



The Impact of Microfinance Institution on Development of Small and Medium Enterprises: A Case Study of Lagos State



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Abstract

The major target of this study is to evaluate the effect of Microfinance Institution (MFIs) on the development of SMEs (Small and medium enterprises) in Lagos state Nigeria. Simple random techniques of sampling were employed in this study in selecting 70 SMEs which constituted the size of the sample of the research. To facilitate the obtaining of relevant data that was used for analysis in this study, a structured questionnaire was designed. Descriptive statistics involving simple graphical charts and tables were strategically applied in presentation and analysis of data. The outcome of the findings indicates that a large number of SMEs are benefiting from the loans granted by the MFIs, despite the fact that few of them have sufficient ability to secure the needed amount. Interestingly, most of the SMEs admit positive MFIs loans contribution towards advancing their market share, the economic competitive advantage of the company and achieving market excellence through product innovation.

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1. Introduction

The small and medium-size enterprise is an important mainstream in the economy of Nigeria. According to the NIPC (2002), the industrial sector is represented by almost 90% of the SME in terms of number. The key to the viable development of the nation is held by this sector and its significance can be put in legitimate perspective in connection

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to the structure of the Nigerian economy with numerous performance commitments as the source of innovation advancement and new products (Jocumsen, 2004). However, since their birth, the SMEs in Nigeria have been confronting several difficulties such as financing and refinancing as it is hard to get loans from commercial banks to begin their small and medium-sized enterprises. The reason is that commercial banks demand collateral before granting loans for business purposes. SMEs are liable to higher risk and effectively default, with that, banks charge more collateral when there is high risk in the business (Park *et al.*, 2004). Basically, the large collateral that is demanded by commercial banks cuts the SMEs official channel in getting loans. Consequently, the trouble of access to loan from the financial institution of a state (e.g. commercial banks) constitutes an incredible mishap to entrepreneurial development (Karlan & Zinman, 2006).

SMEs lack the necessary collateral to serve as security for loans because they are considered as a high-risk business. This is on the ground that applicants from the informal sector have a tendency to apply for small loans and it required the same oversight and administrative methods that are required for large loan request that is made by large or medium scale firms (Salomey *et al.*, 2013). Therefore, the cooperate culture of financial institutions and banks are removed out of the micro-entrepreneur informal world. Hence, this gap is expected to be filled by the microfinance institutions and give monetary and other business support to the small and medium enterprises. Additionally, as it is with different countries in the world, SMEs in Nigeria tend to create employment opportunity, be the source of livelihood to the poor and also contribute to the growth of the economy. Access to credit by SMEs remains a major constraint despite the increasing role of the Micro Finance. Therefore, this paper study the impact of the Micro-Finance Institution (MFIs) on the development of Small and Medium Enterprises (SMEs) and to research on the contributions of this loans to the performance of SMEs.

2. Research Methods

The nature of this research is descriptive and it utilizes survey strategies in assessing the effect of Micro Finance loans on small and medium enterprises advancement in Nigeria. To viable conduct, a substantial analysis of the data gathered from the field research, the researcher utilized descriptive statistics like charts and tables to portray the applicable data. The primary source of data is used in this study whereby structured questionnaire was broadly utilized. The objective is to create data about the perception and assessment of SMEs proprietors in connection to the effectiveness of loan from MFIs to their companies' performance. To establish sample size out of the total population of the study, basic random sampling techniques were utilized to choose 70 Small and Medium Enterprises operating in Lagos state Nigeria. Only 60 out of the 70 distributed questionnaire we recovered which represent 85%. The idea of random sampling methodology allows fair accords and sampling the examination work more experimental component, in this manner concretizing the legitimacy and validity of the findings of the research.

2.1 The Concept of SMEs in Nigeria

Onugu (2005) said that the National Council of Industries in Nigeria defines SMEs as the business enterprises that has its total cost not exceeding two hundred million Naira (₦200, 000,000.00). In the context of Nigeria, SMEDAN (Small and Medium-Sized Development Agency of Nigeria) (2005) however defines SMEs on the following criteria: a business with less than 10 people and have an annual turnover of under ₦5, million are the microenterprise, a business of 10-49 employees and have an annual turnover of ₦ 5 to 49 million are the small enterprises; while a business with 50-199 employees and have an annual turnover of ₦ 50 to 499 million is the medium enterprises. Therefore, the following table summarized SMEDAN (2005) definition of SMEs.

