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IMPACT OF MICROFINANCE BANK ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MAIDUGURI METROPOLIS, NIGERIA

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Abstract

This study assess the impact of microfinance bank on the performance of small and medium enterprises in Maiduguri metropolis Borno State, Nigeria. The study examines the effect of employment generation on profitability, assess the effect of loan utilisation on sales growth and examine the effect of wealth creation on market share. The population of the study was three thousand five hundred and thirty-six (3536) customers of the three (3) selected microfinance banks in Maiduguri metropolis Borno State, Nigeria. While sample size of the study was three hundred and fifty-nine (359) respondents from the study population using Yamane (1967) formula. Data was collected by used od structured questionnaire which were administered to the respondents. The study used descriptive and inferential statistical tool for data analysis. The data collected was analysed through multiple regression with the aid of statistical package for social sciences (SPSS) version 20.7. The finding of the study revealed that there is a significant effect between employment generation and profitability, there is a significant effect between loan utilisation and sales volume and there is a significant effect between wealth creation and market share. The study concludes that microfinance bank has been a source of finance for people in the local government area has performed below expectation in terms of making financial services accessible to large segment of the productive which would have little or no access to financial inclusion. The study recommends that

Keywords:
Microfinance, Small and Medium Enterprises, Performance, Employment Generation, Loan

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government should regulate and monitor the activities of banks to redress the problems that affecting them in the area of financial intermediation for employment, government should also give out soft loan to the financial institutions so as to reduce cost of obtaining funds that will used for loan by the bank client through the ability of beneficiaries which lead to wealth creation in the grass root.

Introduction

Small and medium scale enterprise contributions to economic growth and developments have been recognized globally. SMEs are the panacea for economic development of many developing countries. They believe that interest on SMEs would contribute to creation of jobs, reduction in income disparity production of goods and services in the economy, as well as providing a fertile ground for skill development and acquisition, serve as mechanism for backward integration and development especially on modifying and perfection emerging technological breakthrough (Ofoeghu et al, 2013).

Similarly, SMEs contribute to improved living standards bring about substantial local capital formation and achieve high level of productivity and capability. They are recognised as the principal means of achieving equitable vehicle for self-sustaining industrial development as they possess the capability to grow an indigenous enterprises culture more than any other strategy. They also represent the sub sector of special focus in any meaningful economic restricting program that targets employment generation, poverty, rapid industrialization and reversing rural urban migration (Musa & Aisha, 2012).

Micro finance is an important factor in improving the performance of SMEs firms in Nigeria and strengthening rural economy in most developing countries. Micro finance scheme provides SMEs firms with the institutional support needed to generate a net profit and return on investment which may help them to achieve security. Micro finance has been considered as a primary means of rekindling and enhancing the performance of the SMEs firm in terms of net profit and return on investment in Nigeria. Efforts were made by the government to improve the economic situation of the country through the vehicle of large industry, but lately, emphasis has shifted to SMEs following the lesson's learnt from the success of SMEs in the economic growth. (Ojo, 2013).

The importance of micro finance is to eradicate poverty, with the aid of employment generation which is natural process of social development of human being that concern with sector but notable in manufacturing and organization the proven messiahs of poverty, loan utilization allows for growth in overall money supply in an economy and open up competition by lending to business. Wealth creation which is also crucial for improving the quality, number and variety of employment opportunity for the poor. Federal Government of Nigeria adopted it as the main source of poverty reduction in Nigeria and mandated the CBN to develop appropriate policy and framework for the

operations of micro finance. (Anyanwu, 2004). It is therefore necessary to undertake an assessment of the extent to which micro finance has impacted on poverty reduction in Maiduguri Metropolis Borno State, Nigeria.

The challenges faced by small and medium enterprises (SMEs) in Nigeria are majorly that of financing the business, access to fund has posed major challenges for start-up, investment and growth of SMEs. Lack of access of small and medium scale enterprises to credit has hampered their contribution to net profit margin and return on investment and this situation has led invariably to many of them closing shop, resulting in the loss of thousands of unskilled semi and skilled jobs across the country. Despite their proactive nature, performance of small and medium scale enterprise (SMEs) has been blighted because of inadequate access to finance production schedules and marketing which reduced their net profit margin and return on investment. Micro finance emerged as a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries. It conversation and range of financial service including loans deposits and payment services and insurance to the poor and low-income households and their micro enterprises.

