

## **EFFECTS OF MICROFINANCING ON THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN KADUNA METROPOLIS**

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### **ABSTRACT**

*It is worrisome that despite the potential importance of SMEs in any economy, high mortality rate among established SMEs is becoming a reoccurring phenomenon in Nigeria. The statistics from SMEDAN 2010 report shows that only 15% of newly established businesses survive the first five years in Nigeria. The ones that survive after this period usually record poor performance. Realizing the crucial role of finance to the growth and survival of SMEs and the adoption of microfinance as the main source of financing SMEs in Nigeria. The objectives of the study is to establish the relationship between performance of these enterprises and financial support from micro finance institutions... The research design adopted in the study is survey research and the study relied on primary source of data using questionnaire. The sample for the study was selected from small and medium scale businesses located within Kaduna metropolis. The data for the study was analyzed using Pearson correlation analysis as inferential statistical tools. Result from the study revealed among other things that there is positive and significant relationship between micro financing and profit generation by the small and medium scale businesses in Kaduna metropolis. The study recommends that the monetary authority (CBN) continues the appraisal of the credit delivery channels and formulation of policies that would facilitate the delivery of credit facilities not only to the rural communities but also to development of the entrepreneurship development in the area.*

**Keywords:** Microfinancing, employees' performance, Kaduna, entrepreneurship, credit

### **INTRODUCTION**

Small and medium size enterprises are catalysts in the socioeconomic development of any nation. According to Aruwa (2012), Small and medium size enterprises are veritable vehicles for the achievement of the nation's microeconomic objectives in terms of employment generation at low investment cost. The catalytic roles of SMEs have been displayed in many countries such as Japan, South Korea, India and Malaysia (Ozigbo, 2000). The SMEs in these countries have contributed substantially to their Gross Domestic Products (GDP), export earnings and employment opportunities.

In spite of the benefits, SMEs have been bedeviled with a lot of problems such as meeting the competition from giant businesses, inadequate capital base and poor financial management, social pressures, management related impediments, technologically induced constraints etc. It is against this background that many countries do all they can to aid SMEs and their development. Realizing the key role of finance to SMEs in Nigeria, the government therefore set up micro finance banks to assist them with the necessary credit facilities for their development and sustenance.

Finance remains one of the biggest challenges to small and medium scale business owners (entrepreneurs) across the world. In developing countries like Nigeria, this problem is more endemic because of the shortage of micro finance institutions. Considering the role that small and medium scale businesses (entrepreneurship) plays in developing countries, their importance cannot be neglected. This is because these businesses (entrepreneurship) contribute to wealth creation of a country, improved standard of living and increase country's revenue base.

The need to have micro finance support to businesses is becoming dominant because of the enormous responsibilities of government in the society. El Hadidi (2018) argued that there is a constraint from the part of government as a single driver of economic growth because of the enormous responsibilities that government has to attend to in modern society. Muogbo and Tomola (2018) noted that economic advancement is made possible through the role that micro finance plays in making finance available to small and medium scale business owners (entrepreneurs).

In making reference to the case of Nigeria, Fasua (2014) noted that the country is faced with challenges of "maladministration, corruption, infrastructural decay, insecurity of lives and properties, unstable macroeconomic regime and unpredictable fiscal policies". This point to the fact that government is overwhelmed and there is need for both government and private sectors to collaborate to improve the lives of the people because the role cannot be left in the hands of government alone. The need for both the public and the private sectors of the economy and every component of the society to be involved in the industrial development process of the country to cure the malady of poverty, unemployment and low standard of living is justified on this ground. El hadidi (2018) stated that it is on this basis that government begins to engage in privatization policy with a view to allowing the private sectors participate in the economic development of the nation. Danjuma (2017) cited evidence from Asian Tigers as a testimony to the importance of entrepreneurship activities in ensuring the economic prosperity of a country.

It is worthy to note that the encouragement of entrepreneurship development in the country is to ensure synergy between private and public sector in improving the living standard of the people and reducing unemployment. Today, even in Nigerian universities, entrepreneurial studies have been incorporated into the curriculum. Fasua (2014) is also of the view that the inclusion of entrepreneurship studies in Nigeria universities will awake entrepreneurial spirit in the mindset of graduates to become job creators rather than job seekers.

The Central Bank of Nigeria (CBN 2005) as part of its banking reform agenda embarked on licensing Microfinance Institutions (MFIs) aimed at providing financial services to owners of small and medium scale businesses (entrepreneurs) who are not served by the conventional financial institutions (Ozioko, 2010). This is needed to ensure that small and medium scale business owners (entrepreneurs) get finance to expand their business in the country so as to create wealth. According to Danjuma (2017) Nigeria has remarkable small and medium scale business owners (entrepreneurs) who need support at every level. A common characteristic of these enterprises is their need for good financing. The provisions of finance to the owners of these businesses would help them in expanding their business, create employment for the people and ensure economic development.

The National Bureau of Statistics (2013) reported that there are 17 million Small and Medium Size Enterprises (SMEs) in Nigeria, employing 32.41 million persons and contributing about 46.54 percent to the nation's GDP in nominal terms. This statistics shows that the development of small and medium scale business owners cannot be neglected because it contributes significantly to the economy of the country.

Kaduna state is an industrial center and also a cosmopolitan city. The present existing inclination of economic activities in Kaduna metropolis and entrepreneurship performance are undoubtedly recognized by the government, private individuals and developmental experts as the main engine room for any nation's growth and development which can be summarily referred to as the bedrock of the nation. However, despite the huge contributions of small and medium scale business owners to national development, they are contending with numerous challenges. Lawson (2007) emphasized that lack of access to finance has been identified as one of the major constraints to entrepreneurs. This is because the traditional banks in Nigeria are reluctant in offering financial services to the poor, because they are usually unable to meet their requirements.

It is worrisome that despite the potential importance of SMEs in any economy, high mortality rate among established SMEs is becoming a reoccurring phenomenon in Nigeria. The statistics from SMEDAN 2020 report shows that only 10% of newly established businesses survive the first five years in Nigeria. The ones that survive after this period usually record poor performance. The crucial role of finance to the growth and survival of SMEs and the adoption of microfinance as the main source of financing SMEs in Nigeria is pivotal.

It therefore makes it imperative to study the extent to which microfinance can enhance entrepreneurial performance. Besides, the empirical evidences emerging from various studies about the effect of microfinance on entrepreneurial development have so far yielded mixed results that are inconclusive and contradictory. Some studies only looked at microfinance and poverty alleviation (Electrin et al, 2013, Kiiru and Kenia 2007, Boadu, 2009), other studies looked at microcredit alone as an intervention tool for entrepreneur development (Akingunola, Adekunle, Adegbesan & Aminkan, 2013,) others looked at the presence of microfinance institutions as a catalyst for entrepreneurial development (Ozioko, 2010, Alalade, 2013 and Ojo, 2009). None of these studies was carried out in Kaduna metropolis and also none of these studies assessed the impact of micro financing on entrepreneurship performance in terms of increase in sales and entrepreneurial profit maximization which are the measurement used for measuring entrepreneurial performance in this study. It is against this backdrop that this study was set out to assess the effect of micro financing on small and medium scale businesses (entrepreneurship) performance in Kaduna metropolis. Specifically the study was set out to determine the extent that micro financing contributes to the performance of small and medium scale businesses in terms of profit maximization in Kaduna metropolis and to determine how it equally contribute in terms of sales growth in Kaduna metropolis.

## **LITERATURE REVIEW**

### **Concept of Entrepreneur**

The entrepreneur is capable of identifying suppliers and customers and acting as an intermediary where profit arises out of the intermediary function (Deakins & Freel, 2006). Zimmerer and Scarborough (2005) hold that entrepreneurs are new business or combinations that arise in the face of risk and uncertainty for the purpose of achieving profit and growth. "Entrepreneurship is defined as an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organising, markets, processes and raw materials through organising efforts that previously had not existed" (Shane & Venkataraman, 2000).

### **Concept of Microfinance**

One poverty alleviation tool established by the government is microfinance institution, which has gained worldwide recognition since the 1990s and has been proven to have positive impact on poverty levels and entrepreneurship development in developing countries (Danjuma, 2017). Microfinance is the provision of financial services to the poor, aiming to empower low income populations by providing them with access to credit and other financial services. Through MFIs, the poor can obtain collateral-free loans at relatively low interest rates and use the money for creating microenterprises (small businesses owned by poor people), funding children's education, and improving households, among others. Aside from microcredit (small loans to the poor), MFIs have also developed numerous financial services, such as micro-insurance and micro-mortgage that are designed to accommodate the poor's financial needs. Most of these institutions have also required their clients to open up savings accounts, which could be used for emergency and investment purposes (Carr & Tong, 2002).

The Canadian International Development Agency (CIDA) defines microfinance as, “the provision of a broad range of financial services to poor, low income households and micro enterprises usually lacking access to formal financial institutions” (CIDA, 2002). Microfinance is defined as the provision of financial services and the management of small amounts of money through a range of products that are targeted at the poor people. This product includes loans, savings, insurance etc (United Nation, 2005). Also, micro finance is defined as 'the provision of credit, savings, and other financial services to lower-income groups' (Almeyda & Branch, 1999).

### **Concept of performance**

Performance according to Obiwuru, Okwu, Akpa and Nwankwere (2011) refers to ability of an organization to achieve such objectives as high profit, quality product; large market share, good financial results and survival at pre-determined time using relevant strategy for action. Consequently, Wang, (2010) viewed performance as product accomplishments, results and achievements in an organization. According to Apolot (2012), organizational assessments of performance in sales growth, customer satisfaction and profitability were measure in their businesses. This study therefore adapts the definition of both Apolot (2012) and Anastasia (2008).

## METHODOLOGY

The population published by Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) (2016), put the total population of SMEs in Kaduna at 164,557 which form the target population from which sample was drawn using Yamane’s method. This was done using 95 percent degree of accuracy. The sample size formula specified by Yamane (1967), was applied which is stated in equation 1:

$$s = \frac{N}{1 + N(e^2)} \dots \dots \dots (1)$$

s = required sample

N= the population size

e= the degree of accuracy expected as proportion (5% or 0.05).

$$s = \frac{164,557}{1 + 164,557(0.05)^2}$$

$$s = \frac{164,557}{412.39}$$

$$s = 399$$

Using the above formula, 399 was obtained as the sample size for this research work. Simple random sampling technique was used to draw 399 small and medium scale business owners within Kaduna Metropolis. Data for the study was collected from both primary and secondary sources. The primary sources of data was collected through the administration of questionnaire to elicit respondents’ opinion on impact of micro financing on the performance of their businesses in Kaduna metropolis.

Both descriptive and inferential statistics were used to analyze the data. Descriptive statistical tools involved the use of tables and simple percentage Correlation analytical technique was used in measuring the relationship of single independent variable (IV) on the multi dependent variables (DVs) in testing all the hypotheses.

## RESULTS AND DISCUSSION

The correlation coefficient (Table 1) of “performance in terms of profit” stood at 11.2 which is positive. This implies that an increase in micro financing lead to an increase in profit generation of entrepreneurs in Kaduna metropolis. The p-value is less than 0.05 which is 0.025(2.5) indicating that the relationship depicted in the model is significant at 95% confidence level. This implies that the study does not have enough statistical evidence to accept the null hypothesis. The implication of the findings is that there is a significant relationship between micro financing and entrepreneurial performance in terms of profit maximization in Kaduna metropolis.

However, the relationship depicted in this model is weak but positive, this means that a percentage increase in micro financing will only lead to 11.2% increase in the performance of entrepreneurs in terms of profit generation for the period.

Secondly, the correlation coefficient of “performance in terms of sales growth” stood at 1.9 which is positive. This implies that an increase in micro financing leads to an increase in sales growth of entrepreneurs in Kaduna metropolis. However, the significance of this can be judged from the P value represented as “sig”. The p-value is greater than 0.05 which is 0.706 (70.6) indicating that the relationship depicted in the model is insignificant at 95% confidence level. This implies that the study have enough statistical evidence to accept the null hypothesis. Therefore, based on the above analysis, the study reject the null hypothesis  $H_{01}$ , which states there is no significant relationship between micro financing and entrepreneurial performance in terms of sales growth in Kaduna metropolis. However, the relationship depicted in this model is also weak but positive, this means that a percentage increase in micro financing will only lead to 1.9% increase in the performance of entrepreneurs in terms of sales growth.

**Table: 1** **Correlations**

		Microfinancing	Performance_Profit	Performance_Sales growth
Microfinancing	Pearson Correlation	1	.112*	.01
	Sig. (2-Tailed)		<b>.025</b>	<b>.70</b>
	N	399	399	39
Performance_Profit	Pearson Correlation	.112*	1	.736*
	Sig. (2-Tailed)	<b>.025</b>		.00
	N	399	399	39
Performance_Salesgrowth	Pearson Correlation	.019	.736**	
	Sig. (2-Tailed)	<b>.706</b>	.000	
	N	399	399	39

\*. Correlation Is Significant At The 0.05 Level (2-Tailed).

\*\* . Correlation Is Significant At The 0.01 Level (2-Tailed).

## CONCLUSION AND RECOMMENDATIONS

There is positive and significant relationship between micro financing and the performance of small and medium scale businesses in terms of profit generations in Kaduna metropolis. Also, there is positive but insignificant relationship between micro financing and small and medium scale businesses' performance in terms of sales growth. It can be concluded that micro finance has positive impact on the performance of small and medium scale business activities in Kaduna metropolis.

In line with the findings, the study recommends the following:

- i. The beneficiaries/customers of micro finance to fully appreciate the utility of the facilities, the monetary authority (CBN) must continue to appraise the credit delivery channels and formulate policies that would facilitate the delivery of the facilities not only to the rural communities but also to development of small and medium scale businesses in the area.
- ii. Sensitization programmes of microfinance should be channelled to the rural areas, for instance, public seminars could be held in rural areas to give them proper orientation on the activities of the microfinance and how it can help them improve their business.
- iii. Microfinance bank in Kaduna metropolis should be strengthened to embrace small and medium scale businesses.
- iv. Microfinance banks should increase their provision of other services such as financial advice, commodity marketing, micro-insurance, leasing etc. to small and medium scale businesses.

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