Contribution of Microfinance Banks to the Development of Small and Medium Scale Enterprises in Nigeria

Dr. Emmanuel S. Akpan
Department of Finance, Federal University Otuoke.
bushdukakis@yahoo.com

Ikenna D. Nneji*
Phd Scholar, Department of finance, University of Calabar.
dikenna@yahoo.com

Abstract
This study investigated the contribution of microfinance banks to the development of small and medium scale enterprises in Nigeria. This was done because small and medium scale enterprises have been known to play an important role in the development of any country. In order to accomplish the set out objectives of this study, two research hypotheses (H_{o1} - H_{o2}) were formulated which were tested via primary and secondary data. The ordinary least square analysis was also used. Based on the results gotten, both hypotheses were rejected. The study ended by giving recommendations that were considered necessary for development.
Keywords: Small and medium scale enterprises , microfinance banks

SECTION ONE
INTRODUCTION
1.1 Background of the study
It is a known fact that developing economies all over the world strive to achieve industrial development. Nigeria, being a country with a developing economy is no exception. Over the years, the method of attaining this development has reduced attention on publicly owned large industries and focused more on privately owned small and medium scale enterprises (SMEs). This is because the SMEs are seen as a potent vehicle for the achievement of economic growth and development as they provide the best opportunity for job creation and rural development.

In Nigeria, according to Aderemi (2003), SMEs have the following characteristics:
a. They have a total workforce between 10 and 300 employees
b. They are usually small, owner or family managed businesses offering basic goods and services
c. They tend to lack organizational and management structures. However urban SMEs tend to be more structural than their rural counterparts

The development of SMEs via effective financing options has stemmed debate and growing interest among researchers, policy makers and entrepreneurs, recognizing the immense contribution of the subsector to economic growth.

SMEs constitute the driving force of industrial growth and development. This is basically due to their great potential in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development.

Throughout the process of financial deregulation and modernization, the government and Central Bank of Nigeria have developed a number of financial services programs to target these small scale industries and local operators to encourage self-sufficiency and promote main-stream financial transactions. However, these SMEs assistance programs initiated by the government over the years have failed to yield the desired result. (Yumkella and Vinanchiarachi, 2003). The reason behind the failure is due to the myriad of challenges faced by the SMEs which include the following:
- Lack of long term financing
- Inappropriate management skills
- Low market access
- Lopsided legislation
- Dearth of adequate infrastructure etc (Lawson, 2007).

In response to the failure of Small and Medium Enterprise Equity Investment Scheme (SMEEIS) initiated in 2001, the government of Nigeria decided to introduce microfinance banks to bridge the gap between the commercial banks and small and medium business owners. According to the Central Bank of Nigeria, the Nigerian formal financial system, consisting largely of commercial banks, only carters to about 35percent of the economically active population, therefore leaving 65 percent of the population to be serviced through NGO's (MFIs), money lenders, friends, relations and credit unions which are unregulated and problematic. After wide

consultation with stakeholders, the CBN produced the microfinance policy in December 2005 to ensure provision of financial services to the lower economic segments traditionally not catered to by the conventional financial institutions. This category of financial services is distinguished from other financial products by virtue of their characteristics like small size of loans, absence of asset-based collateral and simplicity of operations.

Across developing countries, SMEs are turning to MFBs for an array of financial and non financial services. The reason is because access to sustainable financial services enables owners of micro enterprises to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2005). Furthermore, it has been shown that non-financial services of the MFBs like advisory services and per-loan training also contribute their own quota to the development of SMEs. It is against this backdrop that this study attempted to investigate the extent to which the MFBs have contributed to the development of the SMEs

1.2. Statement of the problem

Most of the SMEs in Nigeria have remained relatively small and seen stunted growth over the years. This is due to the fact that a large percentage of entrepreneurs in the country remain unserved by the formal financial institutions. The microfinance institutions available in the country prior to 2005 were not able to adequately address the gap in terms of credit, savings and other financial services. As reported by the CBN, the share of micro credit as a percentage of total credit was 0.9%, while its contribution to GDP was a mere 0.2% (CBN, 2005). The CBN in 2005 identified the unwillingness of conventional banks to support micro-enterprises, paucity of loanable funds, absence of support institutions in the sector, as well as weak institutional and managerial capacity of existing microfinance institutions among other reasons as the major reasons for the failure of past microfinance initiatives in the country. In order to remedy the situation, the Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) for Nigeria was launched by CBN in 2005 to provide sustainable financial services to micro entrepreneurs. However, although microfinance has proven to be one of the ways of bridging the resource gap created in the Nigerian economy, the country has not enjoyed the full benefits from it due to problems militating against its proper execution.

