

IMPACT ASSESSMENT OF THE ROLE OF MICRO FINANCE BANKS IN PROMOTING SMALL AND MEDIUM ENTERPRISES GROWTH IN NIGERIA

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ABSTRACT

The history of industrial Revolution in developed and developing countries have shown that small and medium enterprises are the driving force of industrial and economic development. This paper examines impact of the role played by micro finance banks (MFBs) in promoting the growth of SMEs in Nigeria. An empirical study was carried out using Garu Micro Finance bank in Bauchi, Bauchi State being one of the most successful Micro Finance Banks in North East sub region to determine impact of the role of MFBs in promoting small and medium enterprises growth. Out of the total number of employees in the bank, 15 members of staff whom constitute the middle and management staff were used as respondents. Questionnaire was developed and distributed to them which they all filled and returned. The study revealed that MFBs have contributed to the promotion of small and medium enterprises growth in Nigeria. It was recommended that government should further encourage the activities of Micro Finance Banks (MFBs) by creating enabling environment so that they can further support SMEs growth.

INTRODUCTION

The role of Micro Finance Banks in Promoting Small and Medium Enterprises in Nigeria is more than to be over emphasised. A major characteristic of small and medium enterprises (SMEs) worldwide is that they are generally managed by their owners either as sole proprietorship or partnership (Adamu, 2005). SMEs are also largely local in their areas of operation. They depend on internal sources of capital and are relatively small in size within the industry. Small and Medium Enterprises (SMEs) are predominant in the private sector of the Nigeria economy, but almost all of them are starved of funds.

Economic growth cannot be achieved without putting in place well focused and organized programmes to reduce poverty through empowering the people by increasing their access to factors of production especially credit facilities. The latent capacity of the poor for entrepreneurship would be significantly enhanced through provision of micro finance services to enable them engage in economic activities (such as small and medium enterprises) and be more self reliant, increase employment opportunities, enhance household income and create wealth (CBN, 2005).

Establishment of Micro-finance banks as an effort by the government to improve the access to loans and savings services for poor people is currently being promoted as a key development strategy to enhancing poverty eradication and economic development (Shreiner, 2005). Micro finance policy depends heavily on the availability and provision of finance. Abimiku (2000) asserted that finance is the main pre-occupation of banking industry that brings together the factors of production such as land, labour and enterprenuer into action. The role of finance in organizing productive activities is no longer conjectural as it has the unique advantage of facilitating economic development. Many today believe that, finance is vital and crucial to the process of economic development. Development Economist posits that, the existence and evolution of banking constitute an important dimension of the process of economic growth and development. The provision of affordable financial services to the rural population according to Mohammed (2005) has been a key component of development strategy for the past

decades. Direct intervention in rural banking and financial markets through targeted credit programmes, interest subsidies and other government controls became widespread in the post-independence era, when Keynesian economic thinking inspired public intervention as a development strategy.

The justification for this study is driven by the fact that more than ever before, Micro Finance Banks are now springing and seem to be promising and this the operators of such banks claim that they are there to support the average or poor Nigerian improve his/her standard of living through entrepreneurship. The banks claim to promote the growth of Small and Medium Enterprises in Nigeria and this paper will substantiate the claim. Thus, gives rise to the following questions:

- i. Does Micro Finance Banks give out loan to Small and Medium Enterprises (SMEs) to establish or enhance their businesses?
- ii. How accessible are funds to Small and Medium Enterprises (SMEs) from Micro Finance Banks (MFB)?
- iii. Are there stringent conditions before loans are granted to Small and Medium Enterprises (SMEs)?
- iv. Are there effective mechanisms put in place by Micro Finance Banks to ensure judicious use of loans granted to beneficiaries (SMEs)?
- vi. Do SMEs that benefitted from the Micro Finance Bank loan repay back promptly as provided for in the terms and conditions of loans granted?
- vii. Have the SMEs been able to benefit from the loan objectives?

MICROFINANCE ACTIVITIES IN NIGERIA

The concept of micro finance originated in Bangladesh, around 1976 through a pioneering experiment by Dr. Muhammed Yunus; a Professor of Economics (Khandker, 2001). Microfinance is a term used to refer to the activity of provision of financial services to clients who are excluded from the traditional financial system on the account of their lower economic status (United Nations, 2006). These financial services are most commonly in the form of loans and saving, though some microfinance institutions will offer other services such as insurance and payment services (Robinson, 2001).

Microfinance is defined as the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living (Eluhaiwe, 2005). This is based on the belief that the goals of micro - finance have been poverty reduction and accessibility to market. Olaitan (2005) defined microfinance as "the provision of credit, savings repositories and other financial services to low income earners or poor households to create or expand their economic activities to improve their standards of living".

Canadians International Development Agency (CIDA, 2005), defined microfinance as "the provision of very small loans for micro enterprise, agriculture, education and consumption purposes as well as insurance facilities and other financial product such as insurance services, housing and pension funds". Khandker (1998) defined microfinance as "successful opening of economic opportunities for the poor, increasing access to resources and contribution to their confidence and well being". While other scholars believed that the concept of micro finance can best be described by the title "small, short and unsecured", that microfinance is the provision of very small loans that are rapid within short periods of time and is essentially used by low income individuals and households who have few assets that can be used as collateral. It can be seen that micro finance is unique among developmental interventions because it can deliver benefits to the poor on large scale and permanent basis. Also, the core of microfinance programmes goes beyond mere access and distribution of money, to deeper issues of how money is utilized and invested by low income individuals. Oladokun (2006) opined that for these reasons, microfinance must be collateral free, door - to - door services that gives small loans to people with priority to women under a simple procedure.

The concept of microfinance activities in Nigeria is culturally rooted and dates back several years ago. The formal microfinance institutions that provide access to credit for the rural and urban low - income earners are mainly in the form of Self Help Groups (SHGs) or Rotating Saving and Credit Associations (ROSCAs) types. Other providers include Co-operative Societies and Saving Collectors. The traditional financial institutions generally have limited scope due to facility of loanable funds.

In view of facilities the provision of financial services to Nigeria's rural area, the government has in the past; come out with a series of publicly financial micro/rural credit programmes targeted at the poor. Notable among such programmes were the Rural Banking Programme, Sectoral Allocation of Credits, Concessionary Interest Rate, the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB) etc to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. Provision of micro finance services, particularly those sponsored by the government, have adopted the traditional supply - led, subsidized credit approach mainly directed to the agricultural sector and no farm activities, such as tailoring, trading, weaving, black smithing, agro processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short - lived due primarily to the unsustainable nature of the programmes by the people in charge of such programmes coupled with frequent change of government.

Non-Governmental Organization (NGOs) has emerged in Nigeria since 1980s to champion the cause of the micro and rural entrepreneurs with a shift from the supply led concept of the government to a demand driven strategy. The number of NGOs such as country Women Association of Nigeria (COWAN) Akure, the Farmer Development Union (FADU) Ibadan, Live Above Poverty (LAP) Benin, Development Education Centre (DEC) Enugu, among others that are involved in microfinance activities in Nigeria has increased significantly in recent times due to the inability of the conventional financial industry to provide the services required by the low income earners and the poor.

RATIONALE FOR THE ENTRY OF MICRO FINANCE BANKS

According to CBN (2005), the establishment of microfinance policy and supervisory framework for Nigeria was propelled by the need to reduce poverty, generate employment, and stimulate economic growth through the provision of credit and other financial products on a sustainable basis to economically help the active poor. Also, the decision is to bring existing

informal financial institutions under Central Bank of Nigeria's supervision to phase out existing community banks and converting them to microfinance banks. Central Bank of Nigeria (CBN) noted that the original legal and supportive framework for the community banks had many deficiencies. Adetunji (2006) lamented on such deficiencies as follows: weak institutional capacity, weak capital base, the existence of huge un-served market economic empowerment of the poor, employment generation and poverty deduction. The above facts have become evident for the establishment and entry of microfinance banks.

The specific objectives of microfinance policy and targets according to CBN (2005) are the following:

- 1 Make financial services accessible to a segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.
- 2 Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
- 3 Promote synergy and mainstreaming of the informal sub-sector into the national financial system
- 4 Contribute to rural transformation
- 5 Promote linkage programmes between universal/development, specialized institutions and microfinance banks.

Based on the objectives listed, the targets of the policy are as follows:

- 1 To cover the majority of the poor but economically active population by 2020 thereby creating million of jobs and reducing poverty
- 2 To increase the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 5 percent in 2020
- 3 To promote the participation of at least two - thirds of the states and local governments in micro credit financing by 2015
- 4 To eliminate gender disparity by improving women's access to financial services by 5% annually
- 5 To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

From the above microfinance policy objectives and targets, a number of policy strategies have been derived as follow by the government:

- 1 License and regulate the establishment of microfinance banks (MFBs).
- 2 Promote the establishment of non-governmental organization (NGOs) - based microfinance institutions.
- 3 Promote the establishment of institutions that support the development and growth of micro finance service providers and clients
- 4 Strengthen the capital base of the existing microfinance institutions
- 5 Mobilize domestic savings and promote the banking culture among low-income groups.

BANKING SECTOR AND SMES IN NIGERIA'S ECONOMIC DEVELOPMENT

The banking industry is meant to speed up the rate of economic growth and development in Nigeria. This is because, the public have neither the funds nor technical ability to invest in small and medium enterprises (SMEs) which is often time described as driving force in economic development, coupled with the fact that, they are reluctant to do so as a result of their preference for quick profits which are readily or obtainable elsewhere. Developing countries like Nigeria, at various stages of development are unable to raise enough domestic resources to meet their development goals. This situation result from low level of aggregate income, which limits the level of saving and ultimately loanable funds for investment projects such as small and medium enterprises.

Development economists posit that, for an economy to develop two conditions is necessary and sufficient and they are; banking industry and entrepreneurship. They are of the view that, high banking structure development, defined by a high banking interrelation ration is associated with high real development. This is because; development in the banking sector is a prerequisite to small and medium enterprises (SMEs) development and economic development. It is evident that the banking system makes valuable contribution to economic development if appropriate measures are taken to:

- a. Mobilize more domestic resources
- b. Deal with the problem of securities for loans and the special problem of lending to a large number of small operators in agricultural and small and medium enterprises (SMEs)
- c. Improve the quality of investment so as to increase the productivity capacity of the economy.

Onugu (2002) added that the importance of small and medium enterprises drives mainly from their characteristics and as such their development is usually regarded as a viable option for sustainable economic growth and development of any given economy. He pointed that, the proliferation of small and medium enterprises (SMEs) through the contribution of the banking industry will serve as a viable tool for stimulating development and growth of Nigeria economy as they will generate employment, development entrepreneurship and manager, prevent small rural-urban drift, develop technology, create various associated industries, and improve equality in income distribution

From the foregoing, Adelaja (2006) urge operators in the consolidated banking industry to develop stronger relationship with customers particularly Small and Medium Enterprises (SMEs) by supporting worthy SMEs for better economic development of Nigeria.

METHODOLOGY

The study was conducted in Garu Micro Finance bank in Bauchi, Bauchi State in determining whether or not micro finance banks have contributed to the promotion of growth of small and medium enterprises in Nigeria. A questionnaire was developed and distributed to middle and management staff of the bank. The questionnaire was structured along a five point Linkert type scale as stated below: (1) Strongly Agreed, (2) Agreed, (3) Undecided, (4) Disagree, and (5) Strongly Disagree

The questionnaire consisted of sections A & B, where section A sought the biographical information from the respondents, section B elicited information from the respondents on whether micro finance banks have impact and play role in the promotion of SMEs growth in Nigeria. The questionnaire was distributed to 15 employees of the bank which constitute

the total number of middle and management staff and all the questionnaires were correctly filled and returned.

RESULTS AND DISCUSSION

Based on the data generated and analysed from the responses of the respondents, the following are the findings of this research:

1. Micro Finance Banks grant loans to SMEs and the loans are accessible.
2. The loans are easily accessible by SMEs as there are no stringent conditions attached to it.
3. The banks ensure judicious use of the loan by the beneficiaries so that the aim of the loan is not defeated.
4. Any SME can have access to the loan.
5. The bank is able to recover loans granted to SMEs within the time stipulated in the terms of the loan.
6. The objective for which the loan is being granted is being achieved.

Small and medium enterprises have been found to be a veritable force of economic development. However, the accompanying increase in productivity is not always commensurate with the level of economic development attained, but there is no doubt that SMEs need assistance through Micro-Finance Banks to become sustainable and competitive. The promotion of SMEs has been carried out by subsidising credits, providing preference treatment and targeting locations and business. The government should allow SMEs to participate in the economy under a level playing field and take advantage of entrepreneurship. The responses and analysis of the data are as on table 1 below.

Table 1: The responses

Question	(1)	(2)	(3)	(4)	(5)
Grant of loan to SMEs by Bank	15				
SMEs are facing difficulty accessing loan with the bank				1	14
Stringent conditions attached to loan to SMEs beneficiaries				15	

Inadequate mechanism to monitor judicious use of loan facility		4	2	6	3
Loans granted to only SMEs that are customers to the bank					15
Bank find it difficult to recover loan granted to SMEs		5	3	7	
Bank not impressed with the performance of SMEs that enjoy facility	7		4	4	
Govt should further support activities of MFBs to promote growth of SMEs					15

Source: Survey, 2009. N/B: (1) Strongly Agreed (2) Agreed
(3) Undecided (4) Disagree
(5) Strongly Disagree

CONCLUSION

The result of this paper revealed that Micro-Finance Banks contribute significantly to the promotion of growth of small and medium enterprises (SMEs) and hence the important role performed by these enterprises cannot be over emphasized. To further promote the growth of SMEs in Nigeria beyond this present stage, the following are therefore recommended based on the findings of the research:

1. Government should further encourage the activities of Micro Finance Banks (MFBs) by creating enabling environment so that they can further support SMEs growth.
2. MFBs should sustain the policy of easy accessibility of loans meant for SMEs to encourage existing and prospective entrepreneurs' activities.
3. Even though, it is evident that there is/are mechanism(s) to ensure judicious use of loans granted to SMEs, MFBs should effectively pursue the application of such mechanism(s) so that the loans are not misapplied.

4. MBFs that enable non SME customers to access loans meant for them should sustain the policy and those banks that don't should pursue it as both the banks and the entrepreneurs stand to benefit from the mutual relationship.
5. It is also evident from the findings of this paper that SMEs pay back loans in accordance with the terms of the loans granted by MFBs. That notwithstanding, MFBs should ensure that such is sustained and mechanism(s) for recovery improved upon.

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