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Effects of Microfinance on the Financing of SMEs in Taraba State, Nigeria

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ABSTRACT

Accessibility to credit is universally considered to be a crucial factor in enhancing the growth and development of SMEs. The main goal of this paper was to evaluate effects of microfinance on the financing of small and medium scale enterprises towards ensuring the economic development and diversification goals of the governments in both Taraba state and Nigeria at large. To achieve the primary objectives of this study, Stratified random sampling technique and structured questionnaire were employed in collecting data from the 317 SMEs that formed the sample size of the research population. Multiple regression of the statistical package for social science (SPSS) version 20 was utilized to analyze the data. It was found that micro loan and interest rate are significantly related to SMEs financing as well as their growth potential in Taraba state. It was also found that microfinance has been contributing enormously in financing of small and medium scale enterprises in Taraba state, despite the inherent hurdles. It has been observed that access to microloans have remarkably improved over the years, as many SMEs operators receive credit facilities with fairly affordable interest rates thus encouraging them and boosting their operations. The recommendations offered include: the need to review the current requirement to access microloans from MFIs; close monitoring and regulating the financial and non-financial activities of microfinance institutions; the need for governments and microfinance institutions to embark on campaigns, especially in rural areas to sensitize the people about availability and accessibility of credit facilities.

Keywords: Microfinance, Small & Medium Scale Enterprises, Grameen model, Micro-loan.

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INTRODUCTION

It is a widely known fact that most nations across the globe, even the developed countries in America, Europe and Asia began their economic history from the micro level before they eventually grow to the present day industrialized nations (Mejeha and Nwachukwu, 2008). For example, Japan's economy was predominantly operated by small scale firms including traditional industries and cottage firms, taking advantage of their labour supply and utilizing their inadequate capital which metamorphosed to the present industrialized nation (Ogechukwu, 2013). Similarly, Nigeria had numerous cottage industries across all the states and communities which were harnessed to attain her present economic status (Ogechukwu, 2013).

After colonization by the Britain that led to the current level of her economic development, Nigeria has virtually neglected all the small businesses /industries. As a result of such neglect many small businesses collapsed and led to unemployment and drastic rise in the level of poverty across the country (Besley cited in Mamman, 2013).

To harness the untapped resources, especially in the area of agriculture, natural and mineral resources that abound Taraba state and Nigeria at large, concerted efforts have been made by governments at all levels to stimulate the SMEs to make impact in the progress and diversification of the nation's economy, in order to stop the incessant dependence on oil revenue.

Small and medium scale enterprises (SMEs) serve as the catalyst for industrial development and growth (Akpan and Ikenna, 2015). This is essentially due to their tremendous potential in fostering industrial production and economic diversification and the accomplishment of the basic development goals (Akpan and Ikenna, 2015).

To promote the activities of SMEs the Federal Government and the Central Bank of Nigeria have developed several policies and financial service programs which led to the microfinance guidelines 2005. The strategy made provision for establishing of microfinance banks (MFBs) to cater for the funding requirements and other non-financial services of the small and medium enterprises in Nigeria (CBN, 2011). The Taraba state government in its part have embarked on numerous policy formulations and implementations too, which eventually led to the establishment of the Taraba state microfinance bank limited in 2009 with primary objectives of mobilizing savings, and providing various and steady financial services essentially to the down trodden people, when necessary and in a viable way that would enable them undertake long-term and sustainable commercial activities. Microfinance banks are meant to be instrument for economic liberation and its growth is linked with the community in which it serves (Alani and Sani, 2014).

Regardless of the efforts made by the governments at all levels; today many people including small and medium business owners wishing to start up, expand and/or diversify their business cannot access microloans to finance their activities. Christopher (2010) reveals that accessibility to microloans has been the major impediment for SMEs drive for capacity building towards the economic prosperity of the emerging nations. The complexity in having access to microfinance by the small and medium businesses in Nigeria can be attributed to numerous factors including interest rates, strict collateral security, and lopsided legislation etc.

Many related studies were conducted to examine the contributions of microfinance on the financing, growth and development of SMEs. For instance, Bello (2013), and Akpan and Ikenna, (2015) revealed that microfinance provide several opportunities for the smooth and effective functioning of MSMEs in Nigeria. Similarly, Mamma (2014) confirmed that small and micro businesses have access to microfinance. On the other hand, Olewe, Moradeyo and Babalola(2013) found that high rate of interest and the need to provide collateral security before accessing microloans can weaken the performance of SMEs in Nigeria.

