Nigerias micro and macro economics policies economics essay

ABSTRACT

With the current trend in Nigeria's micro and macro economics policies towards a dynamic economy, the indispensability of small and medium size enterprises development has become a necessity. This study investigates the influence of microfinance banks on small and medium size enterprises development in Nigeria with a particular reference to Osun State. This study used survey research design. Simple random sampling technique was adapted to select the respondents' small and medium size entrepreneurs. Questionnaire was administered to these entrepreneurs to obtain primary data used for the study. Data were analysed with the help of descriptive statistics and hypotheses were tested using regression analysis and correlation. Findings from the study revealed that (i) proper monitoring of loans by microfinance banks leads to proper management of SMEs; (ii) microfinance banks contributes to sustainable growth and development of SMEs in Nigeria; and (iii) proper funding of financing of SMEs by microfinance banks contributes to the performance of SMEs. The result further shows that the poor and those ignored by the formal financial institution in the country have been able to access credit from the microfinance banks which had help in enhancing the living condition of poor and vulnerable non-poor people in the society. Base on the findings it was recommended that Government should provide a platform for the registration of various informal microfinance institutions in the country with the central bank of Nigeria by giving them the incentive of group financial assistance. More so, the microfinance bank should introduce loan strategies and repayment strategies to the medium and small scale enterprise and that the duration of

the loan repayment should be over a long period or increase the moratorium. This will enable the medium and small scale industries have greater use of the loan over a long period for the acquisition of capital assets and technology.

Keywords: Microfinance banks, Small and medium size enterprises, Financial intermediation, Nigeria.

JEL Classification: G21, N17, O16

INTRODUCTION

Commercial and merchants banks have been contributing to micro credit delivery in Nigeria by providing loans and advances to small and medium scale enterprises. However, they have not been able to address the needs of the rural poor, especially because of the traditional banking services provided by these banks and other formal financial institutions not tailored to meet the needs of micro enterprises as profitable entities. This may explain why in recent time, the share of their total credit to small and medium scale enterprises has decline drastically. The reason for this apathy to cater for the poor may result from the fact that the poor often cannot provide conventional collateral and the preference by banks to make large loans to avoid high cost of administering a large number of small loans. This has in turn created a gap in mobilizing savings from and inexperience to cover the needs of the poor small scale entrepreneurs. The few that are available are constrained by socio-political factors, policy inconsistency and weak regulatory frame work. The consequence is that they have been prevented from the growing and developing financially sustainable operations. Poor infrastructure has also hindered activities of SMEs in the rural arears (Osagbemi, 1983).

The medium and small scale enterprise came with so much enthusiasm about micro financing in Nigeria when the policy and regulatory frame work was launched in 2005; experience has shown that robust economic growth cannot be achieved without putting in place focused programmes to reduce poverty through empowering the people by increasing their access to factors of production especially credit, thus SMEs see microfinance bank as a tool for the development of their enterprises. This study set to evaluate the challenges and prospects of and the influence of Microfinance bank on Small and Medium scale Enterprise known.

Every small and medium size business is concern about financing policy and strategies for efficient and effective business management decision. It takes the resources of money to make money in small enterprise in Nigeria. The commercial banks and other financial houses which are expected to be sources of finance for growth and development of SMEs have been too rigid in demanding for adequate collateral in order to make funds available to SMESs. It is against this background that this study examines the contribution of microfinance banks towards the development of SMESs in Nigeria. Thus the general objective of this study is to evaluate the extent to which microfinance banks can influence development and operations of SMEs in Nigeria with major focus on Osun State.

LITERATURE REVIEW

The philosophy of developmental programmes in Nigeria's today initiatives is among other things to increase the supply of adequately trained small and medium size entrepreneurs that will achieve success in their business venture. Government is therefore putting in place social and economic infrastructures, which will lunch Nigeria into an industrial giant in the foreseeable future. Also, it desires to achieve accelerated development through aggressive participation of the private sector and this role is assign to SMEs.

Economic development is not just a matter of natural resources, capital and labour; it is part of the whole social development of attitude of the people to life as a whole, and it is for this critical ideology that we seek to bring out the contribution of entrepreneur to the development of our economy.

