IMPACT OF MICROFINANCE LENDING ON SMALL BUSINESS GROWTH IN IFELODUN LOCAL GOVERNMENT AREA OF KWARA STATE

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ABSTRACT

The World Bank consultative group has estimated that about 500 million families have benefited from small loan schemes and making new businesses possible. Despite the presence of different microfinance institutions in Ifelodun local government area of Kwara State with a population of 206,042 as at the 2006 census, there are still reports of low economic activities in the area. Perhaps, the level of literacy and poor access to loans are major factors militating against the development of their economic activities. This study therefore examined the microfinance lending and small business growth in Ifelodun local government area of Kwara state. This study used primary data which was obtained through questionnaire administered to the selected respondents. Data obtained was subjected to multiple regression analysis using the statistical package for social sciences (SPSS 23). Findings showed that micro finance has a positive impact on small business growth in Ifelodun local government area of Kwara State. This study therefore, recommends that for growth sustenance: (i) microfinance banks should help entrepreneurs spread the repayment of loan over period that will not affect the running of their businesses; (ii) there is also need for the Microfinance institutions to help deliver quality financial service to people in Ifelodun local government area of kwara state in their local dialect as this will avail many business owners the opportunity to bank in the language they understand and grasp more understanding of different microcredit products to choose from. If the above recommendations are fully implemented, more people are likely to avail themselves of microfinance facilities, which will in-turn have positive effect on the growth of small businesses.

Keywords: *Small Businesses, Microfinance, Pecking Order Theory, JEL Classifications: O47*

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INTRODUCTION

Micro financing is an amazingly simple approach that has been proved to empower very poor people around the globe. It is a financial system that relies on the traditional skills and entrepreneurial instincts of the active poor people by meeting their credits needs through small loans. It has its roots in the 1970s with Grameen Bank of Bangladesh (Rhyne, 2001). The contribution of Micro, Small & Medium Enterprises (MSMEs) to economic growth and sustainable development is globally acknowledged (Central Bank of Nigeria (CBN), 2004).

In Nigeria the Microfinance Policy framework clearly spelt out the delivery of these financial services on sustainable basis to the Micro, Small and Medium Enterprises (MSMEs) through privately-owned Microfinance Banks, and these services include credit, savings, micro-leasing, micro-insurance and payment transfer, to enable them engage in income generating activities (Adelaja, 2003; Anyawu, 2003; CBN, 2005; and Yunus, 2006).

According to the Nigeria Institute of Social and Economics Research ((NISER), 2004) as cited in Lawson (2007), there is an increasing recognition of its pivotal role in employment generation, income redistribution and wealth creation. The micro, small and medium enterprises (MSMEs) represent about 87 per cent of all firms operating in Nigeria according to United State Agency for International Development (USAID, 2005).

Ifelodun local government area of Kwara State has a population of 206,042 as at the 2006 census with an area of 3,435 km^2. The major economic activity of the people in this local government area is farming, which is done on subsistence scale and then petty trading (Ahmed, 2013).

The practice of microfinance activities in Ifelodun local government area takes many forms. The prominent being daily savings of money which is referred to as "Ajò", Youth Associations, and Social Clubs alongside the Microfinance banks (Ahmed, 2013). However, despite the presence of different microfinance institutions in Ifelodun local government area of Kwara State there is still low economic activities in the area. Perhaps, the level of literacy and poor access to loans are major factors militating against the development of their Economic activities. This study therefore examined the microfinance lending and small business growth in Ifelodun local government area of Kwara state.

LITERATURE REVIEW

Conceptual Issues

Small Scale Businesses in Nigeria

A review of literature on Micro, Small and Medium Enterprises (MSMEs) shows that the concept of MSMEs significantly varies from country to country depending on factors such as the country's state of Economic development, the strength of the industrial and business sectors, the size of MSMEs and the problems experienced by MSMEs (Harabi, 2003). Hence, there is no uniform or universally accepted definition of MSMEs (Etuk, Etuk and Baghebo, 2014).

In Nigeria, parameters such as asset base (excluding land), the number of workers employed and the annual turnover are used for the classification of MSMEs. Carpenter (2001) maintains that there is no one definition for SMEs; they are defined in Nigeria and other countries based on one or all of the following: the size or amount invested in assets excluding real estate; the annual turnover and the number of employees. The Federal Ministry of Industries described medium-scale enterprise as any company with operating assets less than N200 million, and employing less than 300 persons (Ayeni-agbaje and Osho, 2015).

A small-scale enterprise on the other hand, is one that has total assets of less than N50 million, with less than 100 employees (Lawson, 2007). According to the National Economic Reconstruction Fund (NERFUND) as cited in Lawal (2014), a small scale business is one whose total assets are less than N10 million, but makes no reference either to its annual turnover or the number of employees.

