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MICRO FINANCE BANKS: A TOOL FOR THE GROWTH OF MICRO ENTERPRISES IN NIGERIA

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ABSTRACT: ***This paper presents recent research on micro finance banks as a tool for the growth of micro enterprises. The study examined the impact of micro finance banks credit on expansion of micro enterprises. It also assessed the impact of micro finance bank lending on production capacity of micro enterprises. The study reviewed operations of micro finance banks operations, products and services in existence and how they could positively influence acquisition of assets in micro enterprises sector. The study was undertaken using a total of three hundred (n=300) structured questionnaire to collect information from micro entrepreneurs and managers of selected micro finance banks out of which two hundred and eighty (280) were properly completed, returned and accordingly analysed using regression analysis. The result of the study showed that there is a significant impact of micro finance bank loans and expansion of micro enterprises. The second hypothesis revealed that there was a significant impact of microfinance bank lending on production capacity of micro enterprises. The study concluded that growth should not only be seen as overriding motive in formulating credit strategy but based on enterprise development service with potential sustainable growth and survival.***

Keywords: Micro Finance Bank, Micro Enterprise, Growth, Development and Expansion

INTRODUCTION

The need for economic development to measure overall improvement in individual being has being the preoccupation of every country. The process includes a number of approaches. One of these is the adaptation of an industrialization strategy at a point in the relearns to the prevailing needs for development (Mistra, 2002). Micro enterprises (MEs) contributions to economic growth and development have been recognized globally, Nigeria inclusive recognized that micro enterprises are fulcrum for the economic development of developing countries. Almus and Nerliger (2002**)** opine that tightness of access to finance has been identified as one of the major growth constraints to micro enterprises. It is believed that provision of financial services is an important means for mobilizing resources for more productive use. Micro enterprises find it difficult to access formal financial institutions such as commercial banks for funds (Brown, Earle and Lup, 2004). The inability of the micro enterprises to meet the standard of the formal financial institutions for loan consideration provides a platform for informal institutions to attempt to fill the gap usually based on informal social networks, and this is what gave birth to micro financing. Small enterprise transformation is all about seeking to bring about improvement in the living condition of the farmer, the artisan, the petty traders, the tenant and the landless within the simple and rustic economies of the country-sides and urban slums. The basis for employment generation and entrepreneurship development in the country, therefore, is to enhance the improvement of the living condition of the people (Ojo, 2003). The Micro entrepreneurs lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Consequently they depended on families, friends and other informal sources of funds to finance their businesses. Credit has been recognized as an essential tool for promoting micro enterprises both in developed and developing countries (Masurel and Montfor, 2006). In Nigeria over half of the population is engaged in the informal sector or in agricultural production. The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the people is vital. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspirations various policies were instituted by the Federal Government to improve rural and urban enterprise production capabilities (Fasoranti, Akinrinola and Ajibefun, 2006).

LITERATURE REVIEW

The importance of micro and small scale enterprises on promotion and economic stabilization of a nation cannot be overemphasized. In Nigeria, micro and small businesses are recognized as one of the main drivers of the economy (Lemo, 2007). In some developing nations of the world, the contributions of micro and small scale enterprises have resulted in multiple increase of gross domestic product through active participatory involvement of micro and small business holders. Micro businesses have been fully recognized by government and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. Olutunla and Obamuyi, (2008) argued that the development of micro business is therefore an essential element in the growth strategy of most economics and holds particular significance for Nigeria. Micro enterprises not only contribute significantly to improved living standards, they also bring about substantial local capital formation and achieve high levels of productivity and capacity. From a planning stand point, Micro businesses are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification and dispersal; and in most counties micro enterprises account for well over half of the total share of employment, sales and value added Niskanen and Niskanen (2007).