Small and Medium Size Enterprises in Nigeria

The concept of small and medium scale enterprise is dynamic. The definitions change over a period of time and depend largely on the country's level of development. Different scholars', government agencies in Nigeria such as the Central Bank of Nigeria (CBN), the Nigeria Bank for Commerce and Industry (NBCI), the Center for Industrial Research and Development (CIRD) and the National Economic Reconstruction Fund (NERFUND) adopted various definitions of small and medium probably due to difference in policy focus.

However in 1996, the National Council of Industries (NCI) streamlines the various definitions in order to remove ambiguities and agrees to revise them every four years. Small scale enterprises were defined as those with fixed assets above N1m but not excluding land but including working capital while medium scale enterprises are those with fixed asset excluding land by including working capital of over N10m but not those with total cost, including working capital but excluding cost of land above N1m but not exceeding N40m with a labour size of between 36 and 100 workers. The NCI in 2001 include the capital investment band of SMEs at between N150 million to N200 million, excluding land but including capital and also working force band between 11 and 300 inclusive. But on the other hand, National Association of SMEs definition states that SMEs is a business with less than 100 employees and an annual turnover of N 500 million.

The CBN defines SMEs as an enterprise with maximum asset base of N 200 million, without land and working capital, also the number employees not less than 10 and not more than 300. The World Bank defines SMEs in Nigeria as those with fixed asset (excluding land) plus cost of the investment project not exceeding N10 million in constant 1988 prices (Ogunleye, 2000).

However, the main criteria used throughout the world to describe small business enterprise include, number of employees, sales value, financial strength, relative size, initial capital outlay, comparison with its past standards, independent ownership and type of industry.(Osagbemi, 1983).

Prior to the industrial revolution, big business were rarely found. Business operators in those periods were small business entrepreneurs. These highly creative individuals spent countless of their time and resources in order to provide goods and services to the society.

Today, SMEs has gained prominence in our society because of the role it plays in metamorphosing the economy. It provides employment, raw materials, income to the owners, accelerating growth in Gross Domestic Product among other things. This vital sector has experience a meaningful development. The sector is characterised with retarded growth and development.

Small business in Nigeria is constrained because of many factors ranging from lack of raw materials, market for the products, inadequate support from government, and heavy competition from imports among others. Lack of fund has been the main problem facing small business in Nigeria. The little at the disposal of SMEs is not enough for them to engage the services of highly skilled manpower, expand their businesses and other things that will stimulate the rapid expansion of the sector which will in turn give the economy a new look.

Evolution of Microfinance Bank in Nigeria.

In May 2003, Government of the country decided to transform community banks into microfinance institution in order to stimulate growth and development at the grass root level. The banks are to promote small scale business activities. Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institution. Three factors distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected.(ii) the absence of asset based collateral, and (iii) simplicity of operations [CBN, 2005]. This give a clue that the Central Bank of Nigeria is aware that there are people and enterprises such as the small and medium scale that are not served by the conventional banks because the loans required by them are small compare to the activities and portfolio of these banks.

The microfinance banks replace the ailing community banks created by Ibrahim Babangida but was soon caught in the throes of an inefficient Nigeria economic system. The evolution of microfinance banks in the 1970s is to break the barricade to access capital by low income individuals for developmental purpose. Microfinance banks provide financial services to low income, poor and very poor self employed people (Otero, 2000).

To say that microfinance banks empower the entrepreneur in spirit that exists among SMEs worldwide is not an exaggeration. Microfinance banks have the ability to strengthens micro enterprise and encourage the best practices among operators of small and medium scale enterprise. One of possible explanation for the relative absence of SMEs in the developing countries like Nigeria is the access to finance. Large firm in these countries can have financial assistance because they have assets that can serve as collaterals for loans.

Microfinance has evolved as an economic development approach intended to benefit low income men and women. That is, provision of financial service to low income clients including self employed. Financial service generally include savings and credit however, some microfinance institution also provide insurance and payment services. In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development self confidence and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance also includes both financial intermediation and social intermediation.

