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Microfinance and Micro, Small and Medium Enterprises Development in Nigeria

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Abstract

This paper investigates the contributions of microfinance to the development of micro, small and medium enterprises in Lagos and Ogun states, Nigeria. The research was designed to combine primary and secondary sources of data. The data obtained were analyzed using one sample t-test, Pearson correlation coefficient analysis and multiple regression analysis. The result obtained revealed that there is a low positive correlation between microloan received by entrepreneurs and business expansion capacity of MSMEs in Nigeria. It was also revealed that the non-financial services rendered by microfinance banks enhance business performance of MSMEs, while the financial services particularly the asset loan size; asset loan duration and asset loan repayment method do not have the capacity to enhance MSMEs' business growth. The study recommends that Microfinance Banks (MFBs) should increase the duration of asset loans given to client, or spread the repayment over a longer period of time, or increase the moratorium. This will enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology.

1.1 Introduction

In Nigeria, credit has been recognized as an essential tool for promoting Small and Medium Enterprises (SMEs). The contribution of Micro, Small & Medium Enterprises (MSMEs) to economic growth and sustainable development is widely acknowledged in developed and developing economies (CBN, 2004). There is an increasing recognition of its pivotal role in employment generation, income redistribution and wealth creation (NISER, 2004). The micro, small and medium enterprises (MSMEs) represent about 87 per cent of all firms operating in Nigeria (USAID, 2005). Non-farm micro, small and medium enterprises account for over 25 per cent of total employment and 20 percent of GDP (SMEDAN, 2007) compared to countries like Indonesia, Thailand and India where Micro, Small and Medium Enterprises (MSMEs) contribute almost 40 percent of the GDP (IFC, 2002).

Realizing the importance of small businesses as engine for growth in the Nigerian economy, the government took some steps towards addressing the conditions that hinder sustainable development of the SMEs subsector. The Microfinance Policy Regulatory and Supervisory Framework (MPSRF) was launched in 2005. The objective of the microfinance policy is to make financial services accessible to a large segment of the potentially productive Nigerian population, which have had little or no access to financial services and empower them to contribute to rural transformation.

The importance of microfinance to entrepreneurial

development made the Central Bank of Nigeria (CBN) to adopt microfinance as the main source of financing entrepreneurship in Nigeria. Despite this, access to finance is still considered as one of the major hindrances to entrepreneurial development in Nigeria (Ubom, 2003). For instance, despite increasing number of microfinance programmes and policies to encourage entrepreneurship in the country, Nigeria still ranks as one of the poorest countries in the world with unemployment level rising everyday despite proliferation of small businesses as evidenced in the annual report of the Corporate Affairs Commission (CAC). The pertinent questions that arise from this situation are: Is there a relationship between microloan received by MFB client and SME expansion in Nigeria? To what extent is the growth of SMEs being influenced by financing capacity of Microfinance Banks in Nigeria? And what role(s) does the non-financial services rendered by microfinance banks play in enhancing the business performance of SMEs in Nigeria? In order to provide answers to the above questions, it is necessary to undertake an assessment of the role of microfinance on MSME development in Nigeria. Hence, this study has been designed to provide empirical evidence on the role of microfinance on MSME development in Nigeria.

The rest of the paper is divided into four sections. In section II, relevant theoretical and Nigeria business

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environment are reviewed while the methodology of the study is explained in section III. The findings of this study are presented in section IV while section V contains the concluding remarks.

2.1 Concept And Nature of Microfinance

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Microfinance is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). That is microfinance recognizes poor and micro entrepreneurs who are excluded or denied access to financial services on account of their inability to provide tangible assets as collateral for credit facilities (Jamil, 2008). There are different providers of microfinance (MF) services and some of them are nongovernmental organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions. The target group of MFIs are self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith (Ledgerwood, 1999).

The aim of microfinance is not only to extend credits to beneficiaries but to promote entrepreneurship and boost rural financial markets that will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them. It is the practice of delivering those services in a sustainable manner so that poor households will have access to financial services, so that they can build sustainable micro enterprises.

