



Exploring the Role of Microfinance Banks in Financing Small and Medium Enterprises in Adamawa State.

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ABSTRACT

This study is aimed at exploring the role microfinance banks (MFBs) in financing small and medium enterprises (SMEs) in Nigeria with reference to Adamawa State. SMEs are seen to play an important role in the development of any country. The study has the following objectives: to examine the impact of financial services of MFBs on the growth of SMEs in Adamawa State, to examine the access and utilization of funds by SMEs from MFBs in Adamawa State, to identify the challenges faced by microfinance banks and SMEs in achieving mutual benefits. The methodology of this paper is the critical analysis of secondary data sources from five (Standard microfinance bank, Brethren microfinance bank and Ummah microfinance bank, Bonghe microfinance, bank and Michika microfinance bank) MFBs selected across the three senatorial zones of the state and random response from various SMEs operators through purposive method of sampling. The study is of significance to Adamawa State and the nation at large because the findings revealed that microfinance banks are catalyst to the development of some SMEs in Adamawa. It also revealed that many MFBs don't give enough cash (loan) required by most SMEs due high number of defaults. The findings also revealed that there is also weak liquidity by most MFBs in Adamawa State.

Keywords: Small, medium scale, enterprises, microfinance banks, liquidity

1.0 Introduction

In Nigerian, microfinance banks are institutions established as a company, licensed to carry on the business of providing microfinance services such as micro credit loans, insurance, money transfer services and other non-financial services that are needed by the poor as well as the small-holder or micro enterprises. Microfinance banks are licensed to operate as a unit to meet the financial needs of clients who supposed to be mostly the poor and the low-income earners in a particular community. As a matter of fact, microfinance banks are supposed to be community/rural oriented but what we are seeing in Nigeria today is a sort of misdirected location target from community to macro settings as most of them are located in the urban cities without having a particular community as a target. (Chioma, Esther & Chinelo, 2014)

Microfinance has gained prominence as a tool for poverty alleviation and economic development, specifically targeting SMEs in developing countries. Like in Adamawa, most MFBs believed that financial education is catalyst for developing the under privileged. Effects of financial inclusion are optimized through financial education. Every micro borrower goes through a structured financial education and entrepreneurship development programme, which is relatively free. Nigeria, as a developing economy, has seen the emergence of numerous microfinance banks aimed at providing financial services to the unbanked or underserved SMEs segment. 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 (Emmanuel & Ikenna 2015). This is because the small and medium scale enterprises (SMEs) are seen as potent vehicle for the achievement of economic growth and development as they provide the best opportunity for job creation and rural development. Throughout the process of financial deregulation and modernization, the government and Central Bank of Nigeria have developed a number of financial services programme that target these small scale industries and local operators to encourage self-sufficiency and promote main-stream financial transactions.

The need for financial inclusion by the Nigerian government necessitated the creation of micro finance banks in Nigeria in 2005 Onofowokan, (2020). According to Bello & Yusuf, (2020) the Nigerian government has implemented various initiatives and support programs, such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), to provide financial assistance, business development services, and capacity-building programmes to empower and enhance the competitiveness of SMEs.

The role of Adamawa state government in promoting SMEs is seen recently in the work of an agency named Poverty Alleviation and Wealth Creation Agency (PAWECA). PAWECA was created as an Agency under the ministry of entrepreneurship development, Adamawa State on July 2020, with the aim of providing various empowerment programmes to the youth, women and vulnerable groups in the society, and to enhance the micro-economic

development of the state and provide intervention on basic/primary issues, geared towards value re-orientation and integration. But the big question is why poverty level is high especially in Adamawa state? The study is aimed in exploring the role of Microfinance Banks in Financing Small and Medium Enterprises in Adamawa State, Nigeria.

1.1 The role of Microfinance banks and Small and Medium Enterprises

The informal sector (non-farm) has been a growing source of employment for a large section of the African youths, but also for older workers trying to seize entrepreneurial opportunities. Its contribution to GDP and poverty reduction has been substantial, and it has become a major point of entry into the labor market (AFDB, 2019). Small and medium-sized enterprises (SMEs) make crucial contributions to job creation and income generation. The promotion of SMEs has been a key area of intervention in recent years in view of the major employment challenges (ILO, 2015). Small and medium-sized enterprises play a key role in job creation, providing two-thirds of all formal jobs in developing countries and 80% in low-income countries. The sustained success of SMEs depends on local conditions, such as public services, good corporate laws and access to finance (EDFI, 2016). In addition, MSEs provides a substantial collective contribution to the national economy, contribute more than 50% of most African GDP and an average of 60% of employment. It employs the vast majority of any local labor force and has an integral role in any sustainable growth trajectory and it is 'the missing link' for inclusive growth (Muiruri, 2017)

Majority of SMEs in Nigeria have remained relatively small and experienced 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 Emmanuel & Ikenna (2015). 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 are the major reasons for the failure of past microfinance initiatives in the country and it is still seen today. Against this background this study is aimed at exploring the role of microfinance banks in financing small and medium enterprises in Nigeria with reference to Adamawa State.