Notwithstanding the above however, the effects of microfinance on the financing of small and medium enterprises have not been given much attention in terms of research in Taraba state- Nigeria. This implies that there is a vacuum in research which needed to cover the location by research. Therefore, this study is intended to narrow this vacuum by evaluating the situation in Taraba state-Nigeria. Drawing from the above discussion, this study intends to narrow the research gap by evaluating the effects of Microfinance on the financing small and medium enterprises in Taraba state, Nigeria. The study is poised to achieve the following specific objectives:

i. Assess the impact of micro- loans on the financing of SMEs in Taraba State-Nigeria
ii. Examine the effects of interest rate on the financing of SMEs in Taraba State –Nigeria.

CONCEPTUAL OVERVIEW OF MICROFINANCE IN NIGERIA

Microfinance is viewed as providing financial services to low income people or groups and the poor, the fundamental focus of microfinance was on the provision of microloans usually for short time periods to enable small businesses finance their working capital usually operated by low income people, however the field of microfinance has widen greatly to extend to micro-savings, micro insurance, remittances and other payments all of which have a significant impact on the lives many low income earner and the poor (James, 2005). The world largest and most successful Microfinance institution which is Grameen bank of Bangladesh was established by the Nobel Peace Laureate Dr. Mohammed Yunus, serves more than seven millions clients (Hassan, 2010).

These monetary services are mainly common in the form of savings and loans, although similar microfinance banks will provide many other services which include payment services and insurance (Robinson, 2001). Otero (1999) opined microfinance is the "financial services provided for the very poor self-employed poor and poor people, low income earners and downtrodden". These services according to him in general comprise credit and savings as well as other financial services that include payment services and insurance. Convoy (2003) is of the view that microfinance is the provision of financial services to the households that are very poor and have no access to the conventional financial banks.

Furthermore, Olaitan (2005) describes microfinance as "the provision of credit facilities and other monetary services to poor households or low income earners so as to enable them set up or develop their economic activities in order to enhance their living standard. Microfinance is seen as the whole dynamic structures and procedures through which financial services are provided to small business entrepreneurs and the vulnerable and low income populace on a sustainable way (Jamil, 2008). It identifies the micro business that are barred or deprived of having access to financial services as a result of their failure to present real property as collateral for loan. Olumuyiwa (2014) opined that microfinance is the collection of financial services which include savings, insurance and loans, accessible to SME operators who do not have tangible assets to present as collateral and would not meet the conditions for a typical bank loan.

In view of the definitions above, the goal of microfinance in Nigeria is intensely embedded in the scheme of financial inclusion policy of the Nigeria financial system (Osibogun, 2014). Microfinance therefore is intended to be an instrument of change and consolidation.

EMPIRICAL STUDIES ON THE EFFECTS MICROFINANCEON THE SMES FINANCING

Accessibility to credit is universally considered to be a crucial factor in enhancing the growth and development of SMEs. It is believed that credit supplements the level of revenue, generates more employment, thus reducing poverty rate. It is also believed that access to credit facilities enable small and medium scale businesses to address their liquidity challenges and embark on investments (Hiedhues, 1995).

Small and medium scale enterprises normally source their finance through informal sources. The sources include personal savings, borrowing or contributions from friends and or relatives and retained earnings e.t.c (Ango, 2011). The funds generated from the informal sources are mostly inadequate to be used by micro, small and medium enterprises as capital for their businesses (Okungwu and Saleh, 2004). To source the balance of the needed finance for their businesses, small and medium scale businesses opt for the formal sources, which consists of cooperative societies, commercial banks, microfinance banks, saving and loans institutions, mortgage banks, bank of industries, agricultural bank and other financial institutions (Ango, 2011).

Bello (2013) studied the impact of microfinance institutions on the growth of the SMEs in Nigeria. The study used content analysis and found that numerous opportunities are made available by microfinance banks and/ or institutions that enable SMEs operate viably and efficiently. The study further revealed that services like microcredit and micro savings are important apparatus for the growth of SMEs and a joint effort is required between governments and their agencies and microfinance banks to tackle the challenges facing small and medium enterprise in the country. Similarly, Ogunrinola (2008) carried out a study to ascertain the impact of a micro program sponsored by the United Nations development program in Nigeria on microenterprises development. The research discovered some variables such as entrepreneur level of education and pre-loan have significant impact on micro, small and medium enterprises development.