The lack of documentation of the practice of microfinancing in Nigeria has made it difficult to formulate supportive programmes for the growth of the sector. As a result of this, the high rate of failures of SMEs has become a matter of major concern in developing economies. International Finance Corporation (IFC) reported in 2002 that only 2 out of every 10 newly established businesses survive up to the fifth year in Nigeria. The report was corroborated by Small and Medium Enterprise Development Agency of Nigeria (SMEDAN, 2007) that only 15% of newly established businesses survive the first five years in Nigeria. This is a pointer to the fact that there is a problem. The indispensable role of finance to the growth and performance of SMEs and the adoption of microfinance as the main source of financing SMEs in Nigeria therefore makes it imperative to study the extent to which microfinance can enhance SME growth and performance.

Furthermore, many microfinance programmes in Nigeria provide non-financial services such as advisory services, managerial and technical training, weekly meetings, pre-loan training etc. rendered as support services to the SMEs. Though the contribution of such non-financial services is not in doubt, the extent of the contributions is yet to be ascertained in Nigeria.

1.3. Objectives of the study

The general objective of this study was to investigate the contribution of Microfinance Banks to the growth of Small and Medium scale enterprises in Nigeria.
The specific objectives of this research work were as follows:
a.   To determine the effect of financial services of MFBs on the growth of SMEs.
b.   To examine the impact of non-financial services of MFBs on performance of SMEs.

1.4. Research questions

The following research questions guided the study;
i.   What is the effect of financial services of MFBs on the growth of SMEs?
ii.   What is the impact of non-financial services of MFBs on the performance of SMEs?

1.5. Research hypotheses

To aid the attainment of the stipulated objectives, the following hypotheses were stated.
H_0 The financial services of MFBs have no significant effect on the growth of SMEs.
H_0 Non-financial services of MFBs have no significant impact on the performance of SMEs

1.6. Significance of the study

The significance of this study cannot be overemphasized, considering the fact that rapid development of the SMEs sector will contribute immensely to the development of any nation. A major barrier to this rapid

development is the dearth of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Thus, this study is significant to the extent that it determines the contributions that MFBs have had on the SMEs.

Furthermore, this study is of immense benefit to government as it would aid in the fine-tuning of policies that are intended to boost the SME sector through Micro Banking. The study also adds to the existing body of knowledge available to students and other researchers.

1.7. Organization of the study

The study is presented in five sections. The first section introduced the study and established the problems addressed in the study, pointing out the scope, objective and significance of the study. While section two explored the theoretical framework, the third section presented the methodology which included the description of the procedure for the collection and analysis of data. The fourth section presented the result of the analysis while the final section, summarized, concluded and proffered recommendations.

SECTION TWO
THEORETICAL FRAMEWORK AND LITERATURE REVIEW
2.1 Theoretical framework

This section deals with some of the various theories relating to the financial structuring of SMEs. The theories discussed under here are the bank capital channel model, the capital constraint model, the Lifecycle theory, Pecking order theory and the agency framework hypotheses.

2.1.1   Pecking order theory

The pecking order theory is one that was developed by Myers Sanders in 1984. It implies that the financing requirements of firms (usually SMEs) are catered for in a hierarchical order. The initial source of funds is internally generated. As the amount of funds required is increased, the next source is via the use of debt. Further increase in the need of funds leads to sourcing for external equity. Thus there tends to be a negative relationship between profitability and external borrowing by small firms. This further implies that the debt equity mix of a firm should be heavily dependent on the hierarchical financing decisions over time.