Micro enterprises in Nigeria can be categorized into urban and rural enterprises, but in a more formal way they can be called organized and unorganized enterprises (Audu, and Achegbu 2014). The organized enterprises have paid employees with a registered office while the unorganized enterprises are mainly made up of artisans who work in open spaces, temporary wooden workshop or structures; and rely mostly on apprentices or family members and mostly employ low rate or no salary paid workers. Bekele and Zeleke (2008) posited that rural enterprises are made up of family groups, women that are engaged in food production from local farm crops, and individual artisans. The major activity involved in this micro business sector include: soap and detergents, fabrics, textile and leather, local blacksmith, tinsmith, goldsmith, ceramic, clothing and tailoring, timber and winning, bricks and cement, food processing, wood furniture, beverages, bakeries, electronic assembly, agro processing, chemical based products and mechanics.

A major gap in Nigeria's industrial development process in the past years has been that, the absence of a strong and virile micro and small enterprises sub-sector. The above role and potential of micro and small enterprises in contributing to economic development, spurred the Federal Government to come up with special programmes, whose principal targets are the overall empowerment of low income earners in rural and urban centres. The programmes include: Agricultural Development Projects (ADPs), Agricultural Credit Banks to Better Life Programme for Rural Women and the like. Unfortunately most of the programmes failed to achieve the desired result. That led to the emergence of microfinance banks which aimed at extending credits to micro enterprises and encouraging entrepreneurship. Institutional structures for the provision of micro credit vary and may be any of the following: government such as 'trader moni', 'market moni' and 'farmer moni' or public sector-oriented, NGO supported, traditional or a mixture of two or more of these (Atoloye, 2006). . In Nigeria the micro business capital investment has been defined in different ways. The National Council of Industry (NCI) in 2011 include the capital investment of a micro enterprise between NGN 5 to NGN 100,000, excluding land but including working capital and also the working force band between 1 and 100 inclusive. The Central Bank of Nigeria (CBN) defines micro business as an enterprise with a maximum asset base of NGN 200,000, without land and working capital, also the number of employees not less than 2 and not more than 50.

The Austrian School and Classical School

These theories considered differences in attitudes and abilities among individuals as critical issues in determining why some small firms grow and others do not. Two schools of thought, the Austrian School and the Classical Economist were the first to acknowledge the role of the entrepreneur in small business development; they recognize the entrepreneur as an individual with special characteristics. Kolvereid and Bullvag (1996), described an entrepreneur as someone that has the willingness and superior ability to make decisions, raise capital and assume the risk of failure. In the same vein, Schumpeter (1939), added among other things, the fact that an entrepreneur has the superior ability to perceive new market opportunities, he sees the entrepreneur as an innovator.

The Austrian school

People have certain characteristics that are associated with the productivity for entrepreneurship. Individuals who have more of these characteristics are more likely to become entrepreneurs than those who have fewer. An individual chooses to create a new business so as to maximize his expected utility. This utility is a function of entrepreneurial activity or wage income, and of attitudes that affect the utility that the person derives from entrepreneurial activity, such as one's taste toward work effort, risk, independence, working close to customers, etc. Income, in turn, depends on the individual's ability to generate profit, such as managerial abilities to raise capital, and abilities to perceive new market opportunities and to innovate (Papadaki and Chami, 2002).

The classical school

The classical school has extended analysis of the decision to start a business to that of the decision to grow the business. According to Davidson, Kirchhoff, Hatemi, and Gustavsson (2002), firm growth is an indication of continued entrepreneurship. They note that economic theories take the willingness to grow a business for granted, by assuming profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable expansion and that profitable firms of different sizes co-exist within industries. According to Papadaki and Chami (2002), theories on small business growth and development view business growth from an organizational life cycle perspective, which sees growth as a natural phenomenon in the evolution of the firm, other perspective sees growth as a consequence of strategic choice.

