy through empowerment of small and medium scale industries. [2] noted that the Bank is envisaged to mobilize funds, promote and develop enterprises, appraise projects, provide foreign exchange dealership, supervise projects and recover loans. In the same period, the government also merged the Nigerian Agricultural and Cooperative Bank (NACB), thePeople's Bank of Nigeria (PBN) and Family Economic Advancement Program (FEAP) to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB). The Bank was set up to enhance the provision of finance to the agricultural and rural sectors. Other incentives include government's facilitating and guaranteeing of external finance by the World Bank which packaged the SMEs I and SMEs II loan schemes in 1989, and the establishment of the National Directorate of Employment (NDE) in 1986 to provide soft loan and offer apprenticeship to unemployed masses. In 2003, the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), as an umbrella agency was established to coordinate the activities and development of the Small and Medium Enterprises sector. In the same year, the National Credit Guarantee Scheme (NCGS) was recognized by the federal government for small and medium scale enterprises to facilitate their access to credit without stringent collateral requirements. Also, revisited and revived was the Entrepreneurship Development Programme (EDP) to ensure cheap fund for the operations of SMEs in Nigeria. In terms of financing, an innovative form of financing peculiar to Nigeria came in form of intervention from the banks through their representatives „the Banker's Committee‟ at its 246th annual general meeting held on December 21, 1999. The banks agreed to set aside 10% of their profit before tax (PBT) annually for equity investment in small and medium scale industries. The scheme aimed, among other things, to assist the establishment of new, viable Small and Medium Industries (SMI) projects; thereby stimulating economic growth and development of local technology, promoting indigenous entrepreneurship and generating employment opportunities for the unemployed masses. Timing of investment exit was fixed at minimum of 3 years. By the end of 2001, the amount set aside under the scheme was in excess of 6 billion naira, which then rose to over ₦13 billion and ₦41.4 billion by the end of 2002 and 2005 respectively, but stood at ₦48.2 billion by the end of December, 2008. This figure increased to ₦48.2 billino in 2010 and almost doubled itself in 2012 and 2013 to ₦ 7.4 billion and ₦7.8 respectively. [33] regretted that despite all these efforts, the contribution of SMEs to Nigerian Gross Domestic Product (GDP) remains very poor, hence; the need for alternative funding windows. Sequel to this ugly development, in 2005, the Federal Government of Nigeria adopted microfinance asthe main financing window for small and medium enterprises in Nigeria.

1.4.1 Government Incentive Programs to improve and develop SMEs Entrepreneurs

To improve on the activities and performance of small and medium scale enterprises in Nigeria, the federal government had established many programs for manpower training and development of SMEs entrepreneurs. First among such program was the establishment of Small-scale industry division of the federal ministry of industries andindustrial development center to offer training to small and medium scale entrepreneurs free of charge. The function of small-scale industries of ministry of industries under the scheme is to formulate and implement policy on the promotion of small-scale industries in Nigeria. Other government incentive programs to small and medium-scale industrialists include;

(1) Industrial Development Centre (IDCS) whose functions were to offer technical advice and assistance; assist the installation; operation and repair of machinery, training of proprietor and supervisory staff of SMEs in modern management methods and practices; give marketing, counseling, and advice on feasibility report preparation.

(2) Industrial Training Fund (ITF) which was established in 1971 with the main objective of promoting and encouraging the acquisition of necessary skills needed for establishing and operating small and medium-scale enterprises in the country.

(3) The Administrative Staff Collage of Nigeria (ASCON) was established in 1973 to achieve the following objectives: to provide higher management training for the development of senior executives; to establish and maintain functional library with adequate business information supply necessary for the establishment and performance of SMEs in Nigeria.

(4) The National Directorate of Employment (NDE) was established in 1986 during the SAP era to offer assistance to small and medium scale entrepreneurs. This scheme involves four practice programs namely: National Youth Employment and Vocational Skill Development Program (NYEVSDP), Small and medium scale enterprises (SMEs) and Graduate Employment Program (GEP), Agricultural sector Employment Program (ASEP), and Special Public Workers Program (SPWP). All these programs irrespective of their areas of specialization were all geared towards promoting small and medium scale enterprises in Nigeria. As a matter of fact more is needed because many existing SMEs are just managing to survive; only very few are living up to standard as per contributing to the GDP growth rate, [30] However, the major problem that induces this study is the fact that the development of small and medium scale enterprises in Nigeria is a very essential element in the growth and development of the

country, but unfortunately there is a gap in Nigeria's industrial development process as a result of shortage of finance for small scale enterprises development. In spite of the recognition of the role of small and medium scale enterprises in fostering economic development through promotion of indigenous technology, employment generation and broadening of the production base of the economy the impact of micro-finance on them is still vague.