1.2 Contribution of MFBs to the development of SMEs in Adamawa State

Microfinance banks contributions are enormous considering the fact that SMEs if managed well have the capacity to drive the economy of Nigeria, hence, increase in GDP Bello and Yusuf, (2020). The majority of Adamawa populace have no bank accounts with normal banking institutions and the MFBs is target at this category of population. Microfinance banks have made it possible for many people operating SMEs to have bank accounts.

2.0 Theoretical Framework

The theoretical frameworks provide a foundation for understanding and analyzing the dynamics, challenges, and opportunities within these sectors.

2.0.1 Entrepreneurial Orientation (EO):

EO emphasizes the entrepreneurial mindset and strategic orientations of SMEs, including their proactiveness, innovativeness, and risk-taking behavior. It suggests that SMEs with higher entrepreneurial orientation are more likely to achieve sustainable growth and performance. Lumpkin & Dess, (1996)

2.0.2 Financial Intermediation Theory:

This theory explains the role of MFBs as intermediaries between savers/investors and borrowers. It emphasizes that MFBs mobilize savings from individuals and then provide loans and other financial services to micro and small entrepreneurs who lack access to traditional financial institutions. Stiglitz & Weiss, (1981).

2.1 Conceptual Review

Small and medium enterprises and microfinance banks play significant roles in the development of an economy, especially in emerging markets. Several studies highlighted the importance and impact of SMEs and MFBs on economic growth and poverty reduction. Small and medium enterprises are essential drivers of economic growth, job creation, and poverty alleviation. They are typically defined by the number of employees and annual turnover. According to the European Commission as quoted by Armendáriz & Jonathan (2010), SMEs have a key role in innovation, contributing to around 85% of new job creation in certain sectors.

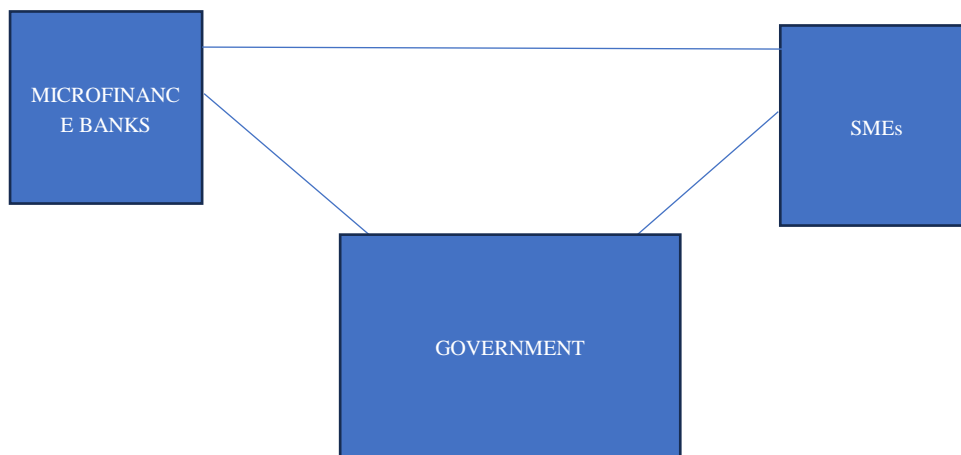
Micro finance banks, on the other hand, are financial institutions that provide financial services to the unbanked and underbanked population, mainly microenterprises, low-income individuals, and households. These institutions focus on financial inclusion, ensuring access to credit and other financial services to those who are excluded from the traditional banking sector. Armendáriz & Jonathan (2010).

According to Aderemi and Adesina (2018), the assistance of the microfinance banks in funding small scale enterprises through micro financial inclusion will considerably lead to increased efficiency of operation and national economic advancement of a country. Where the hidden potentials and creativity

embedded in our local entrepreneurs talents will be optimally maximized in boosting local production when funds are made available at affordable rate. Few among the significant roles played by the SMEs are as follows: First, provision of training ground for the development and growth of indigenous entrepreneurs. Second, transformation of traditional industries in both developed and developing countries into vibrant modern sectors. Third, usage of available cheap local resources, both human resources (labour) and raw material resources is applause to SMEs. Fourth, assisting in the dispersal of economic activities through encouraging the development and modernization of such activities outside the major metropolitan. Fifth, mobilizing financial resources which would otherwise be idle or untapped by the formal financial sector is a big score to SMEs. Sixth, facilitating of the conservation of foreign exchange and the development of the scarce resources of management in developing

2.1.1 Conceptual framework

It is important that government intervene in this circle by providing smooth playing ground for both MFBs and SMEs. For microfinance banks, government should try and give more licenses for the establishment of MFBs in rural communities and also assist them with financial assets. For the SMEs, government should create more awareness and sensitization for people in the rural communities to utilize MFBs, hence, promote financial inclusion.



2.2 Empirical Review

In the work of Hossain (2019), he examined the impact of microfinance on SME development, focusing on various dimensions such as access to finance, business performance, and poverty reduction, which he said has a positive impact on the economy which is in line with the study of Armendariz & Jonathan, (2010) where an in-depth analysis of the impact of SMEs financing by MFBs was carried out.

In the same vein, the study of Okpukpara & Isioma, (2020) investigated the relationship between microfinance institutions, entrepreneurial skills, and SME performance in Nigeria. It examines how MFBs enhance entrepreneurial skills among SME owners and the subsequent impact on business growth and productivity.

3.0 METHODOLOGY

The methodology of this paper is the critical analysis of secondary data sources from five MFBs selected across the three senatorial zones of the state and random response from various SMEs operators through purposive method of sampling where one hundred and fifty-five questionnaires were administered. The information was looked into and findings were discussed. The scope of the study are all microfinance banks and small and medium enterprises in Adamawa State. But the study limited itself to five selected MBFs comprising three from the central senatorial zone (Standard microfinance bank, Brethren microfinance bank and Ummah microfinance bank and one each from southern and northern senatorial zones which are Bonghe microfinance bank and Michika microfinance bank respectively) to guide the study.

The area of the study is Adamawa State. Adamawa State is located in the north east Nigeria. Majority of the populace are farmers and petty traders scattered in all the 21 LGAs of the State.

3.1 RESULT AND DISCUSSION

Table 1: Perception respondent on Weak Liquidity

Option	SA	A	U	D	SD
Respond	70	50	5	15	10

from the table above a total of 150 respond from the respondent shows that MFB have weak liquidity, this happens as a result of number that strongly agreed and agreed having the higher percentage of 47% and 33% respectively

Table 2: Perception respondent on Fund usage

Option	SA	A	U	D	SD
Respond	60	70	0	20	10

The respond agree that most SMEs do not apply the fund for the intended purposes, this is indicated in the respond where 40% and 47% strongly agreed and agreed respectively.

Table 3: Perception respondent on Loan defaulters

Option	SA	A	U	D	SD
Respond	40	50	30	10	20

The result from the table shown above indicated that 27% strongly agreed that there is high rate of loan defaulters while 33% agreed to the statement. 20% were undecided due to low level of Knowledge concerning SMEs loan.

Table 4: Perception respondent on inadequate security

Option	SA	A	U	D	SD
Respond	74	36	0	20	10

The study also found out that inadequate security in rural communities have hindered the establishment of MFBs which is shown in the table were 49% strongly agreed, 24% agreed there is inadequate security.

Table 5: Perception respondent on increase income

Option	SA	A	U	D	SD
Respond	66	40	04	08	22

SMEs owners have increase their business ventures due to access to loan facilities from MFBs as indicated on the table, where 44% strongly agreed, 27% agreed, 3%undecided, 5%disagreed and 15% strongly disagreed. This result is in line with the provision given by African Development bank (AFDB) 2019.

3.2 CONCLUSION

The importance of microfinance banks in providing financial inclusion to farmers and SMEs operators, cannot be overemphasized if proper things are done: awareness and enlightenment to SMEs on business operations and judicious financial usage are carried out.

The main challenges to SMEs contribution to local economic development in Adamawa state are inadequate access to finance, lack of business skills, poor market access, and lack of operating space or business environments. The challenges such as lack of access to finance, weak entrepreneurial attitudes, government policies, regulations and practices for entrepreneurs, and training are main constraints to SMEs developing nations. Financing SMEs through MBFs 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.

3.3 RECOMMENDATIONS

The study has the following recommendations:

1. Government (federal, state and local governments) should embark on more awareness and sensitization on the importance of financing SMEs businesses through MFBs funds and also need to avoid defaulting
2. Government should also assist MFBs financial capacity in order for them to give credit and loan facilities to SMEs.
3. There should be more MFBs in the rural communities of Adamawa state in order to promote financial inclusion

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