This theory thus maintains that businesses organizations always prefer to use internal funds. If it is not available, the organization will prefer to use debt as an external source of fund before it considers equity financing. Therefore, by simply examining a firm's debt equity mix, one can have a general understanding on the health of that organization. When managers issue new shares, the public believe that the managers have concluded that the firm is valued more than its actual worth and as such they want to quickly utilize the opportunity. This leads to the investors valuing these new stocks lower than before. The theory also implies that older firms should have more funds available to promote growth since they have had more opportunities to accumulate internally generated funds i.e retained earnings.

Holmes and Kent (1991) found that SMEs observe strict adherence to the pecking order due to the fact that it is difficult for them to acquire externally generated finance. SMEs rely heavily on private markets thus limiting their financing sources. These restrictions on the type of finance available to SMEs coupled with the small firm's insistence on first using internal sources of capital (Holmes and Kent, 1991), creates a unique structure for small business.

2.1.2   Financial growth theory

This theory was developed by Berger and Udell (1998). According to them, as a business matures over the years, its financial obligations and financing options metamorphose having more information available to the public. According to them, firms that are smaller, younger and possess more ambiguous information must depend on initial internal funding, trade credit, or a type of financing called angel finance. (Angel finance is one that occurs when an individual or organization provides a limited amount of financial backing for a start up business with more favourable repayment plan). As the firm grows, it qualifies for acquiring both venture capital and midterm loans as sources of both intermediate equity and intermediate debt respectively. Further aging of the firm makes it to become bigger and less informationally murky. This thus qualifies the firm to have access to both public equity and long term loans as sources of both long term equity and long term debt respectively.

The capital structure of SMEs is thus very different from that of bigger firms because SMEs rely more on informal financial market which limits the type of financing they are able to secure. The SMEs initial use of internal financing leads to a peculiar state of affairs whereby capital structure decisions are heavily dependent on the limited financing options. Therefore, SMEs possess varying capital structures and are financed by various sources at different stages of their development (Berger and Udell, 1998). This is seen clearly in table 2.1 below

Table 2.1: Financial Growth Cycle

Very small firms, possibly with no collateral and no track record ↓	Medium –Sized Firms. Some track records. Collateral available, if necessary. ↓	Large firms of known risk and track record ↓
Initial Insider Financing ↓	Venture Capital ↓	Public Equity ↓
Angel	Medium - term financial Institutions	Long term financial institutions.

Source: Berger and Udell (1998)

2.1.3   Bank capital channel theory

This model implies that the lending behaviour of banks to SMEs is heavily dependent on capital adequacy requirement. Obamuyi (2007) showed that a change in interest rate can influence banks lending to SMEs through bank's capital. This implies that increasing the value of interest rates raises the cost of banks' external funding, but reduces banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. On the other hand, the banks could also become more willing to lend during situations when the interest rate is favourable.

2.1.4   The Life cycle model

This model was developed by Weston and Brigham (1981). According to them, accelerated growth of a small firm could lead to the firm lacking capital. This was because, most of the time, small firms are created with just internal funds from the owners. As the firm grows, the amount of owners' equity is no longer capable of sustaining it and the firm would have to resort to external sources of funds in order to survive. Thus, accelerated growth could result in illiquidity and thus the firm would have a decision to make between reducing its growth rate or becoming illiquid and sourcing for external funds. Therefore Weston and Brigham (1981) concluded by showing that SMEs that grow in size are very likely to have an increase in its debt structure.

2.1.5 Contract Theory

According to Wikipedia (2015), this theory was first formally treated by Kenneth Arrow. It studies how economic actors construct contractual arrangements in the presence of asymmetric information. Information asymmetry arises when one of two parties engaged in a business transaction happens to have more or different information than the other. In such a situation, one party does not have adequate information about the other party resulting in inaccurate decision making. This circumstance leads to a potential adverse selection and moral hazard problems in the credit market.

Adverse selection is a problem arising from asymmetric information which occurs prior to the transaction actually occurring. Here a lender may decide not to lend money even though the borrower has the ability to make loan repayments as expected, just because he does not have enough information about the borrower to aid in his decision making.

On the other hand, moral hazard is a problem of asymmetric information that occurs post-transaction. The borrower might engage in activities that are unknown yet undesirable from the lender's point of view, and this makes it less likely that the loan will be paid back. For these reasons, formal financial institutions insist on collaterals as a prerequisite for providing loan money to SMEs. The disbursement of loan money without securing adequate collateral is considered too risky.