II. METHODOLOGIES

This study employed a two-way-method strategy in order to enhance the authenticity of the work by combining primary survey based data with secondary data from the Central Bank of Nigeria Statistical Bulletin and from the banks database. This study identified two-in-one study groups; these are Microfinance Banks (MFBs) in Southeast Nigeria and the Microfinance Banks (MFB) clients who are small and medium enterprises operators, who have benefited at one time or the other from the financial assistance rendered by the MFBs in Nigeria. The time series data covered a period of thirteen years from 2000 to 2013. The major objective is to determine the impact of micro finance on the performance of SMEs. Other objectives include determining the effects of selected microfinance/firm variables on the growth of small and medium scale businesses. The study applied Johansen Co-integration Modelling to the data obtained as seen in the works of [34] The sample size for the study is 180 out of 400 MFBs that have obtained their licences of operation from the CBN; to operate as microfinance banks in Southeast Nigerian geo-political zone. The sample frame for SMEs is determined from thepopulation of 800 SMEs operators that are operating in the Southeast geo-political zone of Nigeria. For a study of this nature a simple random sampling technique was employed to select 300 SMEs business operators who have benefited from microfinance loans and are operating in the Southeast geo-political zone of Nigeria.

2.1. Model Specification

The hypothesis was structured to ascertain the extent to which microfinance facilities can enhance the performance of small and medium businesses in the Southeast geo-political zone of Nigeria. As already stated, the model adopted for this study was based on the Johansen co-integration test model. Using the Johansen co- integration test model to examine the long run relationship, we developed an over parameterized error correction model (ECM_1) and a parsimonious error correction (ECM_2). While ECM_1 involves leading and lagging of the variables in the regression equation, the ECM_2 introduces dynamism into the model. The following are the apriority expectations of the coefficient of the model written thus: X_1, X_2, X_3 $X_4, X_5, X_6, X_7,$ *and* $X_8 > 0$. From these, the functional form on which our econometric model is based on is written as:

$$Y=f(X_1, X_2, X_3\ X_4, X_5, X_6, X_7, X_8) \quad (1)$$

Where: Y=SMEs Growth Rate (SGR) as dependent variable, $X_1, X_2, X_3\ X_4, X_5, X_6, X_7,$ *and* X_8 = independent variables denoting business form, business age, business size, business location, loan size, loan maturity date, loan repayment, loan interest respectively, f = the functional notation.

This model is used to gauge and assess the performance of the SMEs, thereby making the microfinance variables functions of the level of GDP growth rate proxy as Sales Growth Rate (SGR). (1) can be specifically re-written thus:

$$SGR_t=f(Biz_{fm}+Biz_{Age}+Biz_{size}+Biz_{loc}+Lo_{size}+Lo_{MD}+Lo_{Rep}+Lo_{int}) \quad (2)$$

Where**:** SGR = Sales Growth proxy for annual sales growth rate for the 13 years period, (2003-2013), Biz_{fm} = Business form, Biz_{Age} = Business Age, Biz_{size} = Business Size. Biz_{loc} = Business Location, Lo_{size} = Loan size, Lo_{MD} = Loan Maturity Date, Lo_{Rep} = Loan Repayment, Lo_{int} = Loan interest.

The explicit form of (2) is represented thus:

$$SGR =\beta_0+\beta_1Biz_{fm}+\beta_2Biz_{Age}+\beta_3Biz_{size}+\beta_4Biz_{loc}+\beta_5Lo_{size}+\beta_6Lo_{MD}+\beta_7Lo_{Rep}+\beta_8Loint+\epsilon \quad (3)$$

Where: β_0 is the intercept of relationship in the model which is constant, $\beta_1 - \beta_8$ = Coefficients of each of theindependent variables and ϵ is the stochastic error terms. Using log, linearising the model becomes:

$$Log(SMBizG)=\beta_0+\beta_1log(Biz_{fm})+\beta_3log(Biz_{Age})+\beta_4log(Biz_{size})+\beta_5log(Biz_{loc})+\beta_6log(lo_{size})+\beta_7log(lo_{MD})$$

$$+\beta_8log\ (Lo_{Rep})\ +\beta_9log\ (Lo_{int})\ _1+\epsilon \quad (4)$$

Where: log = natural log.

From (4) , this model can be specified and re-written in a time series form as:

$$log(SGR)_1=\beta_0+\beta_1log(Biz_{fm})_1+\beta_2log(Biz_{Age})_1+\beta_3log(Biz_{size})+\beta_4log(Biz_{loc})_1+\beta_5log(lo_{size})_1+\beta_6log(lo_{MD})_1$$

$$+\beta_7log(lo_{Rep})_1+\beta_8log(lo_{Int})+\ \epsilon \quad (5)$$

Applying the error correction model (ECM) to (5) we have the model shown thus:

$$\Delta Log(SGR)=\beta_0+\sum\beta_1 log(Biz_{fm})_{t-1}+\beta_1+\sum\beta_2 log(Biz_{Age})_{t-1}+\sum\beta_3 log(Biz_{size})_{t-1}+\sum\beta_4 log(Biz_{loc})_{t-1}$$

$$+\sum\beta_5 log(lo_{size})_{t-1}+\sum\beta_6 log(lo_{MD})_{t-1}+\sum\beta_7 log(lo_{Rep})_{t-1}+\sum\beta_8 log(lo_{Int})_{t-1}+\beta_0\sum(ECM)_{t-1}+\beta_0+\sum_t.. \quad (6)$$

This implies that the independent variables were lagged by one period $\sum_t$. Based on these; the hypotheses for thestudy were formulated thus:

H_0: $\beta_1=\beta_2= +\beta_3= \beta_4=\beta_5=\beta_6=\beta_7=\beta_8=0$: (there is no significant relationship between micro finance vis-à-vismicrofinance variables and the growth of SMEs i.e. any co-integration)

Vs

H_1: $\beta_1 \neq \beta_2 \neq \beta\neq {}_3 \neq\beta_4\neq\beta_5\neq \beta_6 \neq\beta_7 \neq \beta_8 \neq 0$: (there is significant relationship between microfinance/microfinancevariables and the growth of the SMEs i.e. co-integration exists).