2.2 Concept of SME

The Small and Medium Industries Equity Investment Scheme (SMIEIS) in Nigeria, defines small and medium enterprises (SMEs) as “enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300”. This paper adopts the employees’ criterion of a business with employees of between 10 – 300. The small and medium enterprises (SMEs) in Nigeria are heterogeneous groups of business, usually operating in different sectors of the economy: The SMEs consist mainly of those engaged in the distributive trade who constitute about 50% of the SMEs, 10% are in manufacturing, 30% in agriculture and 10% in services, which together account for well over 50% of Nigerian Gross Domestic Product (Odeyemi, 2003). There are indications that the SMEs account for about 70% of industrial employment in

Nigeria (Adebusuyi, 1997).

2.3 Microfinance and SME Development

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs, thereby leading to an increase in agricultural production (Hiedhues, 1995). The main objective of micro credit according to Navajas *et al*, (2000) is to improve the welfare of the poor, as a result of better access to small loans that are not offered by the formal financial institutions. Thus, Diagne and Zeller (2001) argue that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime.

Based on the foregoing, the following hypotheses in null form are formulated-

1. H₁: There is no significant relationship between Microloan and SME expansion capacity in Nigeria.
2. H₂: Microfinance does not have significant capacity to influence SME growth in Nigeria.
3. H₃: Non-financial services of micro finance institutions do not significantly enhance the performance of SMEs in Nigeria

3.0 Research Methodology

The study was designed to combine primary survey based data with information extracted from secondary sources over a five-year period. The population of the study consists of the entire MSMEs in the country. However, the study was restricted to Lagos and Ogun states in the South-West geopolitical zones. The choice of South-west stems from the fact that the concentration and the predominance of SMEs in this zone are easily identifiable particularly with the inclusion of Lagos State which is the commercial centre of the nation. Judgemental sampling technique was used to select the participating MSMEs. Simple random sampling technique was used to select a total of 161 entrepreneurs that constituted our sample size. The sample size was determined using Bartlett, Kotrlík and Haggins (2001) model for determining the minimum returned sample size for any given population. The primary data consists of a number of items in well structured questionnaire that was administered to and completed by the respondents. To ensure the validity and reliability of the questionnaire, experts in the field of microfinance were consulted to review the questionnaire

items in relation to comprehensibility, logicity and suitability. A pilot test which took the form of test-retest method was conducted prior to the actual study. Data collected from the questionnaire were analysed using one sample t-test, Pearson correlation coefficient and multiple regression analysis.

A total of 112 and 49 copies of the questionnaire, representing 70% and 30% of the total sample size were administered in Lagos State and Ogun State respectively. The questionnaires were distributed using the geographical spread of microfinance banks in Lagos and Ogun states. In all a total of 135 copies of the questionnaire were returned from the two States out of 161 copies administered. This represents a total response rate of 83.5%. The high return rate achieved from the field survey can be attributed to the support received from the Loan/Field Officers in the banks visited. A total of 23 Microfinance Banks were used for the study and the copies of questionnaire were distributed at an average of seven (7) copies of questionnaire per bank.

Model Specification

The model specification used in this study was based on hypotheses of the study. Following Niskanen and Niskanen (2007) who identified sales growth as the predictor of small business development, the model for hypothesis 1 is:

Hypothesis 1

$EC = f(M)$

Where EC = Expansion Capacity of SMEs

M = Microloan received

The Pearson correlation coefficient was used to find if there is a relationship between microloan received by MFB client and the expansion/growth of SMEs in Nigeria.