Stigilitz and Weiss (1981) have opined that information asymmetry is a significant reason why SMEs find it difficult to acquire adequate loans. According to them, capital does not always flow to small firms because of adverse selection and moral hazard, two factors that are known to have a devastating negative impact on small enterprises.

2.2   Literature Review

A plethora of literature on the growth SMEs exist. A review of these literature show that, in general, the failure in development of SMEs is as a result of a dearth of funding. This led to other problems like inadequate managerial skills, inability to update equipment and technology etc. For example, Yaron, Benjamin and Piperk (1997) discovered that limited access to loans led to stunted growth of SMEs. They discovered that many SMEs had limited capital, lacked relevant skills and used outdated technologies.

Carpenter and Petersen (2002) opined that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. Access to credit enables the SMEs to cater to needs like expansion, purchase of equipment etc. They further discovered that most of the SMEs that sourced for funds from micro finance institutions had higher sales volume and profit.

Makokha (2006) revealed that inadequacy of capital hindered the expansion of businesses. The study further found that larger loans enabled SMEs to expand to medium enterprises. In Nigeria, Alege and Ogunrinola (2008) carried out a study to ascertain the impact of a UNDP-sponsored microcredit programme on SME

development. They found that variables such as pre-loan training and entrepreneur level of education impact significantly on SME development. Bekele and Zekele (2008) also investigated long term survival of SMEs financed by microfinance institution and decided that enterprise that did not participate in such schemes regularly are more likely to fail in comparison with businesses that participated regularly.

In another study to examine the impact of microfinance on rural farmers in Malawi, Aguilar (2006) reported that farmers who borrow from microfinance institutions were no better off than those who did not borrow. In a similar fashion, Augsburg (2008) argued that there is the need for a plus component (training in financial management, marketing and managerial skills and market development) for microfinance to succeed. It has however been said that benefits of microfinance are not always realized and that many other factors including client characteristics, microfinance structure and functional arrangements may mediate the impact of microfinance. Thus, the effect of microfinance is context specific.

SECTION THREE
RESEARCH METHODOLOGY
3.1   Introduction
To ensure proper collection and analyses of data in this study, the researcher resolved to collect both primary and secondary data. This aimed at making sure that all the relevant materials or information required for the study were acquired and utilized. Therefore, this section is designed to articulate research methodologies, sampling procedures employed and its justification, research population or sample size used and also the statistical techniques used for the analyses of the data.

This section basically explained the basic research methods employed to undertake this study using appropriate statistical techniques to test the research hypotheses.

3.2   Area of study
The research randomly investigated Small and Medium Enterprises and Micro Finance Banks, including some with branches outside. This is because of the relative ease of access to micro finance practitioners and small businesses in Abuja by the researcher.

3.3   Population of the study and sampling technique
The population of the study covered the entire small business owners and operators as well as micro finance practitioners and all associated stakeholders. The sample was selected via simple random sampling from the population. A total of 80 questionnaires were handed to MFB operators while a total of 100 questioners were handed to SME operators. This constituted the sample size.

3.4   Source of data and instrument of data collection
For this research, the sources of data were primary, by way of a questionnaire, administered randomly to both SME and MFB operators, and secondary, by way of previous documentation, articles and write ups on the subject matter of the research. The general questionnaire is split into two broad sections; for the representatives of MFBs and SMEs, each having four and three sub parts, respectively. The questionnaire was structured such that the reliability and authority of the respondents were confirmed, ensuring the validity and reliability of the data collecting instrument.

Information was also gathered by way of personal interviews, especially with the SME operators. These interviews were, however, constrained to questions within the scope of the questionnaire to ensure that the information gotten was within the scope of what was required for the research.