It is obvious that attributes of the business owner, organizational resources and environmental opportunities are crucial in expanding the firm and in overcoming the barriers to the evolution of the firm from one stage to the next. Sexton and Smilor (1997), and Carland et al., (1984) distinguished between a business owner and an entrepreneur. According to them, an entrepreneur is committed to the growth of the business. Growth is the very essence of entrepreneurship," and commitment to growth is what primarily distinguishes small business owners and entrepreneur.

Micro finance Banks, Products and Services

Microfinance is the provision of financial services adapted to the needs of low income people such as micro entrepreneurs, especially the provision of small loans, acceptance of small savings deposits, and simple payments services needed by micro entrepreneurs and other poor people (USAID, 2000). The Central Bank of Nigeria (CBN, 2005) defines microfinance 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. It is the provision of financial services to the economically active poor who are hitherto un-served by the mainstream financial service provider. Micro finance banks are established to take care of majority of micro and small business which may be unable to access funds from other conventional banks. Their target groups include petty traders, transport service, farming, fishing, trading, and building of houses and to engage in any other productive and distributive activities (Ojo, 2007).

Micro finance institutions (MFIs) 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 that constitute the target users of such microfinance are mainly in the informal sector of the economy and are predominantly engaged micro and small business activities. Micro finance institutions are regarded as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. In addition to financial intermediation, some micro finance banks (MFBs) provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Daniels, 2003). There are different providers of micro finance services and some of them are; nongovernmental organisations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non- bank financial institutions. These institutions commonly tend to use new methods to deliver very small loans to unsalaried borrowers, taking little or no collateral.

These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly. The services provided to microfinance clients can be categorised into four: (i) Financial intermediation or the provision of financial products and services such as savings, credit payment systems and so on (ii) Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. (iii) Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and (iv) Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training (Orser, Horgath-Scott and Riding 2000)

Micro Enterprises Growth and Development

Defining small business has always been very difficult and controversial. The term small business covers a variety of firms and it is used loosely in most of the literature (Eyiah and Cook, 2003). Small business is one which is independently owned and operated and which is not dominant in its field of operation. The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organisation whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Bigsten, Collier, Dercon, Fafchamps, and Gunning 2005). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state. The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Masakure, Cranfield and Henson 2008).

METHODOLOGY

Survey method was adopted to collect data for analysis. The target population of this study was the selected Somolu local government in Lagos, Nigeria where a census survey was carried out on firms which comprised micro enterprises. The study made use of primary data. The primary data was obtained through a structured questionnaire. The organization was the unit of analysis and the target respondents were micro enterprises and managers of selected micro finance. The micro enterprises responded to the section on the production capacity and expansion while the managers of selected microfinance banks responded to the section on the lending operations. Simple regression analysis was used to establish the nature and magnitude of the relationship between micro finance banks and the growth of micro enterprises. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest in the study. Mean scores were computed for Likert type of questions. SPSS regression software was used for analysis. Data was presented in form of tables.

Data Analysis and Discussion of Results

This study sought to establish the impact of micro finance banks on the growth of micro enterprises. The tests were carried out using simple regression analysis at 5% significance level (a=0.005).To test the hypotheses, it was necessary to compute composite scores for variables that had several measures. In this regard, composite scores were calculated to represent the responses to the various attributes that defined micro enterprises (production capacity and expansion). Similarly, composite scores were calculated to represent the responses to the various attributes that defined micro finance banks (Lending operations) which were used as input to the evaluation. The outline and the results from the evaluation were as presented below:

H_o: Micro finance bank loans have no significant impact on expansion of micro enterprises

The impact of micro finance bank loans on expansion of micro enterprises was tested and the results were as presented in table 1 below:

Table 1: Credit facilities of micro finance bank and expansion of micro enterprises

Model Summary

Model	R	R Squared	Adjusted R Square	Std. Error of the Estimate
1	.940	.884	.881	.375

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	173.044	3	57.681	409.533	.000
	Residual	22.817	162	.141		
	Total	195.861	165			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.326	.103		3.179	.002
	Micro finance banks	.443	.075	.491	6.091	.000