Most government wants to encourage the development of business in their countries and that is the case with the Nigerian government also, they supplement general policy goals that apply to business with specifics policies and programmes aimed at micro and small enterprise. It is helpful if policies are in places that establish a favourable climate for start up of small business and the growth of existing ones. Therefore, the Nigerian government should encourage and support the microfinance banks in financing the small and medium scale enterprise in Nigeria (Ojo, 2009)

Objectives of Microfinance Bank

Selecting a target market depends on the microfinance provider and the perceived demand for financial serves. In any country there are undeserved enterprise and households ranging from poor who may not be economically active to small growing enterprise that provide employment in their communities.

The goal of microfinance as development organisation in Nigeria is o serve financial needs of served and undeserved market as a means of meeting development objectives. These objectives generally include the following:

To reduce poverty

To empower women or other disadvantage population groups.

To create employment.

To help existing business grow or diversify their activities.

To encourage the development of new business.

To create employment and income opportunities through the creation and expansion of micro enterprises.

To increase the productivity and income vulnerable groups.

To reduce rural families dependence on drought prone crops through diversification of their income generating active. (Yaron and Piperk 1997).

Clients of Microfinance Banks

The typical microfinance clients are the low-income persons that do not have access to formal financial institution. Microfinance client are typically self-employed, often household-base entrepreneurs. In rural areas, they are usually small farmers and other who are engaged in small income generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include artisan, wholesalers, retailers, services providers and so on.

Microfinance client are poor and vulnerable non-poor who have relative stable source of income. Access to conventional formal financial institution for many reasons is directly related to income, the poorer you are, the less likely that you have access.

Role of Microfinance Banks in Promoting SMEs

Credit Delivery: This is perhaps one of the most important roles of microfinance banks, as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2008) microfinance loans granted to clients is increasing from 2007 to date and most of it goes to financing micro enterprises in rural areas. Ketu, (2008) observed that microfinance banks have disbursed more than N800 million micro credits to over 13, 000 farmers across the country to empower their productive capacities. Boosting Small Scale Enterprises/Agriculture: About 60 percent of poor people in the country live in the rural areas and 80 percent of them are farmers and artisans (CBN, 2005). Microfinance banks have therefore been the main sources of funding to these less disadvantaged groups. Rural people are empowered through microfinance loans and services, and hence small scale agricultural practice and micro enterprise is developed. Employment Generation: Agriculture and micro enterprises contributes immensely to job creation, and are of particular interest to all microfinance banks in rural areas. Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban areas, these industries are more prominent in the rural areas (Ketu, 2008).

Improvement in Skill Acquisition: Improvement of the condition of women through the provision of skills acquisition and adult literacy is another role played by microfinance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood by strengthening rural responsive banking methodology and the introduction of simple cost-benefit analysis in the conduct of businesses (Umar, 2008)

Facilitates Poverty Alleviation: Employment and income generation are important aspects of poverty alleviation efforts. Microfinance banks have accelerated the operation of government poverty alleviation programmes and in doing that promising entrepreneurs are supported and new ones emerged. The Federal Government's National Poverty Eradication Programme (NAPEP) and National Economic Empowerment and Development Strategy (NEEDS) to mention a few aimed at achieving the United Nations Millennium Development Goals (MDGs) by 2015 required these microfinance institutions for success. The success of these programmes and projects for advancement of the MDGs are linked with the promotion of entrepreneurs in rural areas and subsequent reduction in the level of poverty (Ketu, 2008).

METHODOLOGY

This section details the material, methods and procedure in which the study was carried out which helps in achieving the research objectives. In this study, survey research design was adopted because the sampled variables and elements that were studied were simply observed as they were without any attempt to control or manipulate them (Ojo, 2003). The study was restricted to Osun State in the South Western part of Nigeria because Osun

State has very large number of small and medium scale enterprises that are yearning for assistance from microfinance banks. Simple random sampling technique was used in selecting 175 respondents that constitute the sample size. Primary data were used and they were collected through structured non-disguise questionnaire titled " Impact of Microfinance Banks on Entrepreneurship Development in Nigeria." In order to ensure the validity of the questionnaire used, experts were consulted and examined if the questionnaire items have ability to achieve the stated research objectives. In order to ensure the reliability of the questionnaire, the coefficient of reliability of the questionnaire was computed using test-retest method. The questionnaires were administered personally by the researchers to ensure that they were properly filled and returned. However, only 150 copies of the questionnaires were appropriately filled, retrieved and were analysed in this study. Data collected from questionnaire were analysed, summarised and interpreted accordingly with the aid of descriptive statistics. Regression analysis and correlation were used to analyse the data and proof the level of significance in testing stated hypotheses and also to compute and interpret the result.

