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ASSESSING THE EFFECT OF MICROFINANCE BANKS FINANCIAL AND NON
FINANCIAL SERVICES ON SURVIVAL, GROWTH AND PRODUCTIVITY OF SMALL
AND MEDIUM SCALE ENTERPRISES IN ONDO STATE

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ABSTRACT

The failure of community banks in driving small and medium scale enterprises (SMEs) towards achieving sustainable economic development gave impetus for the birth of micro finance banks (MFBs) in Nigeria. MFBs were established to make available more funds to SMEs to make them responsive as an agent of growth and economic development. Despite the advent of MFBs, it is observed that a reasonable number of SMEs could not still survive, hence the need to assess the effect of these banks on SMEs activities. The study makes use of primary data. 100 questionnaires were purposively administered to SMEs in the northern senatorial district of Ondo state. The data obtained were analysed using descriptive statistics, multiple regression, and analysis of variance using SPSS 20.0 statistical packages. The result of the analysis shows that effective utilization of MFBs have significant positive effect on the volume of sales and productivity of SMEs. The study recommend the need for SMEs using MFBs as their main source to ensure that loans obtained are utilized for the business purpose and that government should provide an enabling environment for both institutions to operate.

Keywords: MFBs, SMEs, Productivity, Growth, Survival

INTRODUCTION

The success recorded through the establishment of small and medium scale enterprises (SMEs) in the economic growth of the Asian countries shifted the initial focus of Government

From government – led through the vehicle of large industry to small and medium scale enterprises (Ojo, 2003). Despite this shift, a reasonable number of the SMEs in Nigeria are still at low level of development mostly in the area of jobs, wealth and value creation. International finance corporation (IFC) reported in 2002 that only 2 out of 10 newly established businesses were found to survived up to the fifth year of their existence in Nigeria (Babajide,2011). This statistic points to the fact that there is a problem. In the year 2005, Microfinance banking came into existence as a result of the failure of community banks to drive small and medium scale enterprises towards achieving sustainable economic growth and development (Moruf, 2013). The establishment of microfinance institution was to empower the active poor, promote the performance and survival of the Small and Medium Scale Enterprises and to reduce the high rate of unemployment. With the advent of microfinance banks, it could be observed that Small and Medium Scale businesses still fail to survive up to the fifth year of her establishment (Babajide, 2011). Hence the need to assess the impact of microfinance banks on the survival of Small and Medium Scale Enterprises.

REVIEW OF LITERATURE

Concept of SMEs

In the United Kingdom, SME is defined based on the purpose for which it is to be used. For the purpose of tax relief, SME is defined as a business with not more than 500 employees with an annual turnover not exceeding £100m. For the purpose of collecting statistics, SME is defined as company with less than 250 employees and for accounting purpose, SME is defined as employing less than 50 people with a turnover under £6.5m and a Medium business as less than 250 employees and a turnover under £25.9m (Peter, 2012). SMEs are broadly defined as business with turnover of less than ₦100m per annum and/or less than 300 employees (Banji, 2014). Ebitto (2006), also defined SMES as enterprises with a maximum asset base of ₦200m excluding land and working capital and staff not less than 10 or not more than 300. From the above definitions of SMEs, it could be noted that definitions given to SMEs, revolves around parameters such as assets base (excluding land), number of employees and annual turnover.

CONCEPT OF MICROFINANCE BANK

MFBS have been defined by various regulatory bodies, Scholars, as well as researchers. Micro financing is the provision of financial services to poor and low income household without access to formal financial institutions (Conroy, 2003). CBN (2011) defines microfinance bank as a development tool used to create access for the economically active poor to obtain financial services at an affordable price. Stanley (2008), defines microfinance as small scale financial services (credit services); that are provided to people who run certain business, operate small or micro enterprises where goods are produced, recycled, repaired, or traded in both rural and urban areas.