Hypothesis 2

The second hypothesis was structured to ascertain the impact of microfinance on MSME growth. This is expressed as:

$SBC = f(OX, FX, MFX) \dots \dots \dots (2)$

SBG = Small Business Growth

OX = Owner's characteristic variables (Entrepreneur's age, Entrepreneur's Education, and Entrepreneur's Gender)

FX = Firm Characteristic variables (Business age, Business location and Business register)

MFX = Microfinance variables (Loan Size received from Microfinance Bank, Loan Duration, Loan Repayment, Technology Training received by entrepreneur or his staff in the last year)

Hence the equation is re-written as:

$SBG = a_0 + a_1EAge_1 + a_2EE_2 + a_3EG_3 + a_4Bizage_4 + a_5Bizloc_5 + a_6Bizreg_6 + a_7LS_7 + a_8LD_8 + a_9LR_9 + a_{10}TT_{10} = u_1 \dots (3)$

SBD = Small Business Development (SBD) proxied by annual sales growth rate over five years is defined as $Gr = \{(St/S_0)^{1/n} - 1\} \times 100$ where S_t is the current sales level, S_0 is the base year 2006, n is the number of years considered for study while Gr is the annual rate of growth (Niskanen and Niskanen, 2007).

Key predictor of MSMEs growth is given as

$EAge_1$ = Entrepreneur Age, EE_2 = Entrepreneur Education, EG_3 = Entrepreneur Gender, $Bizage_4$ = Business Age, $Bizloc_5$ = Business location, $Bizreg_6$ = Business registration, LS_7 = Loan Size received from Microfinance Bank, LD_8 = Loan Duration, LR_9 = Loan Repayment, TT_{10} = Technology Training received by entrepreneur or his staff in the last year, U_1 = Error term.

A priori,; $a_1 < 0$; $a_2 > 0$; $a_3 > 0 \dots a_6 > 0$, $a_7 > 0$, $a_8 < 0$, $a_9 > 0 \dots a_{10} > 0$

Hypothesis 3

To measure the impact of non-financial services offered by microfinance institutions on MSMEs performance, Karlan and Valdivia (2006) model was used. The model was adapted with modification as follows:

$SBP = f(OX, FX, MFX) \dots \dots \dots (4)$

SBP = Small Business Performance

OX = Owner's characteristic variables (Entrepreneurs age and Entrepreneurs Education)

FX = Firm Characteristic variables (Business age, Business size and Business location)

MFX = Microfinance characteristic variables (Advisory Services, Pre-loan training, Group membership, Cross guaranteeship)

Hence the equation is re-written as: a

$SBP = \delta_0 + \delta_1EAge_1 + \delta_2EE_2 + \delta_3Bizage_3 + \delta_4Bizsize_4 + \delta_5Bizloc_5 + \delta_6AS_6 + \delta_7PT_7 + \delta_8GM_8 + \delta_9CG_9 + U_1 \dots (5)$

Where;

SBP is proxied by Average profit growth. Average profit growth rate over time defined as $Gr = \{(\pi_t/\pi_0)^{1/n} - 1\} \times 100$ where π_t is the current profit level, π_0 is the base year 2006, n is the number of years considered for study while Gr is the annual rate of growth (Niskanen & Niskanen, 2007)

The independent variables are MFBs non-financial services such as Advisory service, pre-loan training as listed below: Where;

$EAge_1$ = Entrepreneur Age, EE_2 = Entrepreneur

Education, Bizage3 = Business Age, Bizsize4= Business Size, Bizloc5= Business location, AS6 = Advisory Service, PT7 = Pre-loan Training, GM 8= Group Membership, CG9 = Cross Guaranteeship, U1= Error term

A priori $\delta_1 < 0$; $\delta_2 > 0$; $\delta_3 < 0$; $\delta_4 > 0$; $\delta_5 > 0$; $\delta_6 < 0$, $\delta_7 > 0$, $\delta_8 < 0$, $\delta_9 > 0$, $\delta_{10} > 0$

4.1 Profile of Respondents

The table below provides information on socio economic profile of the respondents. Majority of these respondents were women. This confirmed the fact that most beneficiaries of microfinance credit facilities are females. The result is also classified in terms of their level of formal qualifications, because this could affect the way enterprises are managed. In regard to marital status of the respondents, the table reveals that majority were married. The result obtained on religion of respondents shows that 93 (68.9%) are Christians, 42 (23.7%) are Muslims while 10 (7%) belong to other religion; probably traditional religion.