3.5   Method of data analysis
The model specification used in this study was based on the hypotheses of the study. This statistical model is presented below to examine the extent to which microfinance facilities have enhanced the growth of small and medium enterprises in Nigeria. The first hypothesis was structured to ascertain the impact of the financial services of MFBs on SMEs growth. Taking a cue from Karlan and Valdivia (2006), SMEs growth is proxied by annual sales growth while the financial services of the MFBs are proxied by size of loan, duration of loan, repayment of loan and utilisation of loan. This was expressed as:

ASG = f (LS, LD, LR, LU)
ASG = Annual Sales Growth
LS = loan size received from microfinance bank
LD = Loan duration
LR = Loan repayment
LU = Loan utilisation
Hence the equation is re–written as:

Research Journal of Finance and Accounting
www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.8, 2015

$ASG = \alpha_o + \alpha_1 LS + \alpha_2 LD + \alpha_3 LR + \alpha_4 LU + \mu$

μ = error term

Apriori, it is expected that $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$ and $\alpha_4 > 0$

The table 3.1 below shows these variables and how their measurement is done.

Table 3.1   **Measurement of Variables – Hypothesis 1**

S/N	Variable	Measurement	Expected Sign on impact	Apriori
1.	SME Growth; Dependent Variable	Proxied by annual sales growth rate		
	Independent Variables			
1.	Size of asset loan	actual amount received over the five year period is taken.	+	$\alpha_1 > 0$,
2.	Duration of Asset loan	actual number of months loan was taken.	+	$\alpha_2 > 0$
3.	Repayment of asset loan	A likert scale measure was assigned to repayment of asset loan.	+	$\alpha_3 > 0$
4.	Loan utilization	1 was assigned if loan was used for the purpose of the business,0 was assigned if otherwise	+	$\alpha_4 > 0$

Source: Author's compilation, 2015

      In order to come up with a model with which to measure the impact of non-financial services of microfinancing institutions on SME's performance, this study takes a cue from Karlan and Valdivia (2006). SMEs performance is proxied by gross profit. The non financial services of MFBs are proxied by advisory services, pre-loan training, group membership, cross guaranteeship and Networking meetings.The model specified here is:

$GP = f (AS, PLT, GM, CG, NM)$.. (18)

GP = Gross Profit

AS = Advisory services

PLT = Pre-loan training

GM = Group membership

CG = Cross guaranteeship

NM = Networking Meetings

Hence the equation is re – written as: α

$GP = \delta_o + \delta_1 AS + \delta_2 PLT + \delta_3 GM + \delta_4 CG + \delta_5 NM + U$

  Where;

U   = Error term

Apriori $\delta_1 > 0$; $\delta_2 > 0$; $\delta_3 > 0$; $\delta_4 > 0$; $\delta_5 > 0$

The table 3.2 below shows these variables and how their measurement is done.

Table 3.2   **Measurement of Variables**

S/N	Variable	Measurement	Expected Sign on impact	Apriori
	SMEs performance – Dependent variable	Gross profit was used as proxy for small business performance.		
	Independent Variables are:			
1.	Advisory services	1 was assigned if advisory services given were considered to have significant impact on business performance as perceived by the entrepreneur and 0 was assigned if otherwise.	+	$\delta_1 > 0$
2.	Pre-loan training	1 was assigned if pre loan training was given, and 0 if otherwise	+	$\delta_2 > 0$
3.	Group membership	1 was assigned if membership of a group is mandatory before loan was obtained, and 0 if otherwise,	+	$\delta_3 > 0$
12.	Cross guaranteeship	1 was assigned if cross guarantee was pre-requisite for loan and 0 was assigned if otherwise.	+	$\delta_4 > 0$
13.	Networking meetings	1 was assigned if networking meetings was considered to have significant impact on business performance as perceived by the entrepreneur and 0 was assigned if otherwise.	+	$\delta_5 > 0$

Source: Author's compilation, 2015

      The data collected for this study were coded, entered and analysed using the E-views Statistical software. The type of analysis used was multiple regression analysis. The internal consistency of the questionnaire is determined by asking a question or questions in more than one way in the questionnaire. The

responses given could then be compared as before.

3.6 Validity and reliability of the instruments

The questionnaire was setup such that, within itself, it tests the reliability of the respondents based on their managerial level, period of engagement and qualification. The questions are also tailored to suite the individuals from the two broad groups being investigated, hence the separate sections for SME operators and MFB operators.

The reliability of the instrument also shows its validity. This is because only the responses that are reliable are considered valid.