Table 1
Definition of SME in Nigeria

Size of enterprise	Number of Employees	Assets (₦) excluding land and building
Micro Enterprise	Less than 10	Less than 5 million Naira
Small Enterprises	Between 10 – 49	5- less than 50 million Naira
Medium Enterprises	50-199	50- Less Than 500 Million Naira

2.2 The Concept of Microfinance

SMEs face various difficulties including the absence of access to credit because of their powerlessness to provide security being demanded by the commercial banks, lack of business management and entrepreneur skills, dangers from International Markets, regulatory constraints, troubles in accessing fitting innovations and data on accessible techniques (Salomey *et al.*, 2013). With the above reasons, SMEs are viewed as high hazard enterprises and henceforth don't get the required backing from banks and other customary financial institution. However, Microfinance establishments now turned into the conspicuous answer for this booming sector. The apparent advancement which was to be expected required a specific push and drive (Idowu, 2000). The wonder of expected development was not materializing because of the unsteady structure which SMEs began. It is against this scenery that another framework for the arrangement of microcredit was to be presented as SME improvement turned into a noteworthy issue of worry inside the monetary environment of fast-developing economies (Ogujiuba *et al.*, 2004).

2.3 Economic Development

Studies everywhere throughout the world have unequivocally settled SMEs as the foundation of every developing economy particularly in the private sector (SMEs) and most occupations in Nigeria to a great extent concentrates on small and medium enterprises (SMEs). Thus, the commitments the sector makes to the growth of the economy and improvement through employment creation can't be overemphasized. The employment situation in Nigeria is worth noting due to the positive phenomenon of the contribution made by SMEs. According to Steel and Webster (1990), during the early 1990s, SMEs employment developed by 2.9% every annum (ten times what is created in the large-scale enterprise). 75% of the workforce in Nigeria employment is provided by the SMEs. In Canada, SMEs provide 55% employment (<http://www.cfib.ca/research/reports>). In Ghana, SMEs provide 60% employment to the workforce in Ghana (Salomey *et al.*, 2013), and in South Korea, it is not less than 70% of the private sector in the South Korea workforce. Besides job creation, SMEs help in fair distribution of assets and resources redistribution particularly among groups with low income. SMEs help reduces the income gap that exists among urban and rural areas because they tend to be broadly dispersed by reaching relegated and remote areas.

Abor and Quartey (2010) argued that there is a general agreement that the execution of small and medium enterprises is significant for both social and economic development of a developing country. From the viewpoint of an economic, Aduani (1997) think that SMEs provides various advantages. Consequently, small and medium enterprises have been noted to be one of the main areas of concern to several policymakers as they attempt to increase the rate of development in low-income nations. These enterprises (SMEs) have been perceived as the instrument by which the growth of the developing nations can be accomplished. They are consequently the potential source of income and employment in most of the developing countries.

2.4 Prospects of SMEs and MFIs Institutions in Nigeria

Policies and approaches that are aimed at alleviating poverty in the global patterns have come to welcome the effort of these two types of machinery for economic development. As stated in this study, there is a principal relationship exist between the two (MFIs and SMEs). Both the MFIs and SMEs rely on each other despite the fact that one's improvement can be said to be profoundly dependent on the other (i.e SMEs on MFIs) (Salomey *et al.*, 2013). Regardless of the difficulties postured by bigger industry players, they are predicted as engines of development for the progression of a global economy.

As a member from the third world economies, Nigeria is no exemption to this imminent advancement, SMEs and MFIs are tipped to lead this voyage into a destination of prosperity and supportable development. SMEs keep attaining dynamic levels of innovation through various services that are provided by them in the area of sales, distribution, supply, manufacturing and other services. A new wind of change on small-scale business has been introducing through the use of modern technology. Local farmers are embracing agricultural inputs like fertilizers and modern technology through resourceful and attractive services that are been made accessible by SMEs and MFIs (Opere-Djan, 2002). The poor people do not have access to formal banking services and they represent more than half of the population of Nigeria. Hence, they heavily rely on informal and formal microfinance institution for loans.

Since the institution of microfinance are in all area financing the SMEs so as to keep them in line and to guarantee that the needed funds are available and accessible at the right time, the future of SMEs in Nigeria is therefore very

bright. The development of SMEs would thus positively affect MFIs. A CBN study led in 2005 demonstrated that their customer base was around 600,000 in 2001 and there are signs that they may accomplish a surprising increment in resulting years.