Table 1 Socio - Economic Profile of Respondents

Variables	Measuring Group	Frequ-ency	Percent-age(%)
Gender	Male	25	18.5
	Female	110	81.5
	Total	135	100
Age (Years)	18 – 25	18	13.3
	26 – 35	28	20.7
	36 – 45	56	41.5
	46 – 55	26	19.3
	56 – 66	7	5.2
	Total	135	100
Education Level	No-formal Education	4	3.0
	Primary	16	11.9
	Secondary	29	21.5
	OND	52	42.2
	B.Sc	19	14.1
	M.Sc	10	7.4
	Total	135	100
Marital Status	Single	19	14.1
	Married	68	50.4
	Divorced/Separated	31	23.0
	Widow	17	12.6
	Total	135	100
No. of Children	None	14	10.4
	1 – 2	28	20.7
	3- 4	67	49.6
	5 and above	26	19.3
	Total	135	100
Religion	Christianity	93	68.9
	Islam	42	31.1
	Total	135	100

Source: Researcher’s analysis of field survey 2011

4.2 Business Characteristics of Respondents

Table 2

Variable	Measuring group	Frequ-ency	%
Year Business Established	2 – 5 years	63	46.6
	6 – 10 years	21	15.5
	11 – 15 years	19	14.3
	16 – 20 years	22	16.2
	Above 20 years	10	7.4
	Total	135	100
When did you join the MFB/commu-nity Bank?	Before year 2005	38	28
	2006 – 2008	76	56
	2009 – 2010	21	16
	Total	135	100
Kind of Business	Trading	61	45
	Artisan	15	11
	Manufacturing	27	20
	Agriculture	18	13
	Service	14	11
	Total	135	100
Form of Business	Sole ownership	88	65
	Family Business	23	17
	Partnership	17	13
	Other type	7	5
	Total	135	100
Source of Initial Capital	Personal Savings	80	59
	Borrowed from friends	25	19
	Loan from bank	20	15
	Gift & Grant	10	7
	Total	135	100
Registration of Business	Yes	50	37
	No	85	63
	Total	135	100
Category of Business	Micro	98	73
	Small	25	19
	Medium	12	8
	Total	135	100
Business Location	Urban Area	83	61
	Rural area	30	22
	Semi Urban	22	16
	Total	135	100
Composition of capital structure	Debt capital only	29	22
	Debt & Equity	56	41
	Equity Only	50	37
	Total	135	100
Motivation for starting a business	Financial independence	75	55
	Loss of Job	35	26
	To bequeath to children	25	19
	Total	135	100

Source: Authors computation from study Sample Data 2011

Table 2 (on page 27) shows that 63(46.6%) of the businesses had been in existence for between two to five years. The table also revealed that most of the businesses were established around the same time the respondents joined the MFB. The table also shows the sources of initial capital of the respondents, 80 (59%) started their business with their personal savings, 25 (19%) started with borrowed funds from friends and family, 20 (15%) started with a loan from the bank, while 10 (7%) started with gifts and grants obtained from friends and institutions. This confirms the fact that most MSMEs are funded mainly from individual personal resources.

It was also revealed that 56(41%) combined owners equity and loan, this makes for business growth if they are combined in appropriate proportion. Also, 29 (22%) make use of loan alone. This implies that such entrepreneurs do not have any stake in the business and as such, the entrepreneur may not be enthusiastic towards ensuring business growth.

4.3 Descriptive Statistics of Some Variables

Table 3 below displays the one sample t-test for six variables; Entrepreneur’s perception of access to microloan, appropriateness of loan size, relationship with loan officers, impact of regular participation in microfinance, impact of microloan on business expansion, clients perception of reasonability of interest rate charged by MFBs. All the variables show the satisfaction level to be more than average level of satisfaction (2.5). We used the statistics value to form opinion based on measurement of scale. To examine

the statement, microcredits are easily accessible compared to other bank loan, we developed hypotheses and agreed upon the level of significance for rejecting/accepting the hypothesis. Survey respondents indicated their perceptions using the scale, with 5 = strongly agree and 1 = strongly disagree. We took the null hypothesis to be, microcredits are not easily accessible to be less than (2.5) the average level of accessibility as perceived by the entrepreneurs. Therefore, the alternative hypothesis is, microcredits are easily accessible to be more than the average level at above 2.5. All the variables statistics value is more than 2.5 as seen in table 3, except for reasonability of interest rate charged by MFBs. This means that the level of satisfaction as expressed by the respondent is above average for all the variables except for interest rate charged by MFBs. This is explained in table 3 below.