Micro Finance

Microfinance are loans granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household (CBN, 2011).

Ojo (2007), sees 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. Microfinance and micro financial institutions are intended to fill a definite gap in the financial market and system respectively, to assist the financing requirements of some neglected groups who may not be unable to obtain finance from the formal financial system (Olowe, Moradeyo and Babalola, 2013).

Mosley (2001), is of the opinion that microfinance is the provision of financial services to the poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as —microfinance institution (MFI's).

Categories of Micro Finance Banks in Nigeria

According to the CBN (2011) revised regulatory and supervisory guidelines for microfinance banks (MFBs) in Nigeria. The following are the categories of microfinance banks.

(a) Unit Microfinance Bank

A Unit Microfinance Bank is authorized to operate in one location. It shall be required to have a minimum paid-up capital of N20 million (twenty million Naira) and is prohibited from having branches and/or cash centres.

(b) State Microfinance Bank

A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid-up capital of N100 million (one hundred million Naira) and is allowed to open branches within the same State or the FCT, subject to prior written approval of the CBN for each new branch or cash centre.

(c) National Microfinance Bank

A National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid-up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, subject to prior written approval of the CBN for each new branch or cash centre.

According to Adelaja (2003), there are various types of institution that offer microfinance lending. They include: NGO's (Non-governmental Organizations); Corporative societies; Commercial banks; and Government schemes. Other organizations within local communities which are also regarded as microfinance institutions include: Credit unions; Associations; Community banks; and Rotating savings and credit association (ROSCAs) (Abiola, 2012; Onaolapo and Odetayo, 2012).

Theoretical Background

The theory adopted for this research work is the Pecking Order Theory. It is a theory that is relevant to the operations of the small businesses. Proposed by Myers in 1984, it sheds light on the incentives that drive SMEs capital structure decisions. This theory proposes that firms prefer to use internal sources of financing first and will resort to external

sources only if internal sources are inadequate. According to him, "*A firm is said to follow a pecking order if it prefers internal to external financing and debt to equity if external financing is used*". Therefore, Pecking order theory suggests that internal funds should be used before external capital sources are tapped. Holmes and Kent (1991) found that small businesses experience a more intense version of pecking order in their decisions because access to appropriate external sources of capital is limited. It has been noted that small businesses differ in their capital structure but their intense reliance on pecking order is only one of the variables that make small businesses financing decision unique (Güven, Hakan and Güray, 2006). When loaning to small businesses, most financial institutions require the owners of the small businesses to personally guarantee the loan (Berger and Udell, 1998). These personal guarantees allow the institution recourse against the personal wealth of the small businesses owners in the event of default (Güven, Hakan and Güray, 2006). These restrictions on the type of finance available to SMEs coupled with the small firm's insistence on first using internal sources of capital, creates a unique structure for small business. Romano, Tanewski, and Symmios, (2001) describe the situation as a complex array of factors that influence small to medium size enterprises (SME) owner- manager's financing decisions. This is supported by Hall, Hutchinson and Micheals (2000) who found that firm's size is positively related to long-term debt and negatively related to short-term debt. In further support, Chittenden, Hall and Hutchinson (1996), suggest that a firm's size is correlated with the firm's reliance on pecking order theory in capital structure decisions. Thus, smaller firms are more likely to rely on internal funds.

This theory was also adopted by Hall, Hutchinson and Micheals (2000); Murray, Frank and Vidhan, (2005); Bernard and Jensen (2007); and Bazardari (2014), among others.

Empirical Studies

There are lots of articles on SMEs growth and micro financing. Using a qualitative research design; Suberu, Aremu and Popoola (2011), investigated the impact of Micro finance institution on the development of small scale enterprise in Nigeria. Their investigation confirms a positive contribution of microfinance loans towards promoting small scale enterprises market share, production efficiencies and competitiveness. Ashamu (2014), researched into impact of micro finance on small scale business in Nigeria, using contingent test analysis, findings revealed that Microfinance revolution is an effective tool for development, employment generation and poverty reduction and had been remarkably successful in many parts of the world. Olowe, Moradeyo and Babalola (2013), studied the Impact of Microfinance Bank on Small and Medium Growth in Nigeria. The study used the Pearson correlation and multiple regression analysis. Findings revealed that MFBs have significant impact on MSEs growth in

Nigeria. Results also showed that the duration of loan has positive impact on SMEs growth but was not statistically significant, which means that the duration of the loan is too short for any meaningful impact on SMEs growth. Abiola (2012), researched on the Effects of Microfinance on Micro and Small Enterprises (MSEs) Growth in Nigeria. The study employed multiple regression on a survey of 502 randomly selected enterprises. Investigation revealed that microfinance banks do not enhance growth and expansion capacity of micro and small enterprise in Nigeria. The findings confirmed the views expressed by Olutunla and Obamuyi (2008), that the growth of SMEs is not just dependent on accessing bank loan but accessing the right size of loan at the right time. Using OLS regression; Yusuf, Amao and Olawale (2014), researched into effects of Microcredit on Small Scale Enterprises in Osun State, Nigeria and found that the proportion of loan used for business activities did not have significant effect on the turnover. This according to them may be due to the low level of the total loan that was used for the business, untimely release of the loan among others. Having employed multivariate logistic and chi-square test statistics; Albert, Njiwakale, Wanambisi and Bwisa (2013), observed that respondents preferred MFI loans because collateral is not required unlike bank loans. And that majority of those who access loans could repay loans plus interest from business activities.

From the review of available literatures, it was confirmed that the poor at the grass root level benefited from the services of the micro finance bank in terms of access to micro business capital, except for the business sustenance, *profit* generation, business expansion, savings and investment and wealth creation (Musa and Aisha, 2012; Yusuf, Amao and Olawale, 2014; Oyeniyi, 2014; and Obisesan and Oyedele, 2015).

Other available literatures also observed that SME financing require no collateral, increased production efficiency and competitiveness and has been an effective tool for development, employment generation and poverty reduction which has been successful in many part of the world. (Suberu and Popoola, 2011; Albert and Henry, 2013; Olowe, and babalola, 2013; and Ashamu, 2014). The gap this study intends to fill is to examine microfinance lending on small scale business in Ifelodun local government of kwara state, this is because the successes recorded by entrepreneurs in other parts of Nigeria, does not necessarily mean the same applies to Ifelodun entrepreneurs. This research work therefore, evaluates the impact of micro lending on small scale businesses in Ifelodun local government of kwara state.

RESEARCH METHODOLOGY

Model Specification

A model is used for the purpose of this study, and was modeled towards satisfying the main objective of this study i.e to examine the impact of micro lending on small busines

growth in Ifelodun local government area of kwara State and also for testing whether a significant relationship exist between the duo. The model is specified as:

$SBG = f(LS, LD, LR, LU)$..... (1)

In specific form, equation 1 translates into equation 2 thus:

$SBG = \alpha_0 + \beta_1 LS + \beta_2 LD + \beta_3 LR + \beta_4 LU + \mu$..... (2)

Where,

SBG = Small Business growth (Explained variable)

LS= Loan Size (Explanatory variable 1)

LD= Loan Duration (Explanatory variable 2)

LR= Loan Repayment (Explanatory variable 3)

LU= Loan Utilization (Explanatory variable 4)

α_0 = intercept to the equation

$\beta_1, \beta_2, \beta_3 LR + \beta_4 LU + \mu$ = the coefficients

μ= Error term

Model Estimation

Statistical criteria which in other words known as first order least square (OLS) of multiple regression techniques consisting of R-square (R^2), F- statistics and adjusted R^2 is adopted to examine the overall explanatory power and used to test the significant contribution of each of the independent variable (Loan size, Loan Duration, Loan Repayment and Loan Utilization) on the dependent variable (Small business growth). Pearson correlation was also use to test the significant relationship between microfinance and small scale business growth.

Sources of Data, Population and Sample Size

This study made use of Primary data, and the population consists of operators of small businesses in Ifelodun local government area of kwara state, particularly those who are members of the Assosciation of Business Enterpreneurs in Ifelodun (*Asowo Jere*). According to the information given by the Association the numbers of their registered members operating in the area is said to be 153 including business that have almost fold up in Ifelodun local government area. A sample of one hundred and eleven was drawn based on the submissions of Yamane (1973), using a purposive sampling technique.

METHOD OF DATA COLLECTION

The instrument for the collection of the primary data was the questionnaire designed and administered. A total of one hundred and eleven (111) copies of questionnaire were administered to the respondents, while 106 questionnaires were successfully returned and were considered adequate for this study.

Method of Data Analysis

Data obtained was subjected to multiple regression analysis and Pearson correlation test using the Statistical Package for Social Sciences (SPSS 23).

RESULTS AND DISCUSSION

Table 4.1 You have a business enterprise you are currently running?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	AGREE	9	8.5	8.5	8.5
	STRONGLY AGREE	97	91.5	91.5	100.0
	Total	106	100.0	100.0	

(Source: Field Survey, 2016)

Table 4.1 shows that 8.5% agree that they run a small business while 91.5% of small business entrepreneurs strongly agree that they run a small business enterprise in Ifelodun local government area of Kwara State. This implies that the responses of the respondents can be relied upon.