3. Results and Analysis

3.1 Accessibility to Micro Finance loans

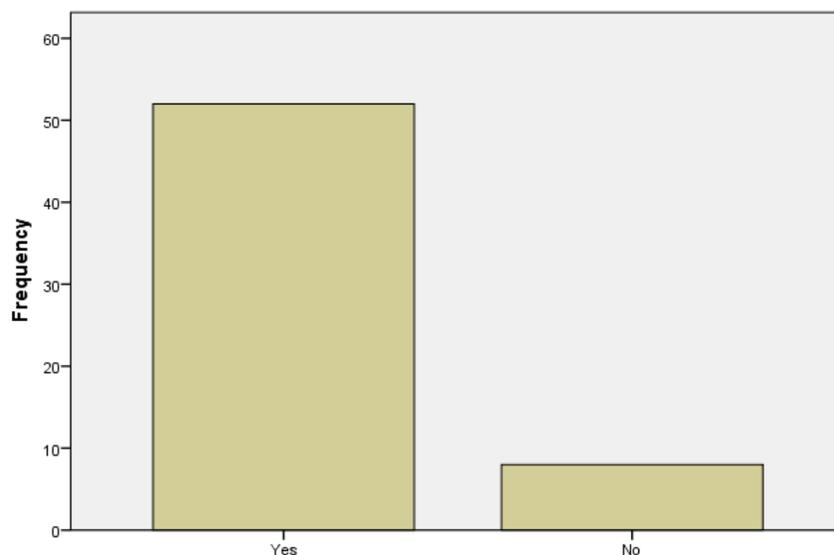
Having access to loans is the major problem that SMEs are facing in Nigeria. The reason why the federal government of Nigeria supported the creation of the MFI is too easy the accessibility of loan to the SMEs especially those that don't have access to conventional banks loans.

Explain below are the opinion of the respondents on their accessibility to Microfinance loans.

Question 1: Sourcing capital is one of the major problem facing SMEs in Nigeria, does your company have any access to MFIs loan?

Table 2
Respondent opinion on the accessibility of Microfinance loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	86.6	86.7	86.7
	No	8	13.3	13.3	100.0
	Total	60	100.0	100.0	

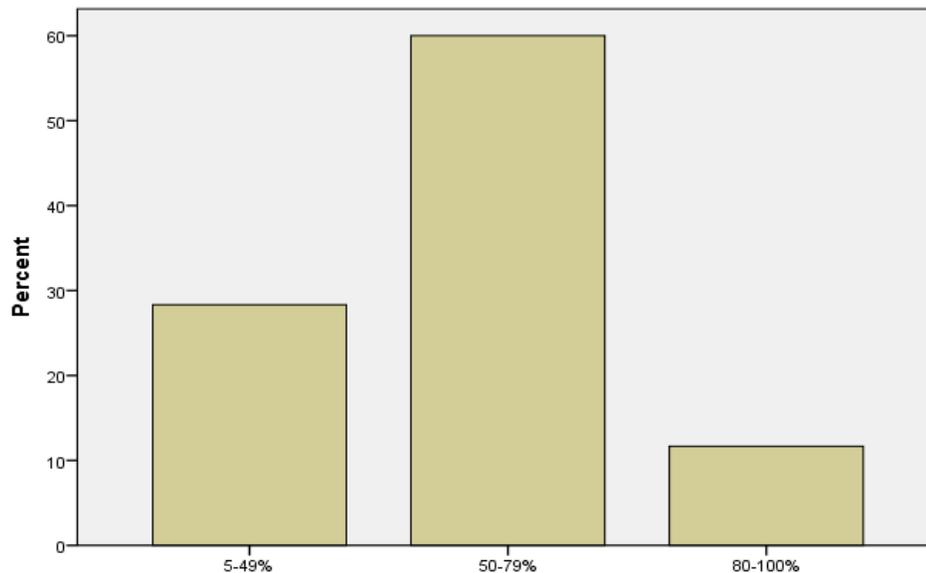


The figure above shows the respondent's opinion about the accessibility to MFI loans. The result indicated that 52 (86.6%) out of the 60 respondents have access to the Micro Finance loans while only 8 of the respondents said they do not have access to the MFI loans. This implies that major percentage of the SMEs in Nigeria have access to the MFI loans and this is due to the effort of the Nigeria government in 2005 through the central bank of Nigeria (CBN) by issuing a regulatory and supervisory framework for microfinance policy.

Question 2: What percentage level of goal achievement did your company derive from the loan obtained from MFIs?

Table 3
of goal achievement of company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5-49%	17	28.3	28.3	28.3
	50-79%	36	60.0	60.0	88.3
	80-100%	7	11.7	11.7	100.0
	Total	60	100.0	100.0	



The figure above shows that 60% of the respondents believe that they achieve over half of their goals, 28.3% achieve between 5-49% of their target goals while only 11.7% achieve over 80% of their goals. This means that over 60% of the SMEs can effectively achieve their organizational target goals because they have access to MFI loan and the loan is sufficient enough for them to attain the target goals of their organization.

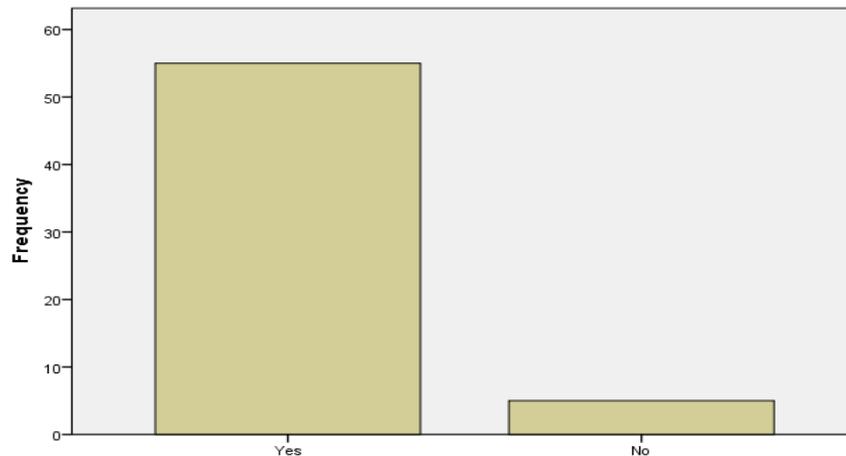
3.2 Micro Finance and Competition

The survival of Nigeria SME depends on its substantial market share. Therefore, competitions need to occur between the SMEs and other companies in order for them to gain a portion of the market. Explain below are the opinion of the respondents on their Micro Finance loans and competition.

Question 1: Has the loan secured from the MFI contributed to the sale and marketing activities of your company?

Table 4
Respondent opinion on sales and marketing activities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	55	91.7	91.7	91.7
	No	5	8.3	8.3	100.0
	Total	60	100.0	100.0	

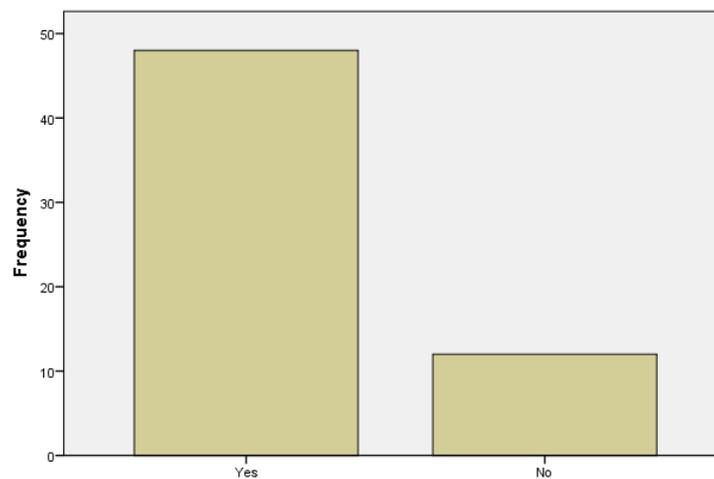


The above figure indicates the opinion of the respondents about the contributions made by the MFIs to the SMEs sales and marketing. Over 91% of the respondents believe that the loans from MFIs contribute significantly to their marketing and sales while only 8% think that the loans from MFIs contribute little to their marketing and sales. In essence, this indicates that, no matter how little, the access to the Micro Finance loans contributes to the SMEs.

Question 2: Does the loan actually help your company to standardize your product/services to the extent that you achieved substantial market share?

Table 5
Respondent opinion on loan assistance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	80.0	80.0	80.0
	No	12	20.0	20.0	100.0
Total		60	100.0	100.0	

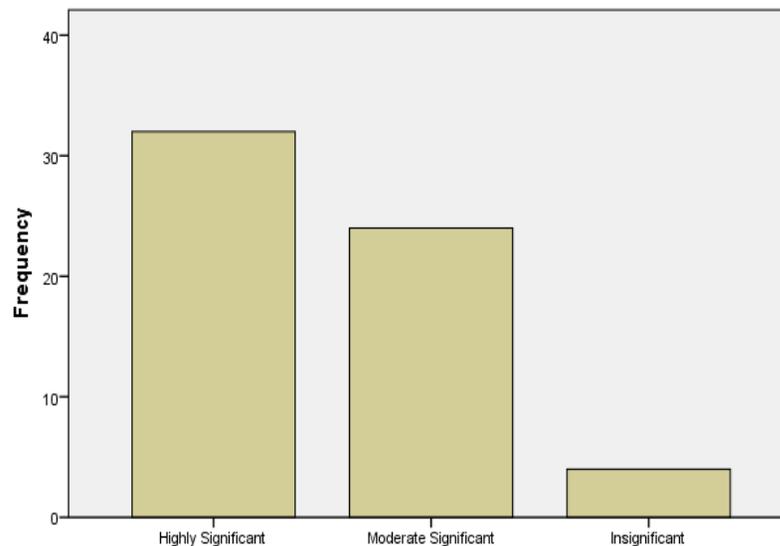


The figure above indicates that 80% of the respondent believes that the MFIs contributes towards the market share of SMEs while 20% believe that the MFIs does not actually help their company to standardize their product or services to achieved substantial market share.

Question 3: Competition generally required the need to exploit financial resources, to what significant level does the MFI contributed to the overall competitiveness of your company?

Table 6
Respondent opinion on competition

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Highly Significant	32	53.3	53.3	53.3
	Moderate Significant	24	40.0	40.0	93.3
	Insignificant	4	6.7	6.7	100.0
Total		60	100.0	100.0	



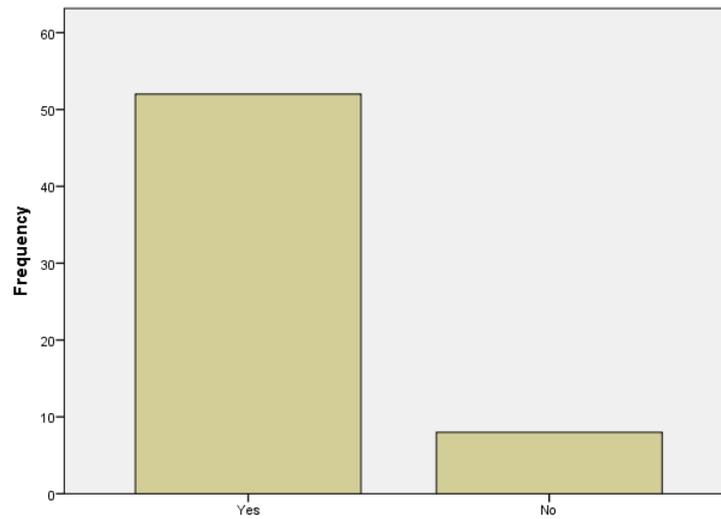
In the above figure, 53.3% of the respondents that have access to loan ascertain that loans from MFIs contribute highly significant to their companies' competition while 40% believe that the contribution is moderate. Only 6.7% believe that the MFI loan contributes insignificantly to the competition of their companies. These responses ascertain that MFIs loans contribute to the companies' market share.

3.3 Rate of utilization of credit by SMEs

The rate by which the credits from MFIs to the SMEs been utilized is diverse for a different purpose (for expansion of business or otherwise). Explain below are the opinion of the respondents on their rate of utilizing credits from MFIs. *Question 1: Do the loans acquired enhance your capital?*

Table 7
Respondent opinion on loan capital enhancement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	86.7	86.7	86.7
	No	8	13.3	13.3	100.0
Total		60	100.0	100.0	

