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The Influence of Microfinance Institutions on Nigerian Small, Micro, and Medium Enterprises

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ABSTRACT

Purpose: Poverty is a significant concern in most countries, including Nigeria, which has been dubbed the world's poverty capital. Most developing countries regard small, micro, and medium-sized companies (SMMEs) as a sure strategy to reduce poverty by lowering a country's unemployment rate. Microfinance institutions (MFIs), especially banks, were commissioned by the Central Bank of Nigeria (CBN) to cater to self-employed people and businesses. There is compelling evidence that MFIs are not doing enough and are failing to fulfill their mandate. As a result, this paper sought to investigate the impact MFIs have on SMMEs in Nigeria.

Design/methodology/approach: This descriptive study, made use of a convenience sample strategy to collect survey data from 384 SMMEs in two Nigerian states: Abuja and Nasarawa. Data was collected from 350 respondents.

Findings: The findings showed that MFIs significantly influenced SMMEs regarding technology transfer and financial services and aided SMME (small, medium, and micro enterprises) growth. MFIs in Nigeria are ineffective in offering the services of aspects of facilitator of SMEs growth, tool for social change, provider of banking services to the people and transferor of technology.

Practical implications: The CBN should make sure that MFIs, especially the banks focus more on servicing SMMEs. MFIs should do more in the areas of sensitiation and tailor their products to suit their customer base.

Originality/value: There are limited studies on the Nigerian context for SMMEs and MFIs.

Paper type: Research Paper

Keywords: *Entrepreneurship, Micro-finance, Nigeria, SMMEs*

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I. INTRODUCTION

SMMEs in developing countries such as Nigeria foster competition, resulting in external economic benefits such as productivity and innovation (Olaore, Adejare & Udofia (2021). SMMEs are critical in Nigeria for improving the living standards of owners, employees, and the community (Saidi, Uchenna & Ayodele, 2019). They help to increase real GDP, create jobs, reduce poverty, and diversify GDP sources (Aladejebi, 2019). SMMEs indirectly foster economic growth, particularly in poverty reduction, in addition to direct economic impacts (Saidi, Sodiq & Olushola, 2016). SMMEs in Nigeria, on the other hand, face challenges such as insufficient finances, limited entrepreneurial skills, insufficient marketing, underutilized technology, and governmental inadequacies (Joseph et al., 2021). It is in this regard that governments worldwide need to develop policies that unleash the innovation potential of SMMEs and business owners. In line with this, over the years the Nigerian government has developed programs to help encourage youths to pursue entrepreneurship. The government has provided the necessary tools and conducive environment for MFIs to operate so they can assist budding entrepreneurs as well as SMMEs (Zhiri, 2017). As part of financial liberation efforts, microfinance institutions (MFIs) target lower-income individuals. The body of knowledge about the impact of MFIs on clients' standard of living is growing. Some studies have found positive linkages in relation to income and consumption; Income and consumption (Duvendack et al., (2019), wealth accumulation (Osmani et al., (2015), food access

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(Stewart et al., 2010), Material flow cost accounting and higher productivity (Sahu, Padhy, Das & Gautam, 2021), village savings and loan association (Nnama-Okechukwu et al., 2019), macro impact of microfinance (Raihan, Osmani & Khalily, 2017), agricultural investment (Kaboski and Townsend, 2012), have all shown positive associations.

The risk of entrepreneurial innovation failure influences MFIs' caution when dealing with entrepreneurs, particularly in emerging markets (Milana & Ashta, 2020).). Entrepreneurial capabilities are shaped by the context in which MFIs operate (Muithya & Muathe, 2020; Kimmitt, Muñoz & Newbery, 2020), and microcredit provided by MFIs helps entrepreneurs improve their capabilities (Banerjee & Jackson, 2017).). Despite high interest rates, entrepreneurs seek loans from microfinance institutions (MFIs) to pursue their dreams of entering existing markets or creating new ones (Milana & Ashta, 2020; Kimmitt et al., 2016). Corruption, which is prevalent in many developing economies, including Nigeria, poses a threat to the impact of microfinance on entrepreneurship, lowering entrepreneurs' returns on investment (ROI) (Lawal, Adebayo & Iyiola, 2017; Kimmitt et al., 2016; Oriaifo, Torres de Oliveira, & Ellis, 2020).