SECTION FOUR
DATA PRESENTATION AND ANALYSIS
4.1 Data presentation

In this section, the necessary data collected were presented, analyzed and interpreted in order to arrive at cogent conclusions. As stated before, the data needed for this study were both primary and secondary data. The primary data was gotten through the administration of a carefully structured questionnaire. From the total of 180 questionnaires given out, 140 were returned. The high rate of return was due to the assistance of some staff in some of the SMEs and MFBs personally known to the researcher. The results were collected and tabulated. The tabulated result is presented in appendix one.

4.2 Data Analysis

The first part of the questionnaire was filled by the small business operators and from here variables like gross profit margin, sales growth, and micro loan were retrieved. The second part of the questionnaire contained information on the business enterprise extracted from bank records with the help of Loan Officers who work directly with the respondents.

The samples were designed to cover all firms that had stayed with the Microfinance Bank for a period of at least five years. The success of the survey is attributed to the fact that the researcher had the support of the Loan Officers in approaching the enterprise operators. Out of a 50 of such enterprises, 25 results were useful. The micro loan figures were also extracted from the banks records directly and not just relying on the respondents for the information. The data needed to test the first hypothesis are annual sales growth, loan size, loan duration, loan repayment and loan utilisation. The data needed to test the second hypothesis are annual gross profit, advisory services, pre-loan training, group membership, cross guaranteeship and networking meetings. All of these data are presented in the appendix two.

The data was analysed using eviews. With respect to hypothesis one, Table 4.1 presents the result from the regression of the average sales growth rates on different variables characterizing the firms' microfinancing. The constant, which is the intercept, shows that when all the variables are zero, sales will grow at 18.42% for small firms and 17.25% for medium firms. The result obtained is also significant at 1% level of significance.

Table 4.1   Multiple regression result for hypothesis one

	SMALL FIRMS		MEDIUM FIRMS	
	Coefficient	t- statistics	Coefficient	t-statistics
Coefficient	18.420	9.667	17.252	5.423
Microfinance variables				
Size of asset loan	0.262	2.893	0.653	2.922
Duration of asset loan	7.020	0.524	2.423	2.524
Repayment of asset loan	-0.131	3.423	-0.082	2.524
Loan Utilization	0.065	2.161	0.625	1.544
R – squared	0.776		0.872	
Adjusted R-Squared	0.796		0.888	
F-test statistics	3.543		2.612	
Probability F-statistic	0.03		0.02	

Source: Field survey, 2015

On microfinance variables, result on size of assets loan on expansion capacity of the SMEs shows that a unit increase in assets loan will increase sales growth by 0.26% for small firms and 0.65% for medium firms. The result is also statistically significant judging by the fact that both t-statistics are greater than two. This implies that small loans enhance the trading capacity of the SME. Duration of asset loan shows a positive correlation with sales growth for both small and medium size enterprises for the period under consideration. This correlation is also statistically significant implying that the duration of the asset loan has a meaningful impact on the growth of SMEs.

On repayment of asset loan, the result obtained shows a negative correlation with sales growth for both

small and medium enterprises. From the result it can be seen that as the frequency of repayment is increased, sales growth will decrease by 0.13% for small firms and 0.08% for medium firms. Furthermore, this result is statistically significant as the t-statistics are both greater than 2. This significance can also be seen in the positive correlation between the dependent variable and the utilization of asset loan for both small and medium enterprises. The adjusted R^2 obtained here is also acceptable.

The decision rule is that we reject the null hypothesis, if the calculated F-value is greater that the critical F-value or if the probability of the F-statistic is less than 0.05. In this case, the probability of f-statistic value is less than 0.05 in both cases. Therefore the null hypothesis is rejected here. Thus it is concluded here that microfinancing does enhance growth of SMEs in Nigeria.

As regards the second hypothesis, the impact of non-financial services of microfinance banks in Nigeria on business performance of SMEs was also measured. The table below presents the results for the small firms' sample and medium firms' sample. The intercept or coefficient shows the value of the dependent variable (Gross profit), when all the independent variables are zero. The result obtained showed 24.46% for small firms and 14.62% for medium firms. The result obtained is also significant as both t-statistics are greater than 2.