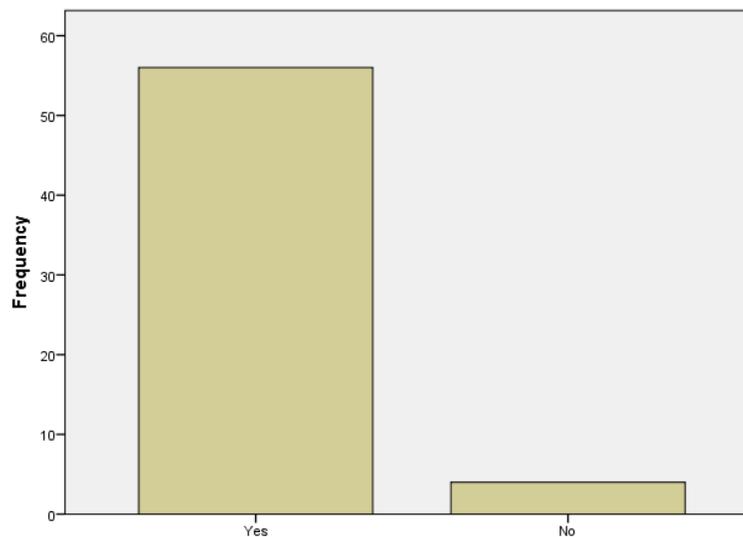


The figure above indicates that 86.7% of the respondent believes that the MFIs loan enhances their capital in the SME industry while 13.3% believe otherwise. Therefore, it can be concluded that the MFIs loans contribute to the enhancement of capital of the SME business.

Question 2: Do you always use the loan solely for the purpose of business

Table 8
Respondent opinion on the use of loan for business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	56	88.9	93.3	93.3
	No	4	6.3	6.7	100.0
Total		60	95.2	100.0	

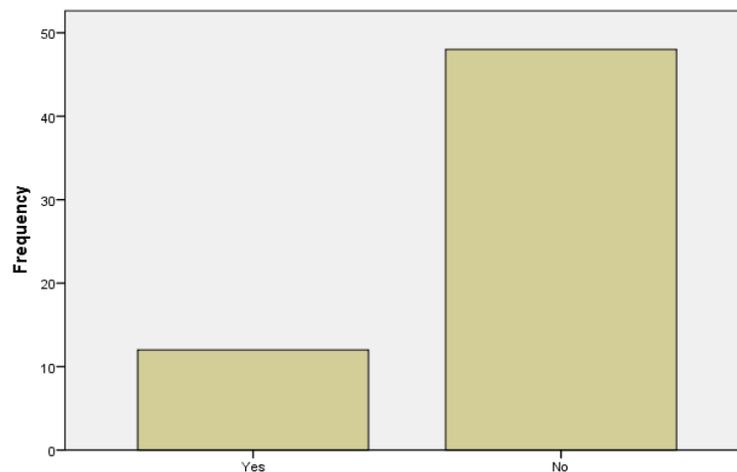


The above figure indicates the opinion of the respondents on whether they use the loan they receive from the MFIs solely for business purpose. The result indicates that 93.3% of the respondents believe that they use the loans from

MFIs solely for the purpose of their business, while only 6.7 use the loan for another purpose aside from their business. In essence, this means that loans from MFIs help the SME companies in growing and promoting their business.
Question 3: Have you ever felt the need to acquire a loan for another purpose apart from business?

Table 9
 Respondent opinion on loan acquiring for another purpose

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	12	20.0	20.0	20.0
	No	48	80.0	80.0	100.0
Total		60	100.0	100.0	



In the above figure, 80% of the respondents felt they do not need to apply for the MFIs loan apart for the purpose of business. Only 20% think they can apply for the loan and use it for another purpose. This response ascertains that SMEs apply for a loan to help them boost their business and nothing other than that.

4. Conclusion

This study endeavors to experimentally learn the impact of MFIs on the development SMEs. The significant and positive relationship has been set up between the performance of SMEs and MFIs loan. The study affirms the positive commitments of MFIs loans towards advancing market share of SMEs, producing competitiveness and efficiencies. In spite of the fact that MFIs in Nigeria are confronted with inadequate funds issues which militate against their endeavors to give adequate loans to SMEs, yet their propensities to expand the money related necessities of SMEs is impressively recognize. Besides, it has been revealed that Government approaches and programs intended to develop SMEs in Nigeria are inadequate and in this manner should be re-conceptualized. Aside from financial support and tax incentives provisions, it is prescribed that Government ought to attempt to give adequate infrastructural facilities, for example, power, training facilities, and good road. Further study ought to be led on how best SMEs can make utilization of financing by equity, for example, Venture Capital, Business Angels and other option sources of money accessible to SMEs in Nigeria.

Conflict of interest statement and funding sources

The author(s) declared that (s)he/they have no competing interest. The study was financed by Lagos State Microfinance agency.

Statement of authorship

The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.

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