In line with the above contention, Olewe et al., (2013) in their study on the impact of microfinance on SMEs growth in Nigeria, using Pearson correlation coefficient and multiple regression found that financial services provided by microfinance banks have positive impact on SMEs growth in Nigeria. The findings also showed that frequent loan repayment, high interest rate and collateral security can impede the progress of SMEs in Nigeria. Furthermore, Onafowokan (2011) on the impact of informal microfinance on rural enterprises, used cross tabulation, Pearson product moment correlation, Chi-square test and independent sample t-test to confirm that members who had access to loan have experienced improvement in their businesses considerably through growth in their business amenities, diversifying of business line and employing of additional personnel more than those who do not receive credit. In the same line of argument, Hiedhues (1995) stated that accessibility to funding enables the underprivileged people and small enterprises to surmount their liquidity challenge and embark on some instruments which include the development of modern farming requirements, thus leading to improvement in agricultural production.

In support of the above, Yahya, Oseme and Abdulrahman (2011) in their study on the effectiveness of microfinance on poverty alleviation in Kwara state, using t-test and analysis of variance (ANOVA) discovered that microfinance play a vital role in the economy, as it has assisted in reducing poverty by providing financial services to the low income earners in the economy, in jobs creations and also offer credit facilities to grow small and medium scale businesses. Opue, Anagbogu and Udousoro (2011) studied the role of microfinance banks in social development of rural dwellers and used long linear model to investigate whether microfinance banks in reality have any impact on small scale enterprises in the rural communities. They explained how supply of credit facilities, credit policy, microfinance activities led to socio-economic development.

In another research vein, Abdel-Hafiez, Abdimajid and Yassin (2013) studied the accessibility of microfinance for small businesses in Mogadishu, Somalia. Descriptive analysis of statistical package for social sciences (SPSS) was employed. The study recognized that small scale businesses are facing a lot of difficulties accessing loan from microfinance institutions and this caused many small and medium enterprises to close to die sooner than expected or some not to even start as a result of inability to surmount the difficulties. In addition to the above, Oni, Paiko and Ormin (2012) examined the contributions of MFIs to sustainable growth of SMEs in Nigeria. The study utilized simple percentage statistic to analyze the data. It was established that microfinance institutions has been and can make positive impact to the sustainable progress and prosperity of small and medium enterprises in the country. However, this study also discovered among others that the service outreach of microfinance institutions to small and medium scale enterprises is presently poor.

Several literatures affirmed that the microfinance provides financial services to support the micro, small and medium enterprises; poor people and low income group; and that microfinance becomes a tool for combating poverty. The major finding is that small and medium enterprises and poor people have access to microfinance. Although the above have painted a good picture of Micro Finance as a solution to the financial need s of SMEs, access to financial services is often regarded as one of the challenges impeding their survival and growth (Abdel-hafiez et. al., 2013). As a result of the financial constraint, micro, small and medium scale enterprises in Nigeria have not yield the desired effects on the economy (Nwachukwu, 2012). According to Olorunsholacited in Mamman (2013) the main problem bedeviling industrial development process in Nigeria is lack of finance for small and medium businesses.

METHODOLOGY

Population of the Study

The population for this study consists of all microfinance banks (MFB) clients who are operators of small and medium enterprise in Taraba State- Nigeria, particularly those that have benefited at one time or another from the financial services provided by MFBs in Taraba State-Nigeria. According to the National Bureau of Statistics (2013) there were 513,973 SMEs operators in Taraba State-Nigeria. Out of this number only 1,744 benefited from microfinance loans in Taraba State (CBN, 2014) therefore for the purpose of this study, 1744 SMEs operators constitute the population size for this study.

Sampling Technique and Sample Size

Stratified random sampling was used for this study so as to enhance the likelihood of making general conclusion on the responses received from the limited sampled across all the population of SMEs in Taraba state, Nigeria

The researchers used stratified random sampling, as he divided the population in to strata according to their economic sectors and then randomly selected representatives from each stratum; this sampling technique is considered best and suited the population, because it gives all the members of the population equal chances of being selected as representative of the whole population. In addition the sample size for the study was determined using Krejcie and Morgan (1970) statistical table. The table provides 317 as the sample size based on the given population.