Table 4.2   Multiple regression result for hypothesis two

	Small Firms Coefficient t-statistic		Medium Firms Coefficient t-statistic	
Constant	24.46	3.452	14.62	3.511
Advisory service	1.423	2.222	2.264	0.334
Pre-loan training	6.243	4.652	3.149	4.245
Group membership	5.525	0.798	3.219	3.342
Cross guaranteeship	8.798	3.365	-0.876	3.213
Networking Meetings	0.445	4.414	2.082	3.244
R – squared	0.882		0.762	
Adjusted R-Squared	0.894		0.883	
F-test statistics	8.244		3.409	
Probability F-statistic	0.01		0.00	

Source: Field survey, 2015

The results obtained revealed that the magnitude of the coefficient for advisory services is consistent with microfinance theory and significant at 5% for the small firms column. The result implies for one additional unit of advisory service received by the small firm entrepreneurs, the gross profit margin, which is the proxy for performance, increased by 1.42. The result obtained also show that a unit increase in advisory services increases the level of performance for medium firm operators by 2.264, but the result is not significant; hence it cannot be used for any inferences. Thus SMEs consider advisory services offered by MFBs as relevant to their business. Also, the result on pre-loan training was found to be positively correlated with business performance. The result revealed that an increase in pre-loan training brings about 6.24% increase in business performance for the small firm sample and 3.15% for the medium firm sample. This is statistically significant at 1% and confirms the prior empirical findings of Alege and Ogunrinola (2008). The result on group membership also shows a positive correlation between business performance and group membership. The magnitude of the coefficient for group membership is consistent with microfinance theory and significant at 1% for the medium firms but not statistically significant for small firms. The result shows that group membership practice enhances business performance by 3.22% for the medium firms and 5.52% for small firms. On cross guaranteeship of members by other members of the group, the result obtained revealed that cross guaranteeship enhances performance by 8.8% for the small firm sample. But the result obtained for the medium firm sample shows a negative correlation between cross guaranteeship and business performance of medium firm operators. The result revealed that as cross guaranteeship is enforced business performance drops by 0.9%; the result is statistically significant at 1%. This may be due to the nature of the level of business of medium firm operators. Most medium scale enterprises operate on a level higher than small enterprises hence micro financing may not be the most appropriate method of financing such enterprise. Many MFBs organize meetings to pull people in the same line of business together so that they may share experience to enhance business growth. The result obtained confirmed that such meetings enhance business performance for SMEs entrepreneurs. The magnitude of the coefficient of networking meetings is consistent with microfinance theory and business practice. The result obtained revealed that a unit increase in networking meetings increases gross profit by 0.45% for the small firm sample and 2.1% for medium firms. The results obtained are all statistically significant. The adjusted coefficient of determination R^2 of 0.89 and 0.88 for the small firm and medium firm sample respectively show the fitness of the estimated model. The F-statistics of 8.24 and 3.41 show the overall fitness of the estimate and because the estimate is statistically

Research Journal of Finance and Accounting
www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.8, 2015

significant, the null hypothesis is rejected here the alternative hypothesis is accepted which implies that the non-financial services rendered by MFBs to their customers enhance their business performance.

SECTION FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS
5.1 Summary
This research work was carried out in order to ascertain the contributions of MFIs to the growth and performance of SMEs. These contributions were examined based on the financial and non financial perspective. In order to present a solid basis for this work, theoretical and empirical literature relating to this study were reviewed. Furthermore, hypotheses were created in order to be able to fully ascertain the level of these contributions.

The data collected were analysed using multi regression analysis. This revealed major findings as regards the contributions of MFBs to SMEs in Nigeria. According to the findings of this study, the growth and performance level of the SMEs depends largely on the activities of SMEs operating in that vicinity. Variables like loan size, loan duration (financial variables), networking meetings and cross guaranteeship (non-financial variables) were found to have a positive impact on SMEs. The study thus confirmed the positive contributions of MFBs towards promoting SMEs performance and growth.

5.2 Conclusions
Entrepreneurs in the small and medium sector of the economy in Nigeria require access to finance for their businesses to grow. 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 SMEs. Therefore MFBs contributes significantly to an enhanced entrepreneurial environment by making the business environment more conducive and narrows the resource gap for small businesses.

Based on findings from this study, the use of MFBs has potentials for enhancing the performance of small businesses in two ways- regular participation in microfinancing and offering of non – financial services. This suggests that government policies aimed at promoting the performance of SMEs should also address the financial and non-financial activities of the MFBS.