Table 4.2 The interest rate charged over the loan is low?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY DISAGREE	82	77.4	77.4	77.4
	DISAGREED	17	16.0	16.0	93.4
	AGREE	7	6.6	6.6	100.0
	Total	106	100.0	100.0	

(Source: Field Investigation, 2016)

Table 4.2 shows that 77.4% strongly disagree that the interest rate is low. This implies that entrepreneurs pay high interest for loan accessed for their businesses, and this might likely reduce their profits.

Table 4.3 The duration for the loan repayment is sufficient to pay back?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY DISAGREED	83	78.3	78.3	78.3
	DISAGREED	18	17.0	17.0	95.3
	AGREED	5	4.7	4.7	100.0
	Total	106	100.0	100.0	

(Source: Field Survey 2016)

Table 4.3 shows that 78.3% strongly disagreed that the duration of the loan repayment is sufficient and 17% disagree while 4.7% agreed that the duration for the loan repayment is sufficient. The implication of this is that entrepreneurs are likely not to be able to plough back a substantial part of their earnings for business running and expansion.

Table 4.4 In your opinion other businesses Patronage to the micro credit providers have Increased rapidly?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY DISAGREE	73	68.9	68.9	68.9
	AGREE	13	12.3	12.3	81.1
	STRONGLY AGREE	20	18.9	18.9	100.0
	Total	106	100.0	100.0	

(Source: Author's Investigation, 2016)

Table 4.4 shows that 68.9% strongly disagree that patronage to the micro credit providers by entrepreneurs have increased. This is likely to be as a result of high interest charge on loans and/or stringent requirements before accessing such loans.

Table 4.5 Multiple Regression Result: Impact of Microcredit on Small Business Growth in Ifelodun LGEA of Kwara State

Variables	Coefficients	Probability (t-stat.)
C	-0.135	0.105
LS	0.853	0.000 **
LD	0.455	0.005 **
LR	-0.147	0.328
LU	-0.100	0.954
R-squared = 0.938 Adjusted R-squared = 0.936 F-stat = 383.259 Prob.(f-stat) =0.000 **		

(Source: Author's Computation, 2016) **significant at 1% level of significance

The results from the above Table 4.5 shows that loan size and loan duration are statistically significant at 1% level of significance. The variable loan size has a positive coefficient of 0.853 which indicate a unit increase in loan size will increase business growth by 85.3%. For loan duration, it has a positive coefficient of 0.455 which indicate a unit increase in loan duration will increase the business growth by 45.5%. For loan repayment, it has a negative coefficient of -0.147 which indicate a unit increase in loan duration will lead to a decrease in business growth by 14.7% while loan utilization has a negative coefficient of -0.10 which indicate that unit increase in loan utilization decrease the business growth by 10%.

The coefficient of R^2 is 0.938 which shows that 93.8% of variation in small business growth can be explained by loan size, loan duration, loan repayment and loan utilization, while the remaining 6.2% is captured by the error term. The F-stat value of 383.259 is large with an attendant probability of 0.000, implying that the model is good to fit.

Table 4.6: Extent of Impact of Microcredit Lending on Small Business Growth in Ifelodun LGEA of Kwara State

		Microfinance	Small Business Growth
Micro finance	Pearson Correlation	1	.783**
	Sig. (2-tailed)		.000
	N	106	106
Small business growth	Pearson Correlation	.783**	1
	Sig. (2-tailed)	.000	
	N	106	106

(Source: Author's Computation, 2016) **. Correlation is significant at the 0.01 level (2-tailed).

The result from Table 4.6 above shows a correlation coefficient of 0.783, indicating a strong positive correlation between micro finance and small business growth, which is statistically significant at 1% level of significance. Therefore, a significant relationship exists between the extent of micro lending and small business growth in Ifelodun local government of Kwara State.

CONCLUSION AND RECOMMENDATIONS

This study concludes that microfinance impacts positively on small business growth in Ifelodun local government area of Kwara State. However, to sustain this growth, the study recommends that the microcredit institutions should help small businesses in Ifelodun local government area spread the repayment of micro credit over a longer period of time, or increase their moratorium. This will enable them to have greater utilization of the loan over a longer period for the acquisition of capital assets. There is also need for the Microfinance institutions to help deliver quality financial service to people in Ifelodun local government area of kwara state in their local dialect because this will avail many business owners the opportunity to bank in the language they understand and grasp more understanding of different microcredit products to choose from.

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