

# Microfinance Banks and the Growth of Small Scale Enterprises in Cross River State

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## Abstract

This study examined microfinance banks and the growth of small scale enterprises with particular reference to Cross River State, Nigeria. The research design was descriptive survey. The instruments used in collecting data were questionnaire and personal interview. The data collected were analyzed using simple percentage and Pearson product moment correlation. The results of the analysis showed that microfinance banks services impacted the development of small scale enterprises. It was found that microfinance banks do not carry out adequate awareness campaign programme in order to increase patronage. It was found that most small scale entrepreneurs who procure loans from microfinance banks hardly put it to use in growing their businesses. It was recommended that microfinance banks should create adequate public awareness campaigns especially utilizing the electronic media. Also, microfinance banks should review the requirement for granting loans to small scale enterprises. The study recommended that microfinance banks should have task force or teams to monitor how the loan granted to any small scale entrepreneur are being utilized.

**Keywords:** microfinance banks, small scale enterprises

## 1. Introduction

The contribution of small scale businesses to economic growth has been recognized worldwide, they are very necessary for economic growth in developing countries like Nigeria. The importance of small scale business cannot be over emphasized, as they contribute to employment generation, income equality, production of goods and services as well as improved standard of living and rapid industrialization. Small scale businesses can foster economic and social growth in Nigeria, as they are the back bone of the Nigeria economy. In Nigeria, one of the greatest challenges small businesses face is accessibility to funds because the commercial banks traditionally lend to medium and large enterprises which are judged to be credit worthy (Mahjabeen, 2018). They avoid doing business with the 'poor' and their micro enterprises because of the associated cost and risk that are considered to be relatively high. Even where loan facilities are readily obtainable, they may not be able to muster the needed collateral to access it: this circumstance has led to many of the small business operators shutting down their businesses resulting to loss of many skilled, semi-skilled and unskilled jobs all over the country.

Microfinance banks have other therefore become the main source of funding for small scale businesses in Nigeria and other developing countries. Small scale business medium enterprises have been defined differently at various times by different countries. In Nigeria, according to Oshagbemi (2015), in the past two decades, creating access to financial services for owners of small scale enterprises has been identified as a key factor to enhancing development in our society. The medium and small scale enterprises are increasingly turning to microfinance institutions for financial services of various types and sizes.

Lending to small scale enterprises is no longer a nice thing to do but is equally profitable as the microfinance has

left the domain of charity. Microfinance has been acknowledged as an important instrument for meaningful development. Strategies for delivering financial services to medium and small scale industries has become a feature of major development policies and initiatives of international and national development agencies. National and State governments incorporate financial intermediation, which primarily focuses on alleviating poverty through provision of financial services to the poor and assisting the small scale industries or enterprises to grow. Service users who often benefit from microfinance banks include; artisans, small time farmers, food vendors, petty traders and those entrepreneurs operating small scale business (Mahjabeen, 2018).

The concept of financing small scale enterprises in order to bring about development in our nation has occupied a central place in the planning process of the Central Bank of Nigeria. This is why the recurrent policy guidelines of the bank stress the need for financial institutions to focus on the financing of small scale sector with a view to stimulating an economy to attain development (Strans, 2014). This study is aimed at ascertaining the level of contribution Microfinance banks make towards the growth of small scale enterprises in Cross River State. This research work has the following objectives:

- i. To find out if Microfinance Banks in Cross River State also carry out adequate awareness campaigns to reach out to small scale enterprises about their services.
- ii. To find out if the collateral/requirement needed by Microfinance Banks is such that small scale enterprises can afford.
- iii. To find out if the loans granted to small scale enterprises by Microfinance Banks are actually put to use in developing their businesses.
- iv. To find out if Microfinance Banks carry out orientation and explain the procedure for obtaining and repaying of loans to small scale entrepreneurs.

## 2. Theoretical Framework

Microfinance banks have a broad category of services they render, which include savings, customers' loans, micro-leasing, micro-insurance, money transfers, micro-investment services and entrepreneurial trainings. Due to the broad range of microfinance services, it is difficult to assess its impact on the economic growth of the society. However, very few studies have been carried out to assess its impact on the society (Sule, 2016). Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small scale businesses which lack access to banking and related services due to the high transaction cost associated with obtaining such services from the mainstream financial institutions (Clifford, 2022).

Microfinance is usually conceived as the provision of small units of financial services to low-income clients who are usually excluded from mainstream financial systems. It is a form of financial intermediation which primarily focuses on alleviating poverty through provision of financial services to the poor or owner of microenterprises (Ehigiamusoe, 2015). Mahjabeen (2018), has it that, across developing countries, micro, small and medium enterprises (SMEs) are turning to microfinance institutions (MFIS) for array of financial services; this is because microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development goals (MDGs) which are: poverty and hunger reduction, universal primary education, reduction of child mortality, combating diseases, malaria eradication and environmental sustainability.

Access to sustainable financial services enables owners of micro-enterprises to provide income, build assets and reduce their vulnerability to external shocks. The primary objective of micro finance institutions is to provide financial services to the poor in order to reduce financial constraints and help alleviate poverty (Ehigiamusoe, 2015). The provision of credit to the poor serves two purposes; first as borrowed capital invested in small enterprises, it often results in significant short-term increase in household expenditure and welfare. Secondly, micro-enterprises credit spurs economic growth in the informal sector through fostering increase capitalization of businesses, employment creation and long-term income growth (Kevin & Wydick, 2021).

Microfinance is gaining general acceptance globally. A small loan, a saving account, is an affordable way to send and pay cheques which can make all the difference to a low income family or to a small scale enterprise. With access to microfinance, people can earn more and better protect themselves against unexpected losses and setbacks. With such ability to collateralize their assets, they can move beyond day-to-day survival towards planning their future (Ekpung, 2021). Small scale enterprises basically depend on funding from microfinance institutions for their growth and development. There is no general accepted definition of small scale business enterprise, as different scholars or writers base their definitions on different criteria such as number of employees, annual turnover, capital employed etc. It varies across nations and level of development at a given period of time. In practice, many standards have been adopted at various times to suit some particular government assistance programmes, legislature or research studies.

The Center for Management Science, Delf University of Netherland defines small scale enterprise as any

business in which the manager personally influences decision making without actually taking part in the production. The International Labour Organization (ILO), defines the concept of “small scale industries” to cover industries consisting of small firms from household and cottage establishments to medium size factories. A small firm is also seen as any kind of economic activities that financed by an individual or a small group of persons (Sule, 2016).

### **3. Benefits and Challenges of Microfinance Bank**

The use of microfinance in Nigeria has existed for a very long time, mostly through informal microfinance activities without government policies and regulations. The CBN (2014) noticed that microfinance institutions grew as a result of the failure of the formal financial institutions to provide financial services to the poor. Microfinance institutions can be grouped into formal and informal institutions. The formal consists of banks, while the latter include cooperative societies, self-help groups etc. Several microfinance programmers and institutions have been established by both governmental and non-governmental agencies, to promote economic growth and development in the country by increasing and improving the productive capacity and living standard of the poor. Informal microfinance groups include: Esusu/Itutu/Adashai, daily/periodic contribution. The Nigeria Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperation Bank (NACB) etc.

### **4. Benefits of Microfinance Bank in Nigeria**

The primary purpose of establishing microfinance banks in Nigeria was poverty alleviation through the provision of financial services to the poor. By providing these services, the microfinance banks can contribute to the wellbeing of the economy through the following ways;

- a) Enhancement of savings and investment opportunities where they mobilize local savings into production activities, thereby contributing to the growth of the economy.
- b) Improve income distribution of the Nigeria population
- c) They encourage rural industrialization thereby reducing rural-urban migration.
- d) They encourage entrepreneurship behaviour among the youths by providing them with financial services which would allow them engage in economic activities and become self-reliant. By doing this, microfinance banks help tackle the problem of poverty and unemployment.

### **5. The Challenges of Microfinance Banks**

The expanding microfinance industry in Nigeria faces enormous challenges. The first challenge is for the microfinance banks to reach a greater number of the poor (Ajie, 2021). There is also no policy framework that regulates the establishment, operations and activities of microfinance banks in Nigeria. This encourages multiple standards and lack of uniformity in financial transactions. Another challenge of the microfinance bank is that of real sector activities especially agriculture and manufacturing which are less funded by it, instead, the bulk of the microfinance bank funding goes to commerce. Again, Ajie, (2021) noted that currently, only about 14.1 and 3.5 percent went to agriculture and manufacturing while 78.4 percent went to commerce. All these factors among others contribute to small scale businesses’ inability to access funds hence making the establishment of small scale businesses still very low.

Adeyemi, (2018) established some of the problems faced by microfinance banks to be undercapitalization, inefficient management, which has impinged on their ability to perform. Also, Nwanyanwu, (2021) cited diversion of funds, inadequate finance, and inconsistency of government policies, huge loan losses as hindrances to the growth of this subsector. Kanu and Isu (2015) cited the following as constraints faced by microfinance banks: Low capital base, insiders abuse, inadequate business opportunity in Nigeria, change in government policies, and focusing on the wrong group of customers.

### **6. Sources of Fund for Small Scale Enterprises**

Small and medium enterprises remain one of the most reviewed topics in literature, especially as its impact on all kind of economics cannot be overlooked. Worldwide, the small and medium enterprises have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The labour intensity of the small and medium enterprises over 90 percent of total enterprises in most of the economies and is credited with generating the highest rate of employment growth and account for major share of industrial production and export (Government of India, 2017) and the rapid expansion of small enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as a dynamic and innovative factor, they contribute directly to the economic growth. However, the small medium enterprises sector is faced with many constraints. Among them is the most pressing one know to be financing.

## 7. Methodology

Research design is the structuring of the research with a view in discovering an insight for a particular study. Research design adopted for this study was the survey design where the research study is interested in observing the relationship between microfinance banks operations and development of small scale industries in Cross River State. Here, the explanatory design approach was used where data were collected to answer research questions of explaining the relationship among variables.

A good research design should be able to give adequate response to research questions and test research hypothesis. This research was designed to evaluate the relationship between microfinance banks and development of small scale enterprises in Cross River State. There are two sources of data. These are primary and secondary sources. The primary sources of data involve acquiring information directly from the field. This involves personal interview, field observation and questionnaire. The second source is the secondary sources. This form of information can be derived from published materials, examples are textbooks, journals, newspapers and government materials. But for the purpose of this paper, every relevant information collected constitutes the later.

The simple percentages were used to grade responses on data gathered. Both descriptive and inferential statistics were for the data analysis. Frequency distribution and percentage were used to summarize the data with respect to the variable of the study. Pearson Product Moment Correlation was used to test the hypotheses. The nature of the problems to be used often give rise to the choice of model for such problem to be solved, on this note, Pearson Product Correlation coefficient is seen to be the most appropriate model for the correlation between two variables called:

x = Dependent variables

y = Independent variables

The Pearson Product Correlation coefficient formula is given below:

$$r = \frac{n\epsilon xy(\epsilon x)(\epsilon y)^2}{\sqrt{[n\epsilon x^2 - (\epsilon x)^2][n\epsilon y^2 - (\epsilon y)^2]}}$$

r = Correlation coefficient

n = Sample size

x = independent variable

y = dependent variable

## 8. Findings

This research study was based on microfinance banks and the growth of small scale enterprises in Cross River State. This study has been empirically investigated and extensively discussed. Positive and significant relationship has been established between microfinance banks and the development of small scale enterprises in Cross River State. The researcher made analysis on the bases of the hypotheses proposed from the inception of the study. The analysis of the four major hypotheses proposed helped the researcher to know the level of impact of microfinance banks have towards the growth of small enterprises.

The findings made in this study were as follows:

- i. Microfinance banks need to improve on awareness campaign programmes in order to increase patronage and further impact on the growth of small scale enterprises in Cross River State.
- ii. Microfinance banks loan policies, makes access to loans by small scale enterprises very difficult as most enterprises cannot afford the requirement for obtaining loans.
- iii. Most small scale entrepreneurs who succeed in securing loans from microfinance banks hardly put it to use in growing their businesses.
- iv. Most small scale entrepreneurs in Cross River State lack the requisite training on how to manage and develop their businesses or enterprises.
- v. Services rendered by microfinance banks have to a great extent helped in the growth of small scale enterprises in Cross River State.

## 9. Recommendations

From the various findings made in the course of this study, the researcher hereby offers the following recommendations:

- i. Microfinance banks should engage in public awareness campaign by utilizing the electronic media such as television and radio to reach out to small scale enterprises on the type of services they render and how it can benefit them.
- ii. Microfinance banks should review the requirements for granting loans to small scale enterprises, by not asking for what is difficult to afford as collateral for such loans, also excessive interest rates should be discouraged.
- iii. Microfinance banks should have a taskforce or team in place to be monitoring how the loan granted to any small scale entrepreneur is being utilized in developing the businesses to avoid funds being diverted to other personal needs.
- iv. The government in conjunction with microfinance banks staff should organize periodic orientation for small scale enterprise owners on the procedure for obtaining loans to expand their business as this will enhance the implementation of the National Economic Empowerment and Development Strategy (NEEDS) of the Federal Government of Nigeria.

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