RESULTS AND DISCUSSION

This section of the study involves presentation of results from collected data, hypotheses testing as well as discussion of the outcome of the study.

Hypothesis 1: Ho

There is no significant effect of proper monitoring of loans by microfinance banks and management of SMEs in Nigeria.

Table 1: Variables Entered/Removedb

Model

Variables Entered

Variables Removed

Method

1

Microfinance Banksa

•

Enter

a. All requested variables entered.

b. Dependent Variable: Management of SMEs.

Source: SPSS Printout, 2012.

Table 2: Model Summary

Model

R

R Square

Adjusted R Square

Std. Error of the Estimate

1

. 848a

. 720

. 715

. 44064

Predictors: (Constant): Monitoring of loans.

Source: SPSS Printout, 2012.

Table 3: Summary of ANOVAb

Model

Sum of Squares

Df

Mean Square

F

Sig.

1

Regression

28. 922

1

28. 922

148. 956

. 000a

Residual

11. 261

58

. 194

Total

40. 183

59

. Predictors: (Constant), Monitoring of loans.

b. Dependent Variable: Management of SMEs.

Source: SPSS Printout, 2012.

. Predictors: (Constant), Monitoring of loans.

b. Dependent Variable: Management of SMEs.

Source: SPSS Printout, 2012.

Table 4: Coefficientsa

Model

Unstandardised Coefficients

Standardised Coefficients

T

Sig.

B

Std. Error

Beta

1

(Constant)

1. 250

. 263

4. 755

. 000

Microfinance Ba Banks

. 777

. 064

. 848

12. 205

. 000

a. Dependent Variable: Management of SMEs.

Source: SPSS Printout, 2012.

From the above computations, it is pellucid that proper monitoring of loans by microfinance banks enhances good management of small and medium size enterprises. An improved, effective and efficient loan monitoring by microfinance banks will increase effective management of SMEs by (. 777), approximately 78%. The lower value of the standard error also confirms this statement. The t-test of loan monitoring by microfinance banks at 12. 205 shows that the variable is statistically significant at 1%, 5% and 10% significance levels showing that effective loan monitoring by microfinance banks will enhance good management of small and medium size enterprises. The high figure of the f-statistics (148. 956) also confirms this with the lower value of its respective probability. The coefficient of determination, R square at . 720 (72%) shows that variations in the model is determined by the variables used. Hence we reject the null hypothesis and formulate and accept the alternative hypothesis that states that proper monitoring of loans by microfinance banks do have positive impact on the management of SMEs.

Hypothesis 2: Ho

There is no significant effect of microfinance banks contribution to sustainable growth and development of SMEs in Nigeria.

Table 5: Variables Entered/Removedb

Model

Variables Entered

Variables Removed

Method

1

Microfinance Banksa

.

Enter

a. All requested variables entered.

b. Dependent Variable: Growth and development of SMEs.

Source: SPSS Printout, 2012.

Table 6: Model Summary

Model

R

R Square

Adjusted R Square

Std. Error of the Estimate

1

. 832a

. 692

. 687

. 73178

a. Predictors: (Constant), Microfinance Banks

Source: SPSS Printout, 2012.

Table 7: Summary of ANOVAb

Model

Sum of Squares

Df

Mean Square

F

Sig.

1

Regression

69. 791

1

69. 791

130. 327

. 000a

Residual

31. 059

58

. 536

Total

100. 850

59

a. Predictors: (Constant), Microfinance Banks

b. Dependent Variable: Growth and development of SMEs.

Source: SPSS Printout, 2012.

Table 8: Coefficientsa

Model

Unstandardised Coefficients

Standardised Coefficients

T

Sig.

B

Std. Error

Beta

1

(Constant)

. 257

. 304

. 847

. 401

Microfinance Banks

. 911

. 080

. 832

11. 416

. 000

a. Dependent Variable: Growth and development of SMEs.

Source: SPSS Printout, 2012.

From the above computations, it was discovered that microfinance banks enhance growth and development of SMEs in Nigeria. There is improvement in growth and development of SMEs (. 911) approximately 91%. The lower value of the standard error also confirms this statement.

The t-test of microfinance banks at 11. 416 shows that the variable is statistically significant at 1%, 5% and 10% significance level showing its effectiveness that microfinance banks enhance growth and development of SMEs. The high figure of the f-statistics (130. 327) also confirms this with the lower value of its respective probability.

The coefficient of determination, R square at . 869 (87%) shows that variations in the model is determined by the variables used.

Hence, we reject the null hypothesis and formulate and accept the alternative hypothesis that states that there is a significant effect of microfinance banks on growth and development of SMEs in Nigeria.

Hypothesis 3 Ho:

Proper funding or financing of SMEs by microfinance banks will not have positive impact on the performance of SMEs.

Table 9: Correlations

Financing of SMEs

Performance of SMEs

Financing of SMEs

Pearson Correlation

1

. 832**

Sig. (2-tailed)

. 000

N

150

150

Performance of SMEs

Pearson Correlation

. 832**

1

Sig. (2-tailed)

. 000

N

150

150

**. Correlation is significant at the 0. 01 level (2-tailed).

Source: SPSS Printout, 2012.

The above hypothesis is carried out using correlation analysis between proper funding of SMEs and performance of SMEs. At 1% significance level, the correlation of the variables of proper funding and performance shows 1 and 0. 832. The close to one the parameter of the variable is, the correlated the variables will be. We can therefore say that the two variables are positively. Thus we reject our null hypothesis and formulate and accept alternative hypothesis which states that proper funding of SMEs by microfinance banks have positive impact on the performance of SMEs.

CONCLUSION

This research work has been able to identify how microfinance banks can contribute to SMEs management, development, financing and performance in Nigeria Osun State as a case study. The findings revealed that there is a significant effect of microfinance banks activities in monitoring loans given to SMEs. Microfinance banks have been sustaining the development and productivity of small and medium size entrepreneurship activities in Nigeria. People have access to capital for entrepreneurship development in Nigeria through microfinance banks. The major contribution of microfinance banks to the developing economy like that of Nigeria is its role in promoting entrepreneurship development in the nation through monitoring of loans and adequate funding of SMEs..

One of the goals of entrepreneurship routed by successful Nigerian government has been the reduction of unemployment and poverty alleviation. A cordial thrust in public policy for the achievement of indigenous entrepreneurship through the provision of long term loans and equity capital by microfinance banks for enterprise (Ojo, 2009). The major contribution of microfinance banks to the developing economy like Nigeria is its role in promoting the entrepreneurship development in the country through adequate support for SMEs.

Bases on the research work, it is generally accepted that the microfinance banks can contribute greatly to the development of SMEs in Nigeria by financial support which will increase their productivity and eventually leads to industrial development holding other factor constant. Again, the government leaves gaps in the Nigeria economy that the banking sector especially microfinance bank can fill. They can lead to higher return on equity if well implemented. Developing SMEs entrepreneurs in Nigeria will bring about increase in the economic growth of the country; it will reduce unemployment and increase the standard of living of individuals. Therefore microfinance banks have important role to play in this direction. The financial institution needs to put more effort in financing the SMEs. Their role needs to be felt by the SMEs in term of growth and development and this majorly concern the microfinance banks. Entrepreneurs themselves should be more receptive to new ideas and prepare to make financial commitment to ensure growth.

This study recommends that the guidelines laid down by the banking sector to finance the entrepreneurs should be more flexible and accommodate the entrepreneurs because it is only when banking institution gives financial assistance to the entrepreneurs that they will gain more capital to produce more and this will increase the industrial development of the country. There is need to develop a regulatory and supervisory framework for the operations of microfinance banks in Nigeria. Government should also improve on the state of infrastructural facilities to reduce the transactional costs associated with the administration of micro credit in the country. Base on the findings it was recommended that Government should provide a platform for the registration of various informal microfinance institutions in the country with the central bank of Nigeria by giving them the incentive of group financial assistance. More so, the microfinance bank should introduce loan strategies and repayment strategies to the medium and small scale enterprise and that the duration of the loan repayment should be over a long period or increase the moratorium. This will enable the medium and small scale industries have greater use of the loan over a long period for the acquisition of capital assets and technology.