MFIs have a minimalistic approach, which focuses solely on financial services such as microcredit, and the credit plus approach, which combines financial services with non-financial support such as skill acquisition and training (Hearth, 2018; Eunice Abdul, 2018). While the minimalistic approach reduces costs by focusing solely on microcredit, the credit plus approach aims to ensure that loans are used for entrepreneurial purposes while also lowering default rates, and promoting positive returns for MFIs (Hearth, 2018). MFIs use a variety of microfinance lending models, including the Grameen model, village banking models, group lending models, peer pressure models, and NGOs, to identify eligible recipients and deliver microcredit (Dwivedi, 2017). To suit their operations, these models frequently incorporate features from multiple approaches. Providing services to the poor while remaining sustainable and operationally efficient is a challenge in microfinance. MFIs frequently lack the necessary funds for lending and must rely on outside sources to meet their goals (Cobb et al., 2016). Kamal (2016) proposes innovative approaches such as microfinance bonds to tap into the financial market and attract investors seeking low-risk investments with high returns to secure the future of microfinance. However, to achieve social impact and sustainability, it is critical to attract investors who prioritize social outreach goals (Cobb et al., 2016). It is in this regard that the purpose of the study is to examine the influence of microfinance institutions on Nigeria's SMMEs as a medium of poverty alleviation especially in areas concerning provision of financial services to medium and small-scale businesses as well as entrepreneurs. The specific objectives for the study were; (1) to examine the influence of Nigeria's MFIs on SMMEs and entrepreneurs and (2)) to determine the relationship between access to MFIs services and Nigeria's SMME business performance.

The study focuses on a critical aspect of Nigerian economic development, namely the relationship between microfinance institutions (MFIs) and small, micro, and medium enterprises (SMMEs). SMMEs are critical to job creation, poverty reduction, and overall economic growth. Understanding the impact of MFIs on SMMEs is critical for policymakers, financial institutions, and stakeholders interested in promoting inclusive financial systems and sustainable development. Furthermore, this study adds to the existing literature by examining the Nigerian context. Nigeria's microfinance sector faces unique challenges and opportunities as a developing country. This study adds to the body of knowledge on the impact and effectiveness of MFIs in a specific socioeconomic and cultural setting by being conducted in Nigeria. Additionally, the study sheds light on MFIs' role in poverty alleviation and financial inclusion. It looks at how MFIs can help unbanked or underserved individuals and businesses gain access to capital, manage risks, and improve their economic well-being. The study's findings can help shape policy recommendations and strategies for expanding MFIs' reach and effectiveness in promoting inclusive growth and reducing poverty in Nigeria. Furthermore, the study's quantitative approach, which includes a questionnaire survey and statistical analysis, contributes to microfinance research methodology. The study ensures the reliability and validity of its findings by employing rigorous research methods and data analysis techniques, further strengthening the evidence base for future research and decision-making. Overall, this research on the impact of MFIs on SMMEs in Nigeria offers important insights into the dynamics of microfinance, entrepreneurship, and economic development. It provides a comprehensive understanding of the Nigerian context's challenges and opportunities, and it contributes to knowledge in the fields of microfinance, small business development, and poverty alleviation strategies. The study's findings and recommendations can help policymakers, practitioners, and researchers develop effective policies and interventions to promote the growth and sustainability of SMMEs in Nigeria and other developing economies.

A. Problem Statement

The need for microfinance institutions to survive in a recessionary economy like Nigeria has led microfinance institutions to neglect high-risk SMMEs who need access to credit facilities. Given the rapid increase in number of MFIs in Nigeria (Abraham & Balogun, 2012) it is imperative that a look at the influence of MFIs on SMMEs in Nigeria is examined. Against this background, the research problem is formulated as follows:

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Despite the efforts of the Nigerian Government to eradicate poverty and encourage entrepreneurial activities by providing a conducive environment for microfinance institutions to thrive through the regulations set by its Central Bank, SMMEs are still lacking access to microfinance financial services.

II. METHODS

The study adopted a positivism research philosophy through quantitative cross-sectional research method. A questionnaire was used to collect data from 350 respondents through random selection technique. with a questionnaire distributed to 350 randomly selected respondents. The population of this study comprised of SMMEs in Abuja (485,055) and Nasarawa (383,206). The distribution of microfinance banks (MFBs) is disproportionate and skewed with some states having a large presence of MFBs. Abuja has about 60 different MFBs and other states like Nasarawa has only 8 MFBs. On this basis, Nasarawa state was chosen as a financial constrained state because it has only 8 MFBs with 383,206 SMMEs as of 2013. This translates to potentially 47,901 SMMEs being served by 1 MFB. Similarly, Abuja is categorised as a financially unconstrained state because it has 485,055 SMMEs being served by 60 MFBs. This means potentially 8,084 SMMEs served by 1 MFB. The two states were also chosen because of their proximity to one another. Data for this research was sourced through questionnaires administered by the researcher personally and through proxies. Primary data analysis was done using survey as the research strategy. Survey research entails the use of carefully crafted questions and responses as the primary data source (Saunders et al, 2009). This study employed cross-sectional method because the data used did not track the same group of SMMEs to see if they maintained relationship with their MFIs year after year. Data collected measures the number of MFIs registered in a particular State at the time of conducting the research to ascertain the influence of these MFIs on the SMMEs in that state. If the study is repeated using same parameters, the same MFIs and businesses may not be the participants. This makes it repeated cross-sectional data hence the cross-sectional study used in this research.