Microfinance institution is also defined as a semi-formal organization (Suberu et al, 2011). Suberu et al, (2011). Otero, (2000); Nkannembe, (2008); and Muktar (2009, defines MFB as the provision of credit and other financial services to the low income group and micro

Entrepreneurs to enable them build sustainable micro enterprises. In another contribution, Ojo (2007) defines 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. The principal objective of microcredit programs is to raise incomes and broaden financial markets by providing financial services (principally credit) to small-scale entrepreneurs who otherwise lack access to capital markets. As observed by Arogundade (2010), Microfinance is seen as a medium of bridging the gap between financial markets and SMEs

THEORETICAL FRAMEWORK

One financing theory that is very familiar with the operation of SMEs is the Pecking Order Theory. This theory was first suggested by Donalson (1961) and was popularized by Myers and Majlul (1984). This theory proposes that firms prioritize their sources of financing (from internal to external financing) according to the cost of financing, preferring to raise external fund as a financing means of last resort. The theory proposes that firms prefer to use internal sources of capital first and will resort to external finances or sources when internal sources are inadequate. This theory tends to view firms financing from a hierarchical point of view. Pecking order theory as evidenced in many literatures has being found relevant to the financing of SMEs. Most SMEs start with internal financing such as personal savings and when this internal source becomes inadequate, then turns attention to external sources

EMPIRICAL REVIEW

SMEs remain one of the most reviewed topics in literature especially as its impact on all kind of Economies cannot be overlooked (Suberu, Aremu and Popoola, 2011). Based on different findings and conclusion, several empirical studies have been conducted on SMEs and MFBs by different researchers, Authors and Scholars both in Nigeria and in other countries of the world. This study therefore reviews the following papers.

Duru et al (2013) examined the relationship between MFBs and financing of SSEs in Lokongona district of Kogi State, Nigeria. The objective of the study was to ascertain the extent to which MFBs have discharged their responsibilities of financing SSEs in Nigeria. The study examined 20 SSEs and 5 MFBs and adopted the descriptive research design in examining the relationship between MFBs and the financing of SSEs in the Lokongona district of Kogi state. The findings of the study revealed that the beneficiaries from the products of MFBs enjoyed increase in income, equipment, creation of employment, and improvement in standard of living. It was however discovered that the major problem confronting MFIs is default in payment of loans. The study therefore recommends that MFIs should Endeavour to give out loans to SSEs so that the purpose of their establishment will not be defeated without playing down on sagacious and subtle measures that will enhance prompt recovery of the loans. Also, for enhance performance, the Government should provide enabling environment, as well as monitoring the MFIs that were primarily established for credit delivery to SSEs in Nigeria. It has being deduced that this study is of prior significance to SMEs and MFBs in Nigeria in that, it has brought to limelight various factors that will contribute to a better Small Scale Enterprises and

MFBS in Nigeria. Also, the study revealed aspect that should help spur government on providing enabling environment as well as monitoring the activities of the MFIs.

Oni, Paiko and Ormin (2012), conducted an empirical assessment on the contribution of MFIs to sustainable growth of SMEs in Nigeria. The study was conducted to measure the effectiveness of the microfinance policy by the federal Government of Nigeria which has 3 principal objectives of promoting both Entrepreneurship activities in SMEs, reducing poverty and enhancing economic growth. The study was carried out by randomly selecting 360 SMEs and was analyzed using the simple percentage statistics. The analysis revealed that MFIs does and could contribute to the sustainable growth of SMEs in the country. Nevertheless, the study also found among others that MFIs services outreach to SMEs at present is poor. The conclusion drawn from the study was that the impact of MFBS cannot be effectively felt without Government playing its part which include but to mention; substantial equity in investment in MFIs, infrastructural decay among others. This study therefore is of vital significance as it reveals the contribution of MFIs to the sustainable growth of SMEs in Nigeria and also, that government should play its part in terms of provision of infrastructures.