III. Results/Analysis

Table 1: Descriptive Statistics on GDP Growth Rate of SMEs (SGR), Business Form, Business Age, Business Size, Business Location, Asset Loan Size, Asset Loan Maturity Date, Asset Loan Repayment and Asset Loan Interest.

F-Statistics	SGR	Biz_{fm}	Biz_{Age}	Biz_{size}	Biz_{loc}	ALo_{size}	ALo_{MD}	ALo_{Rep}	ALo_{Int}
Mean	5.867	1.222	1.521	1.648	1.882	1.562	0.428	1.524	0.142

Median	4.564	1.208	0.502	0.982	1.102	1.243	0.848	1.088	0.011
Maximum	12.221	18.422	10.244	12.466	15.824	18.433	6.442	7.778	1.480
Minimum	0.212	0.468	0.082	0.111	0.152	0.101	0.121	0.121	0.031
Std..Dev.	2.724	0.922	0.423	0.732	0.911	0.666	0.568	0.687	0.544
Skewness	0.442	0.224	0.148	0.554	0.721	0.455	0.386	0.486	0.303
Kurtosis	2.541	0.806	0.402	0.662	0.788	0.565	0.421	0.542	0.386
Jacque-era	0.912	0.544	0.381	0.434	0.557	0.388	0.303	0.445	0.264
Probability	0.768	0.421	0.222	0.333	0.454	0.302	0.286	0.321	0.204
Sum	128.724	21.224	10.433	14.112	18.234	12.122	7.664	10.211	2.082
Sq. Dev	188.652	28.244	22.435	28.444	28.112	18.882	12.502	18.884	3.984
;;;;Observation	10	10	10	10	10	10	10	10	10

Source: Author‟s computation 2014

In TABLE 1 above, some descriptive statistics are employed to examine the business growth and expansion capacity vis-à-vis the microfinance variables and SMEs variables with annual data from 2003 to 2013. From the TABLE the mean (average) statistics of SGR_t Biz_{fm}, Biz_{Age}, Biz_{size}, Biz_{loc}, ALo_{size}, ALo_{MD}, ALo_{Rep} and $ALo_{int}$are given as; 5.867%, 1.222%, 1.521%, 1.648%, 1.882%, 1.562%, 0.428%, 1.524% and 0.142% respectively.

This reveals a considerable mean (average) sales growth rate (SGR) over the periods under study. For the valuesof the variables, maximum and minimum values range from; 0.212 – 12.221, 0.468 - 18.422, 0.082 – 10.244, 0.111 - 12.466, 0.152 – 15.824, 0.101 – 8.433, 0.121 – 6.442, 0.122 – 7.778 and 0.031 – 1.480 respectively.

These showed that the impact of both microfinance and SMEs variables on the sales growth rate of the enterprises have been on a constant fluctuation with notable increase recorded for business form, business location and loan size that showed a clearer improvement; 18.422, 15.824 and 18.433 respectively. The model used the null hypothesis of normality test against the alternative hypothesis of non-normality.

The Decision rule is given as: If the probability value is less than 5% level of significance, the null hypothesis will be accepted which leads to rejection of the alternative hypothesis. From the calculation, all the variables are normally distributed and since all the probabilities are more than the 5% level of significance, the alternative hypothesis is accepted which led to rejection of the null hypothesis. The mean based coefficient of Skewness and Kurtosis is used to check the normality of all the variables used. The overall results reveals that all the variables as shown in TABLE 1, impact on expansion capacity and sales growth of small and medium scale enterprises. For instance, from the result it was observed that a unit increase in business age will increase sales growth rate by 0.02% and it is statistically significant at 5%. On micro finance variables, results on size of asset banks loan and advances on growth capacity of the SMEs show that a unit increase in size of assets loan (ALo_{size}) will increase sales growth by 1.562%, hence the results obtained were statistically significant at more than 5% level of significance.

Table 2: The Financial Inclusions of Microfinance Banks To The SMEs Industrialists Vis-À-Vis Repayment Schedule (2003-2013) - (₦,Billion)

Year	Amount Applied	Amount Disbursed	Amount Repaid	Balance Outstanding	Percentage Repayment	CBN % Directives	Banks % Disbursed
2003	3,800000	622,420	444,820	177,600	71%	13%	5%
2004	7,878880	922,456	802,324	120,132	87%	13%	6%
2005	8,544000	988,980	850,000	138,980	86%	13%	6%
2006	6,720000	882,420	704,444	177,976	80%	13%	7%
2007	4,999990	688,900	542,330	146,570	79%	13%	5%
2008	4,998780	665,120	511,620	153,500	76%	13%	5%
2009	5,800000	781,350	608,540	172,810	78%	13%	6%
2010	11,500,000	5,168,050	4581039	587,011	89%	13%	6%
2011	150000000	6,192,800	5538975	653,825	89%	13%	13%
2012	18.000000	5,596,320	5190092	406,228	93%	13%	7%
2013	25,120,000	5,541,400	5,288,840	252,560	95%	13%	8%