On accessibility to microcredit, the analysis in Table 3 demonstrates that the null hypothesis is rejected and it is strongly significant. So our results are in favour of alternative hypotheses. This means that the respondents perceived microcredit to be more easily accessible than other bank loan. From this study, we can conclude that microcredits are easily accessible by MSME operators in Nigeria and the level of average satisfaction is quite high at 4.2.

To examine the statement “the loan size given is appropriate for my business”. We developed statistical test to check the appropriateness of the loan given to business size of the respondents. We took null hypothesis to be the size of the loan given is not appropriate for my level of business. The alternative hypothesis is the size of the loan given is appropriate for my level of business. From the above table

Table 3 One-Sample Test

	Test Value = 0					
	t- Statistics	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Access to microcredit	105.688	134	.000	4.21481	4.1359	4.2937
Loan size	77.703	134	.000	3.74074	3.6455	3.8360
Relationship with loan officer	78.314	134	.000	3.74815	3.6535	3.8428
Regular participation in microfinance	103.830	134	.000	4.20000	4.1200	4.2800
Reasonability of interest rate charged by MFBs	103.155	134	.000	2.38152	3.8434	3.9936
Microloan and business expansion	31.594	134	.000	3.99630	2.9025	3.2901

Source: Survey result data analysis, 2011

we can draw conclusion that our null hypothesis is rejected because the mean level of appropriateness of the size of loan given is above 3 and it is statistically strongly significant. The mean level of cordial relationship with loan officers shows a mean difference of 3.74, which implies that the microfinance banks clients enjoy cordial relationship with their loan officer, and this is interpreted to mean they get regular assistance which enhance their business growth. The t-test statistics for cordial relationship with loan officer operational assistance is 3.74 and the significance level is 0.000. This means that the null hypothesis is rejected and the alternative hypotheses accepted with a high level of confidence. The table also shows the mean and t-test for impact of regular participation in microfinance programme business, here we can see that the mean value is high at 4.2, far higher than 2.5 the average scale of satisfaction. The t-test statistics for the statement "regular participation in microfinance impact positively on my growth" is 4.200 and the significance level 0.000. This means that null hypotheses is rejected and the alternative hypothesis is accepted significantly.

To examine the statement "is the interest rate charge by microfinance bank reasonable?". We developed statistical test to check the reasonability of interest rate charged by microfinance banks as perceived by the MFBs clients. We took the null hypothesis to be the interest rate charged by MFB is not reasonable. The alternative hypothesis is the interest rate charge by MFBs is reasonable. From the above table we can draw conclusion that our null hypothesis is accepted because the mean level of reasonability is 2.38 which is lower than 2.5 and it is statistically strongly significant. So our decision is in favour of our null hypotheses, which states that the interest rate charged by MFBs is not reasonable.

Lastly, we test for the impact of microloan on business expansion. Table 4, shows the mean and t-test for impact of microloan on small business expansion, here we can see that the mean value is high at 3.99, far higher than 2.5 the average scale of satisfaction. The t-test statistics for the statement "micro loan received enhance my business expansion" is 3.99 and the significance level 0.000. This means that null hypotheses is rejected and the alternative hypothesis is accepted significantly. We can conclude our decision from the analysis that due to the microfinance activities people feel that microcredit is easily accessible than conventional bank loan, and the size of loan they received is appropriate for their business activities. Also, that they enjoy cordial relationship with their

loan officers which has helped to enhance their operational efficiency, also that regular participation in microfinance programme enhance their business performance and that microloan enhance their business growth but the interest rate charged by MFBs is considered not reasonable by the microfinance bank clients because they are too high for the clients.