Statistical Packages for Social Sciences (SPSS) V28 was used to analyse the measurement instrument. Both descriptive and inferential statistics were used, as recommended by (Chapman, (2018).). Descriptive statistics entailed screening the data for potential errors and examining variable frequencies. Validity checks were carried out, and descriptive measures were employed to summarize the data and sample. To analyse relationships between categorized variables of interest, inferential statistics were used. This included using correlational analysis to investigate the relationship between two variables while keeping in mind that correlation does not imply causation (Creswell & Creswell, 2018). Furthermore, t-test analysis was performed to determine the statistical significance of specific data sets.

III. RESULTS AND DISCUSSION

With regards to the demographic characteristics of the respondents that participated in the study the results of the study revealed that, 52% (n=183) of females and 48% (n=167) of males participated in the study. In terms of ages 15,1% were aged 18-25 years old, 14% were 26-35 years old, 18.6% were aged 35-45 years old, 18.3% were aged 46-55 years old, 18% were aged 56-65 years old and 16% were aged 66 years and above. To add on the results showed that about 85% of the respondents are educated and hold at least a higher certification and above higher certificate educational qualification while a mere 15% of the respondents have obtained other educational qualifications. This shows that they have a good understanding of all the requirements that are needed by microfinance institutions to qualify for funding and higher levels of education are often associated with an increased ability to comprehend concepts.

The results of the study also showed that majority (84.3%) of the respondents have registered their business while 15.7% of the business are not registered. These registered businesses have various form of ownership that include sole traders, partnerships, private limited companies, non-profit organisations and cooperatives. The legal status with regards to the registration provides them with better chances of obtaining funding as MFIs check the legal status of the business before assisting with finance provides assurance and collateral security to microfinance institutions. Furthermore, an examination of the number of years in business and the ages of entrepreneurs revealed an intriguing relationship. According to the data, a small percentage of the sample's entrepreneurs started their businesses while they were still in their teens. These entrepreneurs tended to stay in business for a longer period as they matured, particularly between the ages of 35 and 45, compared to those who started at a younger age. However, as entrepreneurs aged 50 to 65, the proportion of those still in business began to fall.

In terms of business sectors, the results of the study show that respondents operate their business across all 23 sectors considered to be the most vibrant in the Nigerian economy by the Central Bank of Nigeria (CBN).

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These sectors include mining, agriculture, retail and consumer, business consulting, clothing, textiles, travel, and leisure. The entrepreneur's discretion in selecting a specific sector for starting a business is based on market conditions and a thorough cost/benefit analysis. Potential SMME entrepreneurs typically avoid sectors that are perceived to take longer to break even, as they may face difficulties obtaining funding from microfinance institutions. As a result, prospective SMME owners must choose a profitable business sector to increase their chances of obtaining funding from microfinance institutions, which carefully examine the financial statements of the enterprises before making lending decisions. In general, respondents reported receiving a variety of specialized services from microfinance institutions (MFIs). The services of money transfer and training were particularly well-regarded, with the highest mean of 1.53 and a standard deviation of 0.500, indicating that respondents were extremely pleased with how the MFIs provided these services. The service of technology offering, on the other hand, had the lowest mean of 1.48 and a standard deviation of 0.500, indicating that there is room for improvement in terms of incorporating technology into MFI services. It's worth noting that, even in the COVID-19 era, some financial institutions are still struggling to adopt and use available technology services, limiting their ability to provide such services to their clients. Despite the challenges posed by the pandemic, the overall mean of 1.51 for the provision of specialized services confirms that microfinance institutions are effectively providing services such as savings accounts, insurance, pension, money transfer, training, and technology to their clients.

The results of the study also reveal that SMMES receive consultation services from MFIs (leadership, finance, operation, marketing and administration. The consultant service of operation had the highest mean of 1.55 and the lowest standard deviation of 0.499, indicating that respondents were extremely pleased with how MFIs provided this service. Finance and administration offerings, on the other hand, had the lowest means, both close to 1.5, with means of 1.48 and 1.47, respectively, and standard deviations of 0.500, indicating that providing financial and administrative services may be more difficult for some microfinance institutions. Despite the challenges, the overall mean of 1.508 for providing specialized services confirms that microfinance institutions effectively provide consultant services to their clients such as leadership, operation, marketing, financial services, and administration. This demonstrates their dedication to assisting SMMEs in all aspects of their business operations.

The study results also showed that MFIs are not playing an effective positive role in assisting SMEs. The aspects of facilitator of SMEs growth (mean of 1.49), tool for social change (mean of 1.47), provider of banking services to the people (mean of 1.48), and transferor of technology (mean of 1.48) and destroyer of SMEs (mean of 1.48) received mean scores that are below 1.5 with a standard deviation of above 0.500 which indicates the ineffectiveness of MFI role on SMEs. Out of the six aspects that were used to measure the role of MFI on SMES only, the tool for empowerment (mean of 1.5) is regarded to be effective for MFI. This finding is consistent with the survey findings, indicating that MFIs are not viewed as agents of social change in the business environment. These findings emphasize the importance of MFIs improving their performance and effectiveness in areas such as social impact, finance, and administration. MFIs must address these perceptions and strive to better fulfill their intended roles as business growth enablers, banking service providers, and social change agents. Furthermore, descriptive analysis was conducted on several factors *to* examine the influence of microfinance institution (MFI) activities on the performance of small, micro, and medium enterprises (SMMEs) in Nigeria: micro-credit utilization, reasons for acquiring micro-loans, financing amounts received, interest charged, and collateral required. According to the findings, respondents borrow money primarily from friends and relatives, microfinance institutions, commercial banks, and credit cooperative societies, with the majority borrowing from friends and relatives. Most borrowed amounts are N500,000 or less, with SMMEs hesitant to borrow larger sums. Borrowed funds are typically used for construction projects, the acquisition of new equipment, the start-up of new businesses, the expansion of existing businesses, and as working capital. In Nigeria, interest rates on borrowed funds range from 10% to 50%, with *most* rates falling below 30%. Collateral security in the form of natural, physical, and financial assets is typically required by microfinance institutions. These findings can help MFIs and SMMEs tailor their financial services and support the growth and development of SMMEs in Nigeria.

V. CONCLUSION

The study concludes that MFIs in Nigeria positively influence SMMEs performances through offering the following services: money transfer, training, insurance and the service of technology transfer. The study also concludes that MFIs play an important for SMMEs in the Nigeria by effectively providing consultation services of leadership, finance, operation, marketing and administration. Contrary to the above the study concludes that MFIs in Nigeria are ineffective in offering the services of aspects of facilitator of SMEs growth, tool for social change, provider of banking services to the people and transferor of technology. From the data analyzed MFIs

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provide the necessary services, skills and expertise that enable SMMEs to turn a net profit if correctly implemented.

Based on the study findings, policymakers and MFIs are recommended to consider the following:

1. The CBN should take proactive steps to ensure that MFIs prioritize serving SMMEs over serving as commercial banks. This can be accomplished through regulatory frameworks, licensing requirements, and MFI performance monitoring. MFIs can effectively contribute to the growth and sustainability of the SMME sector in Nigeria by promoting tailored financial products and services for them and dedicating a significant portion of their loan portfolios to them.
2. To better serve the needs of SMMEs, it is crucial for MFIs to enhance their efforts in sensitizing and educating their customer base. This can be achieved through targeted awareness campaigns and educational programs that provide SMMEs with valuable knowledge and skills related to financial management, business development, and entrepreneurship. In addition, MFIs should actively tailor their products and services to cater to the unique requirements of SMMEs, considering factors such as flexible repayment terms, loan sizes, and collateral requirements that are suitable for small businesses. By combining effective sensitization efforts with customized offerings, MFIs can effectively support SMMEs in their growth and development, empowering them to thrive in the dynamic business environment.
3. It is recommended that MFIs offer low-interest loans specifically designed for business expansion to foster the growth and development of SMMEs. MFIs can encourage SMMEs to borrow funds for expanding operations, investing in new technologies, or entering new markets by providing access to affordable credit. Lower interest rates not only alleviate the financial burden on SMMEs, but also improve their ability to repay loans, promoting long-term business growth. This strategy promotes entrepreneurship, fosters innovation, and facilitates the creation of job opportunities, all of which contribute to the overall economic development of the SMME sector.

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