Suberu et al (2011) did a study that discussed the impact of MFIs on the development of SSEs in Nigeria. The study was conducted to access the impact of MFIs on SSEs in Nigeria. In capturing this, the study adopted the simple random technique and data's were gathered from primary source with the administration of questionnaires as well as secondary sources. The study revealed that significant number of the SSEs benefited from the MFI loan even though only few of them were suitable to secure the required amount needed. It was also observed that the MFIs have grown phenomenally over the last ten years. The conclusion drawn from the study was that there is a positive and significant relationship between MFIs loans and Small scale performance and that Government should play its part by formulating policies to promote SSEs, provision of sufficient infrastructural facilities such as good road network and training institutions. This study therefore is of vital significance as it reveals the contribution of MFIs to the sustainable growth of SMEs in Nigeria even though, only few of the SMEs were suitable enough to secure the required amount needed.

Safiriyu (2012) did a study to analyze the impact of SMEs in the generation of employment in Lagos state. The study was hinge on establishing the impact SMEs have on employment creation and the role of this on sustainable development of the Nigerian economy. In conducting the study, random sampling technique was adopted. Likewise, primary datas were employed through the administration of questionnaires and interviews. Furthermore, analysis was carried out using simple percentage and chi-square. The findings of the study revealed that SMEs and sustainable development of the Nigerian economy are related, just as promotion of SMEs and improvement in employment generation are related. In conclusion, the study noted that for a nation irrespective of its economic ideology to achieve meaningful and sustainable development, adequate attention must be given to wide spread of economic activities through entrepreneurship and SMEs generation.

DATA AND METHODS

The research work is descriptive and concerned with the measurement of relationship between MFBS and productivity of SMEs. This therefore calls for the use of survey research

Design approach. The population of the study comprises of MFBs and SMEs in ondo state. Purposive sampling technique was adopted in selecting samples from the population. This sampling technique was adopted so as to ensure that only respondents that are of prior significance to the study were selected. The study employed the primary source of data. Questionnaires which were constructed on a 5- point likert rating scale were administered to 100 despondence. Data obtained were analyzed using descriptive statistics, multiple regression and analysis of variance (ANOVA) using SPSS 20.0 statistical packages. Only one hypothesis was tested for the study and it is stated thus:

H₀: Micro finance banks financial and non-financial services do not have any significant effect on the survival, growth and productivity of SMEs.

DISCUSSION OF FINDINGS

TABLE 1: EVALUATING THE EFFECT OF THE CHALLENGES FACING MICROFINANCE BANK'S FINANCIAL AND NON FINANCIAL SERVICES PROVISION ON ACCESSIBILITY TO SMES

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
There is lack of banking culture among the rural and urban poor residents which hinders the service provision of MFBs	Between Groups	.669	2	.334	.609	.546
	Within Groups	47.787	87	.549		
	Total	48.456	89			
Do you agree that government commitment towards building a strong SME sector by MFBs in Nigeria is poor?	Between Groups	.401	2	.201	.325	.724
	Within Groups	53.699	87	.617		
	Total	54.100	89			
Lack of good roads and basic infrastructures can hinder the effective discharge of MFBs duties	Between Groups	.072	2	.036	.090	.914
	Within Groups	34.423	86	.400		
	Total	34.494	88			
Do you agree that religious belief that repayment of interest is an abominable act hinders the patronage and discharge of MFBs duties	Between Groups	.152	2	.076	.179	.836
	Within Groups	36.970	87	.425		
	Total	37.122	89			
MFBs are affected by the lack of effective and appropriate manpower (Staffs)	Between Groups	1.863	2	.931	1.942	.150
	Within Groups	41.737	87	.480		
	Total	43.600	89			
Lack of information and Awareness about MFBs activities can affect the provision of financial and non-financial services to SMEs.	Between Groups	.169	2	.084	.231	.795
	Within Groups	31.887	87	.367		
	Total	32.056	89			

Source: ANOVA Result SPSS 20.0 (2015).

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Analysis of Variance (ANOVA) was used to test the effect of the challenges facing MFBs financial and non-financial services provision on accessibility to SMEs using SPSS 20.0 version. The individual mean square, F-statistics and the significance was determined to find out the effect of each factor on accessibility to SMEs. The result revealed among other things that lack of banking culture (0.334; 0.609; 0.546), Government commitment (0.201; 0.325; 0.724), Lack of good roads and basic infrastructure (0.036; 0.090; 0.914), Religious belief (0.076; 0.179; 0.836), lack of effective and appropriate manpower (0.931; 1.942; 0.150), Lack of information and Awareness (0.084; 0.231; 0.705) do not have any effect on accessibility of MFBs services to SMEs. Although, studies conducted in this area have established lack of information and awareness, lack of basic infrastructures, lack of banking culture, Religious belief and manpower as the major challenges facing Microfinance banks accessibility to SMEs. Arogundade (2010); Oni et al (2012); Acha (2012). This study have found out that Microfinance banks have done tremendously well in ensuring that its sole aim of establishment is not jeopardized. The result of the findings could be hinged on the fact that MFBs have brought its services closer to the people, likewise enlightened SMEs operators on the need for using MFBs as their main source of financing and as such, eliminated the aforementioned challenges.

TABLE 2. ASSESS AND ASCERTAIN THE EFFECT OF MICROFINANCE BANKS FINANCIAL AND NON FINANCIAL ACTIVITIES ON PRODUCTIVITY OF SMES IN ONDO STATE.

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
The services rendered by MFBs have a positive effect on the volume of sales of SMEs	24.833	4	6.208	4.677	.003
	71.676	54	1.327		
	96.508	58			
Are MFBs fund effectively utilized for productive activities by SMEs operators?	7.839	4	1.960	2.676	.041
	39.551	54	.732		
	47.390	58			
SMEs that enjoy MFBs services experience increase in productivity level	32.972	4	8.243	9.048	.001
	49.197	54	.911		
	4.950	19			

Source: ANOVA Result SPSS 20.0 (2015)

Analysis of Variance (ANOVA) was used to test the effect of MFBs financial and non-financial services on the productivity of SMEs using SPSS 20.0 version. The individual mean square, F-statistics and the significance was determined to find out the effect of each factor on the productivity of SMEs.

The result shown in table1 revealed that increase in the volume of sales and increase in production are joint indicators of the effect of MFBs financial and non-financial services on the productivity of SMEs.

The result revealed among other things that MFBs services have significant positive effect on increase in the volume of sales (6.208; 4.677; 0.003) and increase in production (0.201; 0.325; 0.001). Studies conducted in this area have established that MFBs have positive effect on productivity of SMEs. Babajide (2009); Oladejo (2013); Suberu et al (2011); This study have also found out that effective utilization of MFBs funds also have a significant effect on the productivity of SMEs. As such, SMEs operators that uses MFBs as their main source of finance should ensure that loan obtained are utilized for the business purpose for which it has being obtained for.

In conclusion, the results obtained in table 1 and 2 have therefore revealed that MFBs financial and non-financial services have a significant positive effect on survival, growth and productivity of SMEs. As such, the null hypothesis which states that Microfinance banks financial and non-financial services do not have any significant effect on the survival, growth and productivity of SMEs should be rejected.

CONCLUSION

The study in contrast to the underpinning pecking order theory reveals that SMEs require access to finance for them to thrive on a sustainable basis. The establishment of MFBs to provide substantial loans for the efficient and effective operation of SMEs is a welcome development.. The study has shown that MFBs have done extremely well in the area of raising incomes and broadening financial markets by providing financial services principally credit to SMEs.. Results from this study have shown that both financial and non-financial services obtained from MFBs have highly benefited SMEs in Nigeria. The question that comes to mind is that to what extent has the MFBs flexible enough in 'terms and conditions and affordability' to guarantee easy accessibility to this loan.

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