4.4 Relationship between Microloan Received and Expansion Capacity of Business Enterprise Hypothesis 1

Table 4 Correlation test between the microloan and Business expansion capacity

		Microloan	Business expansion
Microloan	Pearson Correlation	1	.271(**)
	Sig. (2-tailed)		.001
	N	135	135
Business expansion	Pearson Correlation	.271(**)	1
	Sig. (2-tailed)	.001	
	N	135	135

***Correlation is significant at the 0.01 level (2-tailed).

The Table also shows a correlation coefficient of .271 and it is positive, this implies that the Pearson correlation coefficient of (.271) is positive indication of a low positive correlation between microloan received and the expansion capacity of MSMEs in Nigeria. That is, microloan contributes to the expansion capacity of MSMEs in Nigeria but the level of contribution is low. The coefficient of determination which is the square of the r indicates that 7.34%, that is microloan contribute only 7.34% to expansion capacity of MSMEs in Nigeria which is very low, but has a positive contribution. This is significant at 1% significant level. Therefore, our null hypothesis which is there is no significant relationship between Microloan and MSME expansion capacity in Nigeria is rejected, while we accept our alternative hypothesis, that is, a significant relationship exists between microloan received and expansion capacity of MSMEs in Nigeria. The study therefore concludes that microloan received by MFBs clients help to enhance the expansion capacity of MSMEs in Nigeria.

4.5 Microfinance on MSME Growth

Table 5 (on page 30) presents the result of multiple regression analysis of the impact of microfinance on MSME growth. Sales growth over five years (2006 – 2010).

Table 5 Effects of Microfinance on MSMEs Growth

Variable	Beta Coefficient	Standard Error	t-statistic	Significance
Constant	30.630	9.079	21.097	.000
Age	-0.096	1.414	-1.033	.404
Education	0.070	0.061	4.113	.001
Gender	0.040	0.020	1.003	.302
Bizage	0.024	0.196	1.053	.110
Bizreg	1.015	0.036	2.815	.005
Bizloc	0.712	0.316	0.118	.531
Size of asset loan	0.011	0.101	1.122	.309
Duration of asset loan	-0.025	1.165	-1.279	.122
Technology training	0.095	0.081	5.222	.005
Repayment of asset loan	-0.147	0.026	-1.053	.202
R-Squared	.268			
Adjusted R-Squared	.246			
No. of Variables	135			
Anova F-Statistics	1.341(.544)a			

Dependent Variable – Sales growth

On entrepreneur's age, the result obtained shows that entrepreneur's age has a negative correlation with MSMEs growth, the result shows that if entrepreneur's age increases by one year, sales will fall by 9.6%. This may be true, from practical point of view as individual advance in age their level of productivity falls. The result is not statistically significant. The result obtained for owner's education shows positive relationship between level of education and MSMEs growth, the result shows that for a unit increase in entrepreneur's level of education, sales will growth by 7%, the result is significant at 5%. The result on impact of gender on enterprise growth is not statistically significant.

On firm characteristics variables, the result shows that business age has a positive relationship with small business development proxy by average sales growth. The result shows that a unit increase in firm age will increase sales growth by 2%, but the result is not statistically significant. On business registration status, it is observed from our data that the firms sampled operate as both registered and unregistered firms. Results from previous studies show that registered firms grow faster than unregistered firms. The result obtained in this study shows a positive and significant relationship between business growth and registration of business, the result shows that for a unit increase in business registration status,

sales will grow by 21% and it is statistically significant at 5%. The result obtained on business location shows a positive but none statistically significant coefficient between business location and firm growth, most of the firms in this study are though situated in urban location, the result shows that business location in urban areas increase sales by 11% but the result obtain is significant.