5.3 Recommendations
To ensure that MFBs contribute meaningfully to the growth and development of SMEs in Nigeria, the following recommendations are hereby proffered.
- SME operators should utilize the benefits of MFBs to promoting their business outfits so that the economy as a whole is improved in performance
- Government should regulate and monitor the activities of MFBs to redress the identified weaknesses.
- Government and MFBs themselves should enhance the out-reach of microfinance through creating awareness of the activities and operations to SMEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme.
- Government should also ensure active operation of the SME Credit Guarantee Scheme to improve credit providers' exposure to longer term debt issued by small firm managers, in such areas as business plan development, feasibility studies, project monitoring and analysis, book keeping and accounting, performance evaluation etc. this could be organized before entry into business or early in the business when it is having access to equity finance. This is essential in order to facilitate the qualification of the business for credits to leverage its equity capital as going-on concern.
- Government should provide a congenial environment for the operation of venture capital and business angels financing (business entrepreneurial monitoring) so as to enable them to provide risky start-up capital for small business.

References
Aderemi, A. (2003). *Small and medium scale enterprises: The Nigerian situation,* Retrieved from www.capitalpartnersltd.com/Small%20Medium%20Scale.ppt

Alege, P.O. & Ogunrinola, I.O. (2008). *Economic reforms in the financial services sector and the growth of the Nigerian economy,* Lagos, Journal of banking, finance and economic issues*, 2(1),50-76. ISSN 2006-3776.

Bekele, E. & Zeleke, W. (2008), *Factors that affect the long-term survival of micro, small and medium enterprises in Ethiopia*, South African journal of economics*, 76(3),1-33.

Berger,A. N. & Udell,G. F.(1998).*The economics of small business finance: the roles of private equity and debt markets in the financial growth circle*, Journal of banking and finance, 9(22), 873-897.

Carpenter, R. E. & Petersen, B.C. (2002). *Is the growth of small firms constrained by internal finance?,* The review of economics and statistics, MIT Press, 84(2), 298-309.

Ehigiamusoe, G. (2005).T*ested institutional practices for effective microfinance services delivery:* Seminar in microfinance policy, regulatory and supervisory framework for Nigeria.

Holmes, S. & Kent, P. (1991). *An empirical analysis of the financial structure of small and large Australian manufacturing enterprises.* Journal of small business finance, 1(2).

Karlan, D and Valdiva, M. (2006). *Teaching entrepreneurship. Impact of business training on microfinance institutions and clients.* Yale, University economic growth center working paper.

Lawson, B. (2007). *Access to finance for SMEs*, Retrieved from http://www.cenbank.org/fss/mon/FSS2020Presentation%20at%20International%20Conference.ppt

Makokha, M. (2006). *Gender and entrepreneurship in Kenya: a comparative analysis of male-female's start up motivation, individual characteristics and perceptions of business success,* PHD thesis, University of Dar es Salaam.

Obamuyi, T.M. (2007). *An exploratory study of loan delinquency among small and medium enterprises (SMEs) in Ondo state of Nigeria,* Land and management in development (LMD) journal, 8(1)

SMEDAN (2007). *National policy on micro, small and medium enterprises.* Retrieved 20/11/2014 from http://www.smedan.gov.ng/search.php?searWords=National%20policy%20on%20MSMEs.

Stigilitz, J.E. & Weiss, A. (1981). *Credit rationing in markets with imperfect information.* Retrieved from http://socsci2.ucsd.edu/~aronatas/project/academic/Stiglitz%20credit.pdf

Weston, J. F. & Brigham, E.F.(1981). *Managerial finance*, 7th ed., Dryden Press, Hinsdale

Wikipedia (2015), *Contract theory.* Retrieved from http://en.wikipedia.org/wiki/Contract_theory

Yaron, J., Benjamin and Piperk, S. (1997). *Rural finance issues designed and world practice,* Washington, Agriculture and natural resources development

Yumkella, K. & Vinanchiarachi, J. (2003). *Leading issues on Africa's path to industrialization: the role of support systems and instruments*, Journal of African economies, 12(1), 30-40

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/   All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Academic conference: http://www.iiste.org/conference/upcoming-conferences-call-for-paper/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar