

Impact of Microfinance on Micro, Small and Medium Enterprises (MSMEs) in Southwest Nigeria.

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ABSTRACT

This study examines the impact of microfinance on micro, small and medium enterprises (MSMEs) in southwest Nigeria. The study employed primary data and Three hundred questionnaires (300) were collected from MSMEs operators. This study adopted a multi-stage random sampling technique in the selection of the sample. The study employed OLS regression to analyse the impact of microfinance on MSMEs. The study revealed that microfinance has a strong impact on micro, small and medium enterprises (MSMEs) in southwest Nigeria. The study shows that the impact of selected variables on MSMEs varied from BREG which have the lowest impact of about 0.07% to loan (LN) with highest impact of about 1%. This study is however able to discover that convenience of Loan Repayment has adverse effect on micro, small and medium enterprises (MSMEs) in southwest Nigeria. Hence, the study therefore recommends that government should make necessary policy to enable microfinance bank to offer medium term loan to MSMEs in order to make the loan repayment possible and affordable.

INTRODUCTION

Nigeria government has been playing dominant role as the major driving force of economic development and this was not yielding desirable result. Various measures and policies were introduced to cause structural shift from government-led growth to private driving economy. Commercialization and privatization been one of these policies played down the role of government and shifted to Small and Medium Enterprises (SMEs) following the success of SMEs in the economic growth of Asian countries (Ojo, 2003). The growth of SMEs has encouraged more participation in the private sector and added value to a country's economy by creating jobs, enhancing income, strengthening purchasing power, lowering costs, and adding business convenience (Acha, 2012).

Small and Medium Enterprises (SMEs), equally known as Micro, Small and Medium Enterprises (MSMEs) are considered the engine that drives the economy of any nation as it provides opportunities for the countless millions of unemployed people to be productively engaged in one venture or the other. The contribution of SMEs to employment generation, and improvement in the standard of life of the people has been globally acknowledged. Khan (2020) opined that small and medium-scale business is one among the widely practiced ventures in Nigeria and that it contributes to the development of the economy through the output of goods and services, the creation of jobs at a relatively low capital, serving as the autopilot for the minimization of income disparities by advancing the availability of skilled and semi-skilled workers for industrial expansion, and offer an excellent breeding ground for entrepreneurial and managerial talent.

The major challenge confronting MSMEs in Nigeria is difficulties in accessing funds because commercial banks traditionally lend to large enterprises that are judged to be credit-worthy. They usually avoid doing business with micro and small enterprises because they consider that the associated costs and risks are relatively high. MSMEs may not be able to provide the needed collateral to access loan from commercial banks, even where such loan facilities are made available. This problem has led many of the MSMEs

operators to shut down their business. The inability of MSMEs to access finance has been identified as one of the major impediments to its growth (Owolabi Nasiru, 2007; Lawson, 2007).

Government in the past has initiated a series of programmes and policies in order to enhance the flow of financial services to the Micro, Small and Medium Enterprises (MSMEs). These programmes range from Industrial Development Centres across the country (1960-70) to the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) which was established in 2003, as an umbrella agency to coordinate the activities and development of the Small and Medium Enterprises sector. Also, the Entrepreneurship Development Programme (EDP) was revisited and revived to ensure cheap funds for the operations of SMEs in Nigeria.

Despite all these efforts, the growth of MSMEs in Nigeria remains very poor, hence; the need for alternative means. This necessitate Nigerian government to adopt microfinance as the main financing window for micro, small and medium enterprises in 2005. The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) among other things, addresses the problem of lack of access to credit by small business operators who do not have access to regular bank credits. The core objective of the microfinance policy is to make financial services accessible to a large segment of the potentially productive Nigerian population, which have had little or no access to financial services and empower them to contribute to rural transformation. Micro finance bank, therefore, serves as a main source of funding for MSMEs in overcoming commercial, economic, and business challenges in Nigeria (Ehigiamusoe, 2016).

In spite of the fact that the number of Microfinance banks in Nigeria are increasing, it was opined that microfinance services have not achieved much. MSMEs has not witness expected or desirable growth. Therefore, this work intends to explore the impact of microfinance on micro, small and medium enterprises in Southwest Nigeria. The study will take into consideration the education level of the entrepreneur, business registration, loan duration and convenience in repayment of the loan. This is believed to make this study unique in nature.

LITERATURE

Microfinance was defines by CBN (2014) as the provision of financial services to the economically active poor and low income households. These services include credit, savings, micro-leasing, micro-insurance and payment transfer, to enable them to engage in income generating activities. Ojo (2009) defined microfinance as small scale financial services that are provided to rural/informal small scale operators for farming, fishing, trading, and building of houses and to engage in any other productive and distributive activities. Hannan (2018), describes microfinance as an amazingly simple approach that has been proved to empower very poor people around the world to pull them out of poverty. Recycling of loan is a key to microfinance and such loan is repayable within six months to a year so that the money is recycled as another loan, thus multiplying the value of each loan in defeating global poverty and changing lives and communities.

Microfinance and micro financial institutions are intended to fill a definite gap in the finance market and the financial system respectively, to assist the financing requirements of some neglected groups who may be unable to obtain finance from the formal financial system. These neglected groups that constitute the target users of such microfinance are mainly in the informal sector of the economy and are predominantly engaged in small scale farming, commercial/trading and industrial activities(Garba, 2019).

Abiola (2012) investigated the effects of microfinance on micro and small business growth in Nigeria. He employed panel data and multiple regression analysis to analyze a survey of 502 randomly selected enterprises finance by microfinance banks in Nigeria. He found strong evidence that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, are found to have positive effect on enterprise growth. The

paper recommends a recapitalization of the Microfinance banks to enhance their capacity to support small business growth and expansion.

Khan (2020) opined that few MSMEs patronize this Microfinance bank despite the importance of microfinance banks in the enhancement of the development of MSMEs in Nigeria. According to him, interest rate and strict borrowing conditions are the factors among others that are responsible for low patronage. Inability of the MSMEs, to adequately have access to funding from the microfinance banks is a major retardation to the planned economic growth. This assertion by Khan (2020) has generated concern among stakeholders and scholars about the need to assess the extent to which the funds available to microfinance banks were channeled to the expected target.

Akinadewo (2020) examined the nexus between microfinance banks and the growth of micro, small and medium enterprises in Nigeria. His findings showed that a significant positive relationship exists between microfinance banks. He concluded that any upward movement in the services of microfinance banks will enhance the growth of MSMEs. In same view, Garba (2019) examined the effect of microfinance banks on the growth of selected small and medium scale enterprises in Makurdi Metropolis, Benue State. He discovered that a positive relationship exist between Credit by Microfinance and Business Expansion (BEX) of selected SMEs in Makurdi Metropolis and a negative relationship exist between Savings Mobilization and Job Creation (JOC) of selected SMEs in Makurdi Metropolis. It was concluded that micro finance does enhance the job creation and expansion capacity of SMEs business in Nigeria.

However, studies revealed that microfinance has not adequately translated into visible growth of the MSMEs in Nigeria. It is observed that with businesses shrinking, the bulk of the less privileged Nigerians have not come to understand the idea of microfinancing (Akande and Yinus, 2015owua; Elikwu, 2018; and Khan, 2020). Many of the previous study did not consider the effect of convenience of loan repayment, education level and loan duration when examine the impact of microfinance on micro, small and medium enterprises (MSMEs). Hence the needs for this study.

METHODOLOGY

The study adopted descriptive research design examined the impact of microfinance on micro, small and medium enterprises in Southwest Nigeria. Three hundred questionnaires were collected from MSMEs operators. This study adopted a multi-stage random sampling technique. The first stage was the purposive selection of the three states which are Ekiti, Ondo and Osun. The second stage involve selection of four local governments in each state. The final stage was random selection of 25 MSMEs from each local governments, making a total of 300 MSMEs for the study. The study employed OLS regression to analyse the impact of microfinance on MSMEs. The model used in this study is:

$$AMS = \alpha_0 + \beta_1EDU_1 + \beta_2BREG_2 + \beta_3LN_3 + \beta_4LND_4 + \beta_5LNC_5 + \mu$$

Where:

AMS = Average monthly sales

EDU = Education level of Entrepreneur

BREG = Business registration

LN = Loan received from Microfinance Bank

LND = Loan Duration

LNC = Convenience of Loan Repayment

RESULT AND FINDINGS

Testing the Normality in the Distribution of the Data Set in the Study.

Table 1: Descriptive Statistics

	AMS	EDU	BREG	LN	LND	LNC
Mean	1639450.	3.486667	1.333333	254900.0	9.000000	1.333333
Median	1509400.	4.000000	1.000000	300000.0	9.000000	1.000000
Maximum	4700000.	4.000000	2.000000	400000.0	12.00000	2.000000
Minimum	220000.0	1.000000	1.000000	100000.0	6.000000	1.000000
Std. Dev.	952903.5	0.686581	0.472192	108958.2	3.005013	0.472192
Skewness	0.568284	-1.659886	0.707107	-0.099173	0.000000	0.707107
Kurtosis	3.422188	6.630140	1.500000	1.458479	1.000000	1.500000
Observations	300	300	300	300	300	300

Source: Author’s Computation, (2023)

Descriptive statistics result presented in table 1 show that business registration (BREG), loan duration (LND) and convenience of loan repayment (LNC) are symmetrical while Average monthly sales (AMS) education level (EDU), and loan (LN) are asymmetrical in their distribution. Skewness result revealed that L Nis normal skewness, and AMS, BREG, and LNC are positively skewed, while EDU and L Nare negatively skewed. It also revealed that AMS and EDU are leptokurtic which depicts a peak curve while BREG, LN, LND and LN Care platykurtic which depicts a flatted curve.

Table 2: Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.332468	0.529576	-0.627800	0.5306
EDU	0.192424	0.083940	2.292399	0.0226
BREG	0.068459	0.014666	4.667622	0.0000
LN	0.996334	0.303231	3.285726	0.0176
LND	0.222596	0.074464	2.989310	0.0203
LNC	-0.250935	0.191886	-1.307728	0.1920
R-squared	0.629160	Durbin-Watson stat		1.761284
Adjusted R-squared	0.614350			
F-statistic	8.720994			
Prob(F-statistic)	0.000000			

Source: Author’s Computation, (2023)

The result of table 2 indicated that all the selected variables have significant impact on MSMEs with the exception of convenience of loan repayment (LNC). The impact of the variables on MSMEs varied from

BREG with impact of about 0.07% to loan (LN) with impact of about 1%. All the variables have positive impact on MSMEs apart from convenience of loan repayment (LNC) that has negative impact MSMEs. It can therefore be concluded that education level, business registration, microfinance loan and loan duration have direct impact on MSMEs, while convenience of loan repayment has negative impact on MSMEs. The variable that has major impact on MSMEs is microfinance loan while business registration exhibit slight impact. The R^2 shows that the selected explanatory variables explained about 63% variation of the dependent variable. The F – statistics indicates the overall model is statistically significant. Therefore, it be inferred that microfinance have strong impact on micro, small and medium enterprises (MSMEs) in southwest Nigeria.

Table 3: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	21.12399	Prob. F(2,292)	0.0000
Obs*R-squared	37.91914	Prob. Chi-Square(2)	0.0000

Source: Author’s Computation, (2023)

Table 4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	7.129485	Prob. F(5,294)	0.0000
Obs*R-squared	32.44141	Prob. Chi-Square(5)	0.0000
Scaled explained SS	52.01346	Prob. Chi-Square(5)	0.0000

Source: Author’s Computation, (2023)

Table 3 result indicates that there is no serial autocorrelation in the series and also table 4 shows that there is no problem of heteroskedasticity. Therefore, the result obtained can be used for effective prediction.

Testing for Structural Stability

The cumulative sum of the recursive residuals (CUSUM) and the cumulative sum of squares is applied to test for the stability of the model used in this study. The test finds parameters instability if the plots of the cumulative sum of the recursive residuals (CUSUM) and the cumulative sum of squares go outside the area between the two critical lines. The plots are shown in figures 1 and 2 below:

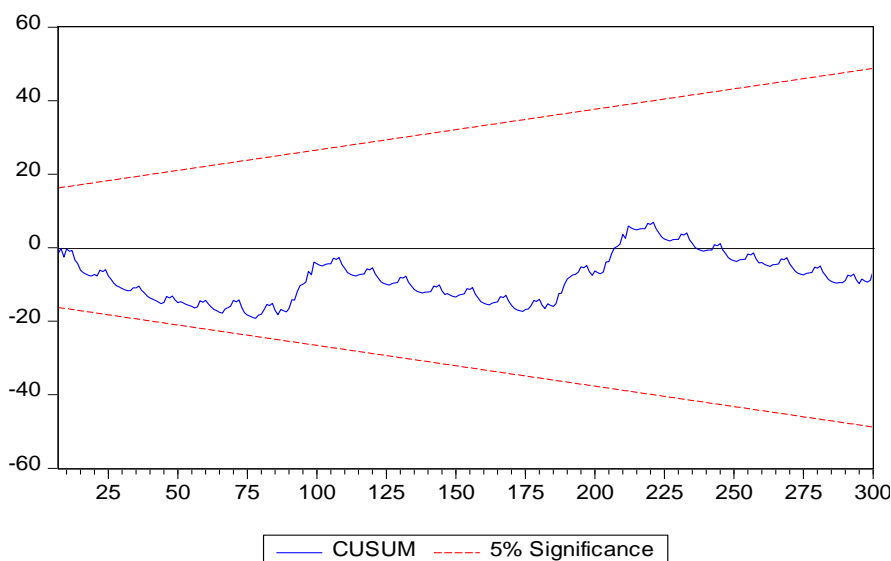


Fig. 1: CUSUM Test for Structural Stability of the Parameters

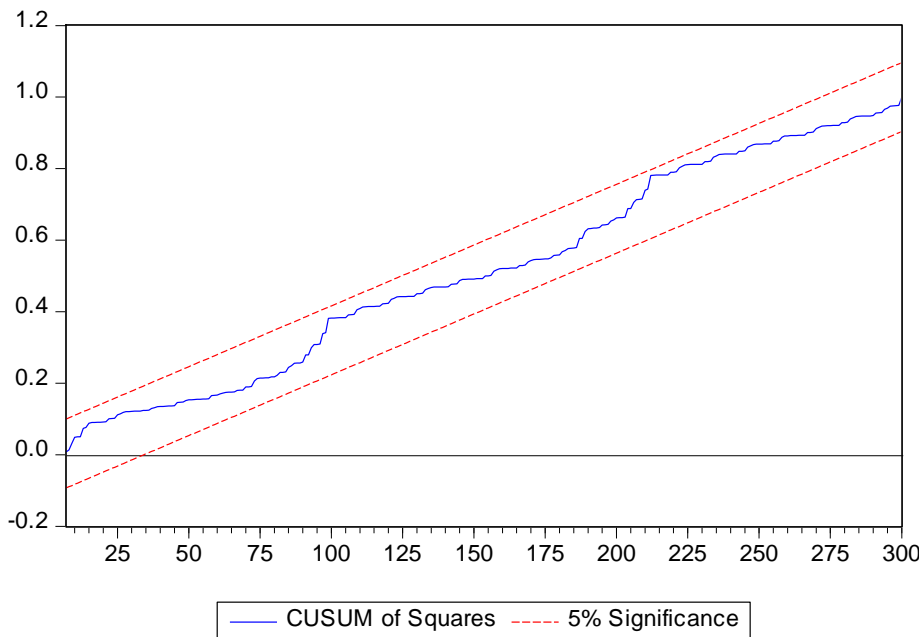


Fig. 2: CUSUM of Squares Test for Structural Stability of the Parameters

Since the plots did not move outside the 5% critical bound as revealed in fig 1 and fig.2, this indicates that the coefficient were stable. The existence of coefficient stability over the sample periods indicate tendency of further coefficients stability. This is also align with the result of serial auto correlation and heteroskedasticity which implied that the finding of this study can be used for effective prediction.

DISCUSSION

The study revealed that education level has positive significant effect on MSMEs. The entrepreneur with higher education level usually have more knowledge on the activities of the microfinance and process of obtaining loan successfully. This is in line with the study of Abiola (2012) where vealed that owners' education has impact significantly on business firm growth. Business registration significantly impacted on MSMEs, this revealed that MSMEs with business registration has easy access to microfinance loan. It is discovered that MSMEs without business registration still obtained loan from microfinance. This might been the reason for low impact of business registration on MSMEs.

Furthermore, it was discovered that Loan received from microfinance bank has high positive significant impact on MSMEs. This shows that Loan from Microfinance Bank contributes greatly to growth of MSMEs in the south western Nigeria. The result is consistent with the findings of Ashamu (2014), Garba A. (2019) and Akinadewo (2020), they all agreed that Microfinance loan improves the performance of MSMEs. But the finding is contrary to that of Abiola (2012) who found strong evidence that access to microfinance does not enhance growth of micro and small enterprises in Nigeria.

The also revealed that loan duration, has positive significant effect on MSMEs. This implication is that the higher the loan duration the more imparted the effect of the loan on the MSMEs. Convenience of Loan Repayment has negative effect on MSMEs. This implied that the loan repayment structure inhibit the progress of MSMEs.

Finally, the study revealed that microfinance have strong impact on micro, small and medium enterprises (MSMEs) in southwest Nigeria. This study is however able to discover that convenience of loan repayment has adverse effect on micro, small and medium enterprises (MSMEs) in southwest Nigeria. The study also discovered that the major determinants MSMEs in southwest Nigeria during the study period are education level, Business registration, Loan received from Microfinance Bank and Loan Duration. Based on these

findings, the study therefore recommended that Nigeria Central Bank should make necessary policy to enable microfinance bank to offer medium term loan to MSMEs in order to make the loan repayment possible, affordable and convenience. Also, MSMEs Operators should do diligent and feasibility study to avoid loans defaulting.

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