On microfinance variables, result on size of assets loan on MSMEs growth shows that a unit increase in assets loan will increase sales growth by 1%, but the result obtain is not statistically significant, hence it cannot be relied upon for any inference, even though it is correctly signed as expected in microfinance theory. Duration of asset loan shows a positive relation with sales growth but not statistically significant, meaning that the duration of the asset loan is too short for any meaningful impact MSMEs growth. On repayment of asset loan, the result obtained shows a negative correlation with sales growth, which is in support of economic theory because of the frequency of repayment but negates micro finance theory. The result obtained reveals that as frequency of repayment is increased, sales growth will decrease by 14%, the result is not statistically significant and it cannot be relied upon to make inference. On technology related training received by the entrepreneurs, the result obtained shows that technology-related training received by entrepreneurs significantly affects sales growth, thereby enhancing growth and expansion capacity of MSMEs. Specifically, the result shows that a unit increase in technology-related training received by the entrepreneur will cause annual sales growth to

increase by 9% The result is statistically significant at 5%. Previous studies provide strong evidence of a positive association between the use of technology and business performance, with observed differences in profit level across enterprises and sectors reflecting varying innovative environments (Bigsten et al., 2003; Chapelle & Plane, 2005; Daniels, 2003).

The coefficient of determination that is the R2 is 26%, and the adjusted R2 is 24% this shows the level of variation in the dependent that is explained by the independent variables. The R2 obtained in this study is acceptable for panel data like we have in this study.

Hence we can conclude that micro-financing as practiced by Micro Finance Banks in does not have the capacity to enhance MSMEs' growth. Variables such as Entrepreneur's education, business registration and technology training enhance sales growth, while other factors like size of asset loan, duration of asset loan and frequency of repayment of asset loan do not enhance sales growth.

4.6 Non – Financial Service and MSME Performance

Table 6 below presents the result of multiple regression analysis of the impact of non financial service of microfinance institution on MSME performance. Profit growth over five years (2006–2010) is used as proxy for MSME performance and it is our dependent variable, while the independent variables are; Entrepreneur Age, Entrepreneur Education, Business Age, Business Size, Business location, Advisory Services, Pre-loan Training, Group Membership, and Cross Guaranteeship.

Table 6 presents the results obtained for the total sample The intercept shows the value of the dependent variable (Y) profit growth, when all the independent variables are zero. The result obtained show that when all independent variable is zero, profit will grow by 10.73%. The result obtained is significant at 5%.

On owners characteristics variables, the magnitude and the signs of beta coefficient for entrepreneurs' age and MSMEs performance shows a negative correlation and it is statistically significant at 5%. This implies that as entrepreneur grows older the level of performance decrease. The magnitude and signs for entrepreneurs education shows positive correlations with firm performance and statistically significant at 10%. This may implies that as the level of education of respondents increases level of performance also increases.

On firm characteristics variables, the result obtained for business age shows an inverse relationship between firm age and enterprise performance. The result shows that as firm age increases by one year, enterprise performance decreases by 8%. The result is statistically significant at 5%. This confirms the findings of Niskanen and Niskanen (2007) that as firm age increases, firm performance drops and that impact of one extra year diminishes as the firm gets older. The coefficient for firm size shows a positive correlation with business performance and it is statistically significant at 1%. This implies that as firm size increases by one unit, it enhances the performance of MSMEs by 4%. The coefficient for business location shows a positive correlation and it is statistical significant at 10%.

Table 6 Effects of Non – Financial Service on MSMEs Performance

Variable	Beta Coefficient	Standard Error	t – statistic	Significance
Constant	10.733	15.315	12.928	.003
Entrepreneur Age	-0.159	0.662	-2.478	.015
Entrepreneur's Education	0.028	0.266	3.672	.072
Bizage	-0.084	0.517	-2.292	.019
Bizsize	0.043	0.057	4.113	.001
Bizloc	0.015	0.107	2.245	.100
Advisory Services	0.420	1.093	7.817	.000
Pre – loan training	0.289	.079	3.379	.001
Group membership	1.112	1.018	3.082	.001
Cross guaranteeship	-0.382	.866	-3.569	.001
R – Squared	.520			
Adjusted R – Squared	.489			
No. of Variables	135			
Anova F-Statistics	166.919(.000)a			

Dependent Variable – Profit growth

With respect to Microfinance characteristics, the results obtained revealed that the magnitude of the beta coefficient for advisory service is consistent with microfinance theory and significant at 1%. The result implies for one additional unit of advisory service received by the entrepreneurs, the profit growth, which is the proxy for performance, increased by 42%. We found the result on pre-loan training to be positively correlated with business performance. The result reveals that an increase in pre-loan training will bring about 28% increase in business performance of MSMEs in Nigeria. This is statistically significant at 1% and confirms the prior empirical findings of Ogunrinola and Alege (2008).