Source: CBN Statistical Bulletin

TABLE 2 shows the financial inclusions of the banks to the SMEs entrepreneurs, the amount applied for, the actual amount disbursed, the amount repaid and the balance outstanding of the loan granted by the banks in the zone under study. From the result it was revealed further that the entrepreneurs‟ responses to loan repayment were quite impressive and encouraging (response rate of between 71% and 95%). This is indicative that loan default as feared initially is not a hindrance to the microfinance lending to the SMEs; rather it is supposed to be an encouraging factor. Unfortunately, despite these notable performances by SMEs entrepreneurs in servicing their loans, the banks do not seem eager to lend enough funds to them as a result of anticipated high risk of defaults. They have not been able to meet up with the CBN‟s directive on percentage (13%) disbursement of loan-able funds to the small and medium scale enterprises (SMEs) except in 2011. From this, one can rightly deduce that it is unfortunate that even 50% of the entrepreneur‟s loan demand is not met by the banks.

However,the little they have obtained was properly utilized, hence low defaults rates of between 5% and 29%.

3.1 Analysis of Data Collected from Secondary Sources

The data collected from secondary sources were analyzed using tables and regression of microfinance banks loans and advances on SMEs component of GDP. The analysis was carried out using Statistical Package for Social Sciences (SPSS) version17, which yielded output of parameters of coefficients with the "t" values and thestandard errors at 5% level of significance.

Table 3: Microfinance Banks Loans and Advances to SMEs in Nigeria (2003-2013) (₦'m)

Year	Microfinance Banks Loans and advances	SMEs component of GDP
2003	4,242.23	5,214,203.30
2004	2,122.12	5,332,124.20
2005	5,521.11	7,324,122.31
2006	10,221.42	9,345,142.23
2007	12,421.42	10,888,477.33
2008	29,211.42	15,224,111.24
2008	17,212.00	20,000,221.21
2010	23,431.00	21,442,331.34
2011	44,421.21	23,988,778.56
2012	60,002.24	26,111,001.21
2013	56,212.23	31,002,222.23

Source: CBN Statistical Bulletin (various issues)

3.2 Model Specification

In specifying the models of the relationship the following variables were defined respectively:GDP is denoted by Y, hence;

$$Y = X_0 + X1_{LoA} + U$$

$$Y_{LoA} = X_0 + X_{1LoAsme} + U \qquad (7)$$

Where: **Y** is Gross Domestic Product (GDP) of the economy, LoA is the microfinance banks loans and advancesto the SMEs, **U** is the error or disturbance term and **X** is the SMEs component of the GDP

3.3 Techniques of Data Analysis

Parametric statistics in forms of analysis of variance-ANOVA, t-test, co-efficient of correlation and simplelinear regression were used to analyze the hypothesis. The output is as shown on TABLE 4 below.

Table 4 Regression Descriptive Statistics of the Hypothesis of the Study

	Mean	Std. Deviation	N
SMEs Component of GDP	362078.200	152577.480	10
Microfinance credits and advances to the SMEs	1216609.52	765303.989	10

Correlations (a)

		SMEs component ofGDP	Microfinance Banks loans/ advances to SMEs
Pearson correlation	SMEs component of GDP	1.000	480
	Microfinance Banks loans and advances to SMEs	480	1.000
Sig.(1-tailed)	SMEs component of GDP	.	0.012
	Microfinance Banks loans and advances to SMEs	0.012	.
N		10	10

Model Summary (b)

Model	R	R Square	Adjusted R Square	Standard. Error of theEstimation	Durbin-Watson

1	480(a)	230400	240	109601.15791	0.320

** Predictors: (Constant), Microfinance Banks credits and advances to SMEs
* Dependent Variable: SMEs component of GDP

ANOVA (c)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24215220412.4	2	12003111826.5	9.222	.03(a)
	Residual	64086896704.3	8	14113300202.8		
	Total	88302117116.8	10			

** Predictors: (Constant), Microfinance Banks loans and advances to SMEs
* Dependent Variable: SMEs Component of GDP

Coefficients (a)

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	19583180	71619.754		2.547	.02
	Banks Credit to SMEs	0.284	0.022	480	2.222	.01

Dependent Variable: SMEs
Component of GDPThe
model is stated as

Y= 19583,190.042 + 0.284 loan/advances to SMEs (8)

Where, Y = Small and medium scale enterprises component of GDP
LoAsmes = Banks loans and advances to the small and medium scale entrepreneurs

From the above, model, SMEs component of GDP is influenced by the summation of the constant 19583180 with the product of 0.284 and banks loans and advances to the SMEs. With a regression sum of squares (88302117116.8) that is greater than the residual sums of squares (64086896704.3), more of the variation in SMEs component of GDP is explained by the model. Furthermore, the significance value of the F statistic (0.03), which is lesser than 0.05, indicates that the variation explained by the model is not due to chance.

The *R Square* value (0.48), which is the coefficient of determination, shows that only about 48% of the variation in SMEs enterprises *component of GDP* is explained by the model.

The Durbin-Watson statistic of 0.320 less than 2, indicates there is an autocorrelation. The sign of the coefficient of loans and advances from microfinance banks small and medium scale entrepreneurs is positive, satisfying a priori expectation and the impact is significant (as the calculated t-value of 2.547 is more than 2). Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis which posits that microfinance banks loans and advances to the small and medium scale entrepreneurs have significant positive impact on the SMEs enterprises component of GDP.