Model Specification

SMEs financing are determined by multiple factors such as the operator's savings, family contributions, loans from friends and relatives to mention a few. SMEs financing can be measured both from loans and saving aspects. Therefore, the present study measured SMEs financing from the micro finance aspects (micro-credits and interest rate) of SMEs financing. There are two dimensions of the independent variables in the model. The selected independent variables are being taken based upon the various literatures on SMEs financing. On one hand SMEs financing is taken as the dependent variable in the model. On the other hand microloans, interest rate are taken as independent variables.

Regression Equation:

Model: $\mathbf{Y_i = \alpha_i + \beta_1 X_{1i} + \beta_2 X_{2i} + e_i}$……………………………........ (1)

Y_i stands for dependent variable while X_i stands for the number of the independent variables

Where:

Y_i= Small and Medium enterprises (SMEs) financing

X_{1i} =Micro loan

X_{2i} =Interest rate

α_i = Constant value

β_1= Coefficient of variables

e_i= Error term associated with variables

Instrument of Data Collection

The data for this study were gathered by administering questionnaire to the respondents. A five point Likert scale was used to generate the data. The respondents were made to indicate in the questionnaire the degree to which they agree or disagree to the assertions.

Definition and Measurement of the Research Variables

In order to analyze the effects of microfinance on the financing small and medium scale enterprises, the researcher used the small and medium scale enterprises (SME) financing as the dependent variable which was measured using adapted 5 item questionnaire developed by Bello (2013)which were on five point Likert scale. Microloan and interest rate were used as independent variables.

Microloan in this study is defined as the extension of financial services (small loans) to help borrowers who lack collateral, steady income and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also to empower small and medium enterprises which in most communities are illiterate, and therefore unable to complete paperwork required to get conventional loans.

Therefore, in measuring micro loans 5 items Micro Loan Questionnaire (MLQ) developed by Akpan & Ikenna (2015) was adapted. A five-point Likert scale ranging from 1 "strongly disagree" to 5 "strongly agree" were employed to measure micro loan. The Micro Loan Questionnaire (MLQ) was a survey questionnaire designed to measure the financing of small and medium enterprises (SMEs) in Canada, there were 15 items out of which the researcher selected 5 items and modified them to fit the current study.

Interest Rate as an explanatory variable in this study is defined as the rate at which interest is paid by a borrower (SMEs operator) for the use of money that he borrows from a micro finance bank. According to the study of Khawaja and Musleh, (2007), Increase in the interest rate depresses the borrowers and depositors. Therefore, lower interest rates encourage SMEs operators to obtain microcredit while higher interest becomes a major hurdle to SME financing, the scale used for measuring interest rate as independent variable which also consists of 5 items questionnaire on a scale of 1- 5 point Likert scale were adapted from (Hossain et al., 2001).

Data Presentation and Analysis

To examine the relationship among the variables used for this study a regression analysis was ran, with four predictor variables viz; Micro-loan and interest rate were examined to see their contributions in explaining SMEs Financing. The table 4.1 below shows that R= .841, R^2= .708, adjusted R^2=.706, F-change 355.637, and this indicates that 70.8% of the variability in SMEs financing (Dependent variable) has been explained by the independent variables (micro loan and interest rate). Therefore the result obtained show that independent variables (micro loan and interest rate) are good predictors of SMEs financing. Moreover, this means that very significant contributions were made by the independent variables in explaining the variability in the dependent variable.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.841[a]	.708	.706	.33841	.708	355.637	2	294	.000	2.143

a. Predictors: (Constant), Interest Rate, MicroLoan
b. Dependent Variable: SMEs Financing

Similarly, ANOVA is used to test the relationship in the mean difference of variables as depicted by table 4.2 below. It shows that the model is statistically significant at 0.000. Hence the model is fit and good for the study. Furthermore, it is argued that if t-value exceeds 1.645, it means that there is a significant relationship hence the hypothesis would be accepted (Lind, Marchal & Wathen, 2008; Kumar, Taib& Raniyah, 2013). Based on this argument it can be seen in table 4.2 below that among the two predicting variables, micro loan is the variable that best predict the dependent variable with β=.472, t=9.76, P=0.000. Based on the suggestion by Cohen (1988), the first hypothesis (micro-loans make no significant contribution to the financing of SMEs in

Taraba State-Nigeria) will be rejected since it has t-value that exceeds 1.645. This implies that when all other variables are held constant, micro loan explains 47.2% of the dependent variable.

Table 4.2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	81.457	2	40.729	355.637	.000[b]
1	Residual	33.670	294	.115		
	Total	115.127	296			

a. Dependent Variable: SMEsFinancing
b. Predictors: (Constant), InterestRate, MicroLoan

The second variable is interest rate. It has the following values β=.425, t=8.81, P=0.000. Referring to Cohen (1988) the second hypothesis (interest rate does not have significant effect on financing of SMEs in Taraba State-Nigeria) will be rejected, since it has t-value that exceeded 1.645, this means that when all other variables are held constant, interest rate explains 42.5% of the dependent variable.

Table 4.3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
	(Constant)	.273	.068		3.986	.000	.138	.407			
1	MicroLoan	.427	.044	.472	9.768	.000	.341	.513	.794	.495	.308
	InterestRate	.409	.046	.425	8.811	.000	.318	.500	.783	.457	.278

a. Dependent Variable: SMEs Financing

From the table 4.3 above, the result of regression analysis shows that, the two independent variables hypothesized to have direct relationships with the dependent variable having been tested are found to be statistically significant.

Table 4.4: Regression Result and Findings

Null Hypotheses	Statements of Null Hypothesis	Findings
H_{01}	Micro-loan financing has no significant effects on SMEs financing	Not Supported
H_{02}	Interest rate has no significant effects on SMEs financing	Not Supported

Source: The Researcher, 2016

DISCUSSION

Two hypotheses were formulated for this study based on the independent variables used for this study; all the hypotheses were formulated on the null form, therefore, the information below presents the test of hypotheses and the discussion of the major findings. Moreover, the result indicates that the two predicting variables were able to explain 71.5% of the model (R^2= .70.8). Based on this, the first hypothesis which says that "micro loan has no significant effects on SMEs financing" is therefore rejected because it has made a tremendous contribution in explaining the dependent variable, it has the Beta and t values of β=.472, t=9.76, P=0.000. Therefore, it can be inferred that there is a positive relationship between micro loan and SMEs financing in Taraba State. This finding is in line with the conclusions of several scholars such as Akpan and Ikenna, (2015),Bello (2013), Olewe et al., (2013), Onafowokan (2011), Yahya et al. (2011) and Ogunrinola (2008)who found positive relationship between micro loan and SMEs financing. However it differs from the finding of Cope stake et al (2001) who found that a negative relationship exists between micro loan and SMEs financing.

Similarly the second hypothesis which says "interest rate has no significant effects on SMEs financing." is equally rejected, because it has made a significant contribution in explaining the dependent variable, it has a Beta and t values of β=.472, t=-8.81, P=0.000. The test is significant because it indicates a positive relationship between interest rate and SMEs financing so, the null hypothesis was rejected. This finding confirms the study of Oni et al (2012) who found a positive relationship between interest rate and SMEs. However it contradicts the finding of Jamal (2012) which said that there is no relationship at all between interest rate and SMEs financing.

CONCLUSION

Based on the findings it can be concluded that (Micro loans and interest rates) are good predictors of SMEs financing. In other word micro loans enhances SMEs financing. However, the research findings revealed that some SMEs operators prefer informal financing of their businesses than the formal financing because of interest charged on loans. Therefore, enhancing the informal financial sectors and assisting them with funds and professional training will help in their quick conversion to formal financial institutions.
The following recommendations are offered to both Microfinance Banks and the government of Nigeria which are the Stakeholders.

RECOMMENDATIONS

The following recommendations are offered to both Microfinance Banks and the government of Nigeria which are the Stakeholders:

1. The current requirement to access microloans from MFBs which include collateral security, higher interest rate and other charges be reviewed

2. There is need for microfinance banks to engage in aggressive awareness campaign, because the level of awareness among the SMEs owners especially those in the rural areas about the existence of micro loans meant for financing of SMEs is very poor. Therefore, Governments and microfinance banks should embark on campaigns, especially in rural areas to sensitize the people about availability and accessibility of credit facilities
3. Government should provide an affable milieu for the operation of venture funds and enterprise angel financing in order to enable them to make available risky capital for setting up of small and medium businesses

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