The result on group membership also shows a positive correlation with business performance. The magnitude of beta coefficient for group membership is consistent with microfinance theory and significant at 1%. The result shows that group membership practice enhances business performance by 11%. On cross guaranteeing of members by other members of the group, the result obtained revealed that cross guaranteeing has inverse impact on entrepreneurs business performance, the result shows that cross guaranteeing decrease business performance by 38% and the result obtained is statistically significant at 1%. The results obtained on group membership confirm the findings of Anderson et al., (2002), that group membership stand as a form of social capital and enhance accessibility and efficiency of funds among small business operators.

The coefficient of determination adjusted R² of 48% shows the fitness of the estimated model. The F-statistics of 166.919 shows the overall fitness of the estimate and because the estimate is statistically significant at 1%, we reject our null hypothesis and accept our alternative hypothesis which implies that the non-financial services rendered by MFBs to their customers enhance their business performance. All the variables modeled enhance business performance except cross guaranteeing. Advisory services have the highest contribution to of 42% to MSMEs performance.

5.1 Conclusion

Entrepreneurs in the small and micro sub-sector of the economy in Nigeria require access to finance for their businesses to thrive on a sustainable basis. Although, the MSE sector contributes significantly to the national economy, the sector has so far not been given due recognition commensurate with level of the contribution. Although financial issues are important to all firms, results from this study show that both financial and non-financial services obtained from MFBs have highly benefited MSEs in Nigeria and have facilitated the sharing of business skills and innovative ideas, as well as alleviated the acute shortage of finance to an extent. The policy implication of this study is that, microfinancing contributes significantly to an enhanced entrepreneurial environment by making the business environment more conducive and narrows the resource gap for small businesses.

When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor improve their situation. Based on findings from this

study, the use of MFBs has potentials for enhancing the performance of small businesses in three major ways regular participation in microfinancing, offering of non-financial services, and as a means to enhance entrepreneur's productivity.

If we consider the variation in impact of these factors on the intensity of MSE growth and survival within any one sub-sector, it is possible to define a common series of critical factors for sub-sets of firms. This suggests that policies aimed at promoting the performance of micro and small enterprises should adopt a sectoral approach. Thus, approaches and resources should address the most critical determinants of performance in focal sub-sectors, aiming to augment access to critical resources and, perhaps, overcome the disadvantages that cannot be easily varied.

5.2 Recommendations

MFBs should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time, or increase the moratorium. Similarly, enterprises supported by MFBs should be linked up with larger financing windows like the SMEEIS fund. In order to encourage technology acquisition for MSE expansion, MFBs can categorize their loans into low and high interest loans. To achieve this, the Microfinance Banks can be recapitalized. Also, the MFBs should employ collective group-based loan disbursement strategy; this will reduce the default rate and the volume of portfolio at risk.

In terms of policy on support services, MFBs should assist their clients by providing training on credit utilization and provide information on government programmes to MFB operators in the country. Such MSE support and training institutions should be strengthened and properly funded while the services should be properly delivered too. MFBs can partner with relevant technology enterprise development organizations/skills training institutions to provide client-focused skills training to their clients. MFBs should seek long-term capital from the Pension and Insurance Companies in the country. This will help to reduce their lending rates and enable them spread their interest payments over a longer period to encourage the acquisition of capital assets and technology. The MFBs should attend to loan proposals of MSEs through their business associations and other self-help organisations. This will reduce the adverse effect of information asymmetry. Social capital can be employed to obviate the need for tangible collateral.

The Government should urgently tackle the problem of infrastructure development and maintenance. A National Science and Technology policy that is properly funded; and an educational policy with emphasis on technology and entrepreneurship education, should be formulated and implemented for SME growth and expansion in the country. Government should establish relevant well adapted and appropriately structured institutions and organizations to provide support for MSEs in such aspect as; procurement, supply and distribution of raw material, supply of local/imported machines for use on concessional terms.

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