IV. FINDINGS

Based on this study, the analysis result revealed that the microfinance banks loans and advances have significantpositive impact on the performance of SMEs enterprises in Nigeria. In other words, micro-financing as practicedby Nigerian microfinance banks enhances the growth and expansion capacity of small and medium enterprises in Nigeria.

Other findings include:

1. Both the firm and the bank level characteristics such as business form, business size, business age, business location, loan size, loan maturity and loan interest are found to have significant effect on SMEs growth.

2. The form or nature of business involved has a positive relationship with sales growth of the small and medium scale enterprises but not statistically significant. This implies that the growth of a firm depends largely on the type of business involved.

3. Business age has an inverse relationship with small business growth and expansion through sales growth rate. The general trend between business age and sales growth rate suggests that youngbusinesses are more likely to grow faster than the older ones.

4. There is a positive and high significant coefficient between enterprises location and SMEs growth inthe samples used. Most of the enterprises located in the urban areas performed better that those located in the rural areas.

5. There is a positive correlation between size of microfinance loans and advances and SMEs enterprises performance. This implies that microfinance loans and advances enhance growth of enterprises when there is enough of such financial inclusion.

.

6. The microfinance banks asset loan maturity has a positive relationship with sales growth of the enterprises and is statistically significant. This indicates that the duration of the microfinance asset loans and advances to SMEs is enough for any meaningful performance.

7. There is a negative correlation coefficient between the repayment of loans and the sales growth of the SMEs. This implies that the duration of assets loan, with a negative relationship with sales growth shows that the duration of the asset loan is too short for any meaningful impact on SMEs growth.

On interest charge on loan, the result revealed that a unit increase in interest charge on microfinance asset loans/advances will cause annual sales growth of SMEs enterprises to decrease and verse versa.

V. DISCUSSION

This study revealed that micro-financing as practiced by Nigerian microfinance banks enhances the performanceof small and medium enterprises in Nigeria, this is in agreement with the results of the study of [35] from three national surveys in Zimbabwe which revealed that there is a positive correlation between asset loans and enterprises performance. His result suggested that asset loan enhances growth of firms irrespective of size provided the loan is properly utilized. However, this result is in contradiction with the findings in the work of [36] which found that the growth of SMEs is not just dependent on accessing bank loans and advances but accessing the right size of such credits at the right time. Equally in partial contrast with the result of this study is the work of [15]which employed panel data techniques to analyze a survey of 290 new small enterprises in Romania. They found strong evidence that access to external credit increases the growth of both employment rate and sales growth of enterprises. Also, the result of this study revealed that both the firm and the bank level variables such as business form, business size, business age, business location, loan repayment, loan size, loan maturity date and loan interest have significant effect on SMEs growth.. In other words, an increase in the number of banks operating in the country where the firm is located enhances the loan accessibility of the firm, hence, improved performance of the enterprise. Though, these results were in total disagreement with the result of [37] who found that not all small businesses are growth oriented and that for certain firms‟ growth is a voluntary choice. The result obtained for business location as growth determinant factor showed that there is a positive significant coefficient between business location and business growth in the samples. The findings in the study of [38] confirmed this by asserting that most of the enterprises in their samples which were located in the urban areas of Kenya performed better that those located in the rural areas. Equally in total agreement with our results is the work of [39] which revealed that there are some locations in which firms are more likely to grow faster than others in another location. Using United Kingdom data, their work provided a good evidence and proof that firms located in a rural

area grow faster than those in urban areas. Their findings showed that firms located in densely populated areas exhibits higher growth rates than firms located in sparsely populated areas. In furtherance of the agreement with this study, the work of [40] revealed that businesses located in the urban areas are more likely to thrive better than the ones located in the rural areas. This confirmed that location can have a significant impact on small and medium scale enterprises performance. His result concluded that urban based enterprises tend to have a better access to a range of resources that are vital to enterprises growth and performance such as good road, steady electricity supply, dynamic markets and opportunities to network with larger firm and within SMEs sector. But the work of [41] in which they used regional population density astheir location variable disagreed with this finding, their work provided and found weak evidence that location affects growth. According to their findings, location has little or no significant impact on the growth of a firm. On age as a determinant factor, the result of this study revealed that there is an inverse relationship between small and medium enterprises age and their growth. This implies that the age of a firm affects its performance.This result is in line with the findings in the work of [42] which revealed that older firms grow less rapidly than younger enterprises that have just sprung up with fresh zeal and new blood. However, the work of
[43] disagreed with this finding by providing empirical evidence that most new firms do not grow into large ones at once; hence, there is no significant relationship between the age of a firm and its size. Equally in disagreement with the result of this study as per issue of age as a growth determinant factor are the studies carried out by [44] which found out that there is no single strategy to small firm growth, hence age is not a determinant factor for achieving growth in any enterprises. Their work rather suggested three factors that could limit the growth of small business to include ability, need and opportunity. Still on SMEs and growth, as per business size as determinant of growth proxy in our work as the number of branches and paid employee in the business, the results obtained showed a negative and statistically significant coefficient for the growth of the SMEs. This suggests that the growth rate of an enterprise can initially increase with business size but can start todecrease after a certain point. This is in a total contrast with the findings in the study of [45] which revealed that the results obtained on relationship between firm growth and firm size in other previous studies are notunanimous. In confirmation of this, the study of [46] founds a positive relationship between firm size and growth while the work of [47] found a negative relationship, though they used data on larger firms. In further confirmation, the work of [48] suggested that small business entrepreneurs who wanted their firms to grow started their business in order to achieve just that immediately, and nothing else irrespective of size of the firm and other variables. On asset loan repayment as a determinant factor for firm growth, our results showed a negative correlation between the repayment of loans and the sales growth of the SMEs. This finding is in support of economic theory that negates micro finance theory because of the frequency of repayment which maybe done weekly, monthly, half-yearly or yearly as the case may be. The result obtained revealed that if frequency of repayment is increased by a unit, sales growth

decreases by 1.524% and verse versa, hence it is statistically significant to be relied upon to make inferences. On the maturity of the loan as growth determinant factor, the result of this study found that loan duration has negative effect on the performance of the small scale enterprises. For instance, if duration of asset loan is increased by one month, annual sales growth will increaseby 0.43% and it is statistically significant at 5%. This implies that the asset loan duration is not suitable forsmall and medium enterprises growth. On interest charge on loan as growth determinant variable, the result revealed that a unit increase in interest charge on microfinance loans and advances will cause annual sales growth to decrease by 0.142% and it is statistically significant at 5%.

5.1 Policy Implication

The findings of this work suggest that microfinance banks loans and advances to the small and medium scale entrepreneurs have significant positive impact on the SMEs enterprises component of GDP. Based on this awesome development, the authorities concerned have to go down to the grassroots and re-lay a solid foundationfor the future operations of small and medium scale enterprises in Nigeria. Equally the policy objectives of the microfinance should be re-visited, re-reviewed and restructured to include more incentives for adequate financial inclusion to small and medium industrialists. For instance, in terms of financing, an innovative form of financing peculiar to Nigeria came in 1999 in form of intervention from the banks and the banks agreed to set aside 10% of their profit before tax (PBT) annually for equity investment in small and medium scale industries. This should be reviewed and adjusted to say 20% as against the agreed 10%. It is only when this is done that the scheme would be able to achieve its aim among other things, of assisting the establishment of new, viable Small and Medium Scale Industries (SMI) projects; thereby stimulating economic growth and development of local technology, promoting indigenous entrepreneurship and generating employment opportunities for the unemployed masses. It is only by so doing that this nation can boast of a strong economy which is capable of addressing high level of inflation, unemployment, youth restiveness, terrorism, insecurity, political instability, poor image laundering, prostitution, human trafficking and other social ills.

VI. CONCLUSION

This study tries to analysis the underling importance of microfinance banks financial inclusion to small and medium enterprises especially the rural and urban producers. The study found enough evidence to support the hypothesis which posits that microfinance banks loans and advances contribute to the growth of the small and medium scale businesses in Nigeria. This means that the operation of microfinance institutions is an impetus for the performance and growth of small and medium enterprises in Nigeria. Therefore, there is need for both the government and private individuals/organizations to support the efforts of microfinance banks towards empowering the small and medium scale enterprises to grow. Though, microfinance banks have played a bigrole in the growth of small and medium scale enterprises in Nigeria, there are still service gaps that need to be filled especially in the rural areas where we have plenty of the potential entrepreneurs who have been devoid of fund to start off business.

VII. RECOMMENDATIONS

Based on the findings of this study, the study recommends a recapitalization of the microfinance banks to enhance their lending capacity to support small and medium business growth and expansion. Other recommendations include:

1. There is need to intensify the monitoring and supervisory drives of the supervisory authorities to ensurethat the loans and advances are given to the right people and that the right people are utilizing the loans appropriately.

2. Let there be improvement in the flows of information about lending and borrowing policies, activities and strategies of microfinance banks to enable the potential borrowers to know their lefts from their rights as it concerns getting loans. This can take the form of enlightenment campaign program of not more than six months duration to educate the entrepreneurs and enhance their confidence in the management of the loans.

3. There is need for the regulatory authorities to develop new versions of rules and statutes governing microfinance institutions such that they do not exploit the clients by charging high interest rates on loans. Though, the rules are there already but the problem is implementation.

4. The need for strengthening operations to ensure that microfinance banks projects are established in a broader context to give support to the small and medium enterprises should be emphasized if they areto achieve their arm of adequate financial inclusion to the sector.

5. There is need for the government to urgently tackle the problem of inadequate infrastructural development and maintenance which impact significantly on the operations and performance of SMEs. These include power supply, pipe-born water, motor-able or accessible roads, etc.

6. Keying into the suggestion of [49], the regulatory authorities should integrate microfinance banks with other available larger financing windows such as strategic partners of universal banks. When this is done, it would be of mutual benefit to both parties as it would broaden the market base of banks while providing small and medium entrepreneurs with easy access to finance at the same time.

7. Highly commendable is the introduction of the small and medium industry equity investment scheme (SMIEIS) but there is need that the scheme should be well coordinated in order to address the under capitalization problems of SMEs.

8. There is need for the provision of entrepreneurial training for the loan beneficiaries whereby financial advice and stuff should be given to them at little or no cost. So also there should be training for manpower building for loan officers of banks to enable them understand the peculiarities of industrial loan proposals and effectively determine the credit worthiness of borrowers.

9. It has been noted that banks have been concentrating their lending portfolio might on oil and gas as well as maritime and other blue-chip industries. Necessity demands that they should be encouraged or coerced to shift to small and medium enterprises because the young shall rapidly and surely growth oneday if properly cared for.

10. With all these in place, the small and medium enterprises performance would attain a greater height thereby increasing the production base of the industrial sector. When this is achieved, there will be availability of raw material resources needed for further production of goods and services for the growing population. With this in place, most of the raw materials for the industries will not be importedhence our currency will appreciate and inflation rate will come down with its resultant job creation.

REFERENCES

[1] Anyanwu, C. M. "Microfinance Institutions in Nigeria: Policy, Practice and Potentials". *Being a paper presented at G24Workshop* "Constraints to Growth in Sub-Sahara Africa" Pretoria, South Africa, Nov. 29-30, 2004.

[2]. Ugwuanyi W, *The Nigerian Financial System: A Systematic Approach* Enugu: Johnkens and Willy Nig. Ltd 2012

*[3]*Olaitan M.A,. Funding Sources for Microfinance Banks in Nigeria" *The Nigerian Microfinance Newsletter, Lagos: CBNPublication. 2007*

[4]Oleka, D.C *Development Finance: Money and Capital Market*, *Financial Management and Investment*. Enugu: HipuksAdditional Press Co 2008.

*[5]*Okoy C.A. "The role of banks in enterprises financing: African Experience", *Journal of International Economics, 5(12),*

2010 *88-120*

[6] Ogwu Financial System Strategy 2020: A Vision of Self Discovery and Economic Suitability for Nigeria by the Year 2020.*The Nigerian Microfinance Newsletter*, Lagos: CBN Publication. 2007

[7] Dominic B.C,."Financing Micro Businesses, Problems and Prospects"*,* *Journal of Business Economics,* 8 (4), 2012, 261-272.

[8] Beck, C.A, and Brown, A.S. (), "Financial Inclusion for Alleviating Poverty in Developing Economies: Malaysian experience"*, International Journal of Economics, 2 (2),* 2004, *40-48*

[9] Oladije "The impact of Micro Finance loans on economic growth and development: Empirical Analysis", *Journal of Development Economics,* 5 (12), 2004, 66-78

[10]Ekpeyong, B.C. (1999), "Microfinance and Poverty Alleviation in Nigeria": *International Journal of Finance and Economics,* 3 (4), 222-242.

[11] Watson, J. & Everett, J. () "Small Business Failure Rate: Choice of Definition and Industry Effects". *International Business Journal, 8 (17),* 1999, *123-129*

[12] Lawson, B. "Access to Finance for Small and Medium Enterprises, Financial System Strategy 2020", *International Conference,* held on 12th June 2007 at Hilltop Hotel Abuja Nigeria.

[13] Ofoegbu, E.O. Akanbi, P.A and Joseph, A.T. "Effect of contextual factor on the performance of SMEs in Nigeria"-A case study of Ilorin Metropolis. *Advance in Management and Applied Economics 3 (1),* 2013,*95-114*

[14] Ajayi, C.Y."an empirical investigation of the impact of financial inclusion of microfinance institutions on the performance of micro business: Developing countries experience", *Journal of Financial Economics, 5 (5),* 2005, *28-33*

[15] Haydon, A.T. "Impact of microfinance on the growth and expansion of small and medium enterprises in South Africa"
Journal of Development Economics, 21 (44), 2004, 68-78.

[16] Labella (2005) "Empirical Analysis of Infrastructure, productivity and urban dynamics in Nigeria: Policy Implications".
Africa Region Working Paper series no. 56. The World Bank,

[17] Kirby, P. "Breaking the Entrepreneurial Bottlenecks in Less Developing Countries". *Journal of Development Planning, 2 (18),* 2002, *98-104.*

[18] Mitchella, C. "Financing of Small Scale Industries: Problems and Prospects". *A Paper Presented at a Seminar on Financing Small Scale Enterprises,* Organized at Cambridge University London. 2001

[19] Hussain A.S The Relationship between Micro finance and Small Business Growth. *Journal of Business Economics,* 3(10), 1988,88-100

[20] Varkata, M. "Greening Small and Medium Sized Enterprises: Evaluating Environmental Policy in Vietnam", *International Journal of Economics,* 2 (8), 2004 112-122

[21] Uche C.U Banking Regulation in Era of Structural Adjustment: The Case of Nigeria. *Journal of Financial Regulation and Compliances,* 8 (6), 1998,150-164

[22] CBN Draft National Microfinance Policy and Regulatory Guidelines for Nigeria. *Available:www.cenbank.org/out/publication/draft/dfd/2005/microfinance%20 policy.pdf'>.*2004 Accessed on June 18th 2007.[23]Peters, H.C. "Microcredit and small and medium enterprises growth: Empirical evidence from emerging economies", *Journal of Development Economics,* 8 (10), 2012,100-120

[24] Arua N. "An Analysis of Current Arrangement by the Nigerian Banks for Financing SMEs in Nigeria" *ESUT Journal ofManagement Sciences* 2 (2), 2005,89-100.