Predictors: (Constant), micro finance banks

Dependent Variable: expansion of micro enterprises

The results presented in table1 indicate that the impact of micro finance bank loans on expansion of micro enterprises was positive and significant (R^2=0.940, F=409.533, p<0.05). From the table, 94% of the variation in expansion of micro enterprises was explained by variation in lending facilities of micro finance banks. It also suggested that micro finance bank loans accounted for 94% of the variation in expansion of micro enterprises. (R square =0.055, p<0.05), β was also statistically significant (β=0.443), t=6.091, p<0.05). The probability value of the first hypothesis tested showed 0.000 which was less than 0.05 (p<0.05). The p-value is statistically significant and therefore the null hypothesis is rejected. Overall regression results presented in table 1 indicate micro finance bank loans have a significant positive impact on expansion of micro enterprises. The hypothesis that says there is no significant impact of micro finance bank loans on expansion of micro enterprises is rejected. The hypothesis that micro finance bank loans influence expansion of micro enterprises was therefore confirmed.

Ho: Credit facilities of micro finance banks have no significant impact on production capacity of micro enterprises

The impact of credit facilities of micro finance banks on production capacity of micro enterprises was tested and results were as presented in table 2 below:

Table 2: Credit facilities of micro finance banks and production capacity of micro enterprises

Model Summary

Model	R	R square	Adjusted R square	Std Error of the Estimate
1	.949	.902	.900	.354

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	186.568	2	93.284	746.155	.000
	Residual	20.378	163	.125		
	Total	206.946	165			

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.503	.094		5.344	.000
Micro finance banks	.671	.058	.706	11.560	.000

Predictors: (Constant) micro finance banks
Dependent Variable: production capacity of micro enterprises

The results presented in table 2 show that the impact of credit facilities of micro finance banks on production capacity of micro enterprises was positive and significant ($F=746.155$, $p< 0.05$). From the table, 90.2% of the variation in the production capacity of micro finance banks was explained by variation in credit facilities of micro finance banks (R square=0.902, $p< 0.05$). $\beta =0.671$. $t=11.560$, $p< 0.05$). Overall regression results presented in table 2 indicate that credit facilities of micro finance banks have significant impact on production capacity of micro enterprises. The hypothesis that credit facilities of micro finance banks have no significant impact on production capacity of micro enterprises is rejected and alternative hypothesis that credit facilities of micro finance banks influence production capacity of micro enterprises is confirmed.

Conclusions and Recommendations

The major conclusion from the results of the study is that credit facilities of micro finance banks are critical and important in promoting the growth and survival of micro business enterprises. The aim of any business firm is to make profit and grow. Growth is an increase in size, the size of a business firm can be strengthened by supply of capital, available resources, efficient management and opportunities for profitable investments.

With expansion of assets, flexible loan repayment and smooth management, micro business enterprises would be able to play and sustain their role as the means of survival for people, save poor homes that have the innovation to start a unique business, improve the living condition of people and contribute to income generation and poverty alleviation. In Lagos State, above two-thirds of the residents are poor and struggling for survival in the face of unemployment hence the need for survival and growth of micro business enterprises. The Federal government should further encourage the activities of micro finance banks by creating enabling environment so that they can further support micro business growth. Micro finance banks should sustain the policy of easy accessibility of loans meant for micro business enterprises to encourage existing and prospective entrepreneurs' activities. Micro finance banks should effectively pursue the application of mechanism put in place to ensure judicious use of loans and avoid misapplication of loans. Financial institutions need to put more effort in financing micro business enterprises to ensure their growth and development. The guidelines by micro finance banks to finance micro business enterprises need to be flexible to accommodate the micro businesses. When financial institutions particularly micro finance institutions appreciate and give both financial and technical assistant to the micro businesses they would be contributing to success in the micro business sector.

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