[25] Brown J.B, Earle, J.S and Lup,D. What makes Small Firms?, *Financem Human Capital Technical Assistance and Business environment in Romania Discussion paper 1343 Upjohn Institute Staff working paper 03-94 2004*

[26] Kasimu, S.Y. "The Functions and Operations of Development in Nigeria Micro Financing", *International Journal ofEconomics, 4 (10),* 2001, *222-248*

[27] Mustapha M. "The Role of Micro Finance Banks in the Promotion and Development of Entrepreneurship in Semi-Urban and Rural Area of Nigeria". *Bayero University Journal of Economics, 2 (4),* 2009,*52-60*.

[28] Capenter,C ,Making Small Business Finance profitable in Nigeria Retrieved on 18th March,2007.*www.nipc-ng.org*.

[29]Adeyele, A.C. "the empirical analysis of the performance of small and medium enterprises in emerging economies: Evidence from manufacturing"*, Journal of Development Studies 14(9)* 1999,*44-58*

[30] Okonkwo P.C. "Analysis of the impact of bank credits on the performance of small and medium enterprises: Evidencefrom Nigerian industries" *Journal of*

Economic 6 (4), 2005*12–22*.

[31] Yusuf, A.. "Making Small Business Finance Profitable in Nigeria Through Micro Financial Inclusion", *Journal of Economics, 10 (22),* 2001,*88-100*

[32] Abu, S.A."the impact of small and medium industries on the growth of economy: Empirical analysis", *Journal ofDevelopment, 7 (9),* 2012, *66-78.*

[33] Anyanwu, C. M. "the role of CBN in enterprises financing"*, paper delivered at Small and Medium Industries EquityInvestment Scheme (SMIEIS) Seminar.* CBN Training Centre, Lagos, May 14-16. 2003

[34] Dodge, H. R., Fullerton, S. and Robbins, J.E. "Stage of the Organizational Life Cycle and Competition as Mediators ofProblem Perception for Small Business Management", *Journal of Small Business Management 30 (1),* 1994, *27-37.*

[35] Daniels, L. "Factors that influence the expansion of the microenterprise sector: results from three national surveys inZimbabwe". *Journal of International Development,* 2 (15), 2003, 675–692.

[36] Olutunla, G. T and. Obamuyi T. M "An empirical analysis of factors associated with the profitability of small andmedium enterprises in Nigeria"*, African Journal of Business Management, 2 (8),* 2008, *195 – 200*

[37] Masurel, E. and Montfort, K. "Life Cycle Characteristics of Small Professional Service Firms", *Journal of SmallBusiness Management, 44 (3),* 2006, *461 – 437.*

[38]Daniels, L. and Mead, D. "The contribution of small enterprises to household and national income in Kenya". *Journal ofEconomic Development and Cultural Change,* 47, (1), 1998,46–71.

[39] Carland, J. F., Bouton, H.W. & Carland, A. Differentiating entrepreneurs from small business owners: aconceptualization," *Academy of Management Review,* 9 (2), 1984,354-359.

[40] Frazer, G. "Learning the Master‟s Trade: apprenticeship and human capital in Ghana. *Journal of DevelopmentEconomics"4 (81)* 2006,*259–298.*

[41] Almus, M.and Nerlinger, E. "Growth of technology based firms: which factors matter?" *Small Business Economics, 5(13),* 1999,*141-154*.

[42]Davidson, P., Kirchhoff, B., Haiti, A & Gustafson, H. "Empirical analysis of business growth factors using Swedishdata", *Journal of Small Business Management,* 40 (8), 2002,332-349

[43] Arbaugh, J. B. and Sexton, D.L. “New Firm Growth and Development: a replication and extension of Reynolds‟ Research”, *Journal of Enterprising Culture, 4, (1),* 1996,*19 – 36.*

[44] Chaston, I. and Mangles, T. “Core Capabilities as Predictors of Growth Potential in Small Manufacturing Firms” *Journal of Small Business Management,* 35 (1), 1997, 47 – 57.

[45] Bekele, E. and Zeleke, W. (2008) “Factors that Affect the Long-Term Survival of Micro, Small and Medium Enterprises in Ethiopia”, *South African Journal of Economics, 76 (3)1-33.*

[46]Churchill, N. C. and Lewis, V.L, “The Five Stages of Small Business Growth”, *Harvard Business Review, 76 (8), 62-74.* Cooper, A. C. and Woo, C.Y. (1994) “Initial Human and Financial Capital as Predictors of New Venture Performance”, *Journal of Business Venture*, 9 (1), 1998,371-395.

[47] Eyiah, A. K., & Cook, P. (2003) “Financing small and medium-scale contractors in developing countries”: A case of Ghana. *Construction Management Economics, 21 (10), 357–367.*

[48] Olusegun, A.O, Performance, Firm Size, and Growth, *Journal of Small Business Management, 38, (5),* 2010,*58-68.*

[49] Ojo, A. T. (2003) “Partnership and strategic alliance effective SME development, Small and Medium Enterprises Development and SMIEIS: Effective Implementation Strategies” Lagos: CIBN Press LtdOjo, A. (2004), “Empirical Analysis of Microcredit and Rural Development- The Journey so far: Nigerian Experience”*: Journal of EnterprisingDevelopment, 1 (2), 43-52.*