However, there are few empirical evidences on the impact of micro finance on the performance of small and medium enterprises in Nigeria. Dunpima, (2017), Nnanna (2016) and Jogede and Kehinde (2011). However, none of these studies looked at the impact of micro finance bank on performance of small and medium enterprises in Maiduguri Metropolis. Thus leave a clear existing gap this work intends to fill

Conceptual and Theoretical Framework

Concept of Micro Finance

Microfinance refers to the provision of financial services to the rural and urban poor who are self-employed. According to Kirkpatrick and Maimbo, (2002) micro finance is wider than micro credit as it includes savings, credit, insurance and others. Implicatively, microfinance is an extension of micro credit services which include savings services to the low-income but economically active poor.

Microfinance is the study of loans, savings the other basic financial services to the poor who are traditional not served by the conventional financial institution. Micro finance is a term used to refer to different methods for giving poor people access to financial services. Irobi (2008) define micro finance as the provision of financial services such credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small business. Micro finance is defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit and may also include savings, insurance on credits and savings.

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Robinson (2010) defines micro finance as the supply of loans, savings and other basic financial services to the poor. Micro finance evolved as an economic development approach intended to benefit the low-income part of a given society, both men and women (Irobi, 2008). According to World Bank (2007), the term refers to provision of financial services (including saving and credit) to the poor. Micro finance banks therefore are institutions that are established to provide financial services to the poor. Microfinance institutions can be non-government organizations, savings and loan cooperatives, loan unions, government banks, commercials banks, or non-bank financial institutions (Lederwood, 2008) Micro financing is the provision of both credit and savings services to low income clients. It can also be described as the most realistic and vital channel for financing the poor (Osuji, 2005).

Small and Medium Scale Enterprises

Central Bank of Nigeria (2004) defined small-scale enterprises as enterprises whose annual turnover was not more than N500, 000. Federal government of Nigeria defined small-scale enterprises for purpose of commercial bank loans as those with an annual turnover not exceeding N500, 000. Merchant Bank loans, those enterprises with capital investment not exceeding 2 million naira (excluding cost of land) or a maximum of N5million. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale industries at N10 million. Section 37b(2) of the companies and Allied Matters Decree of 1990 defines a small company as one with an annual turnover of not more than N2mllion and net asset value of not than 1 million naira, (Ekpenyong & Nyong, 2019).

Small and Medium Scale Enterprises (SMEs) is defined based on certain criteria including, turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. (Etuk et al, 2014). United Kingdom States that enterprises with a turnover of less than £ 1.4 million was small, those with turnover between £1.4 and £5.7 million were medium, while those enterprises having turnover above £5.7 million were large. It also went further to classify the enterprises based on number of employees- those with fewer than 50 workers being small, between 50 and 250 workers being medium and those employing above 250 workers were described as being large (Etuk et al, 2014).

SME's is any enterprises employing less than 250 employees, and went further to break down the SMEs into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees) European Union, 2018). Small and Medium enterprises as defined by the National Council of Industries in Nigeria refers to business enterprises whose total costs; excluding land is not more than two hundred million naira (N200, 000,000.00) only (Onugu, 2005). In Britain for example, small scale business is conceived as that industry with annual turnover of N2million pound or less with fewer than 200 paid employees. It is conceptualized in Japan as a type of industry with a paid up capital and number of employee (Bakare & Babatunde, 2014).

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The Federal Ministry of Industries defines a medium-scale enterprises as any company with operating assets less than N200 million and employing less than 300 persons. A small-scale enterprise, on the other hand, is one that has total assets of less than N50 million, with less than 100 employees. Annual turnover will not be given consideration in the definition of an SME. The National Economic Reconstruction Fund (NERFUND) defines an SME as one whose total assets are less than N10 million, but makes no reference either to its annual turnover or the number of employees. The Small and Medium Industry Equity Investment Scheme (SMEIS), defined SME as any enterprises with a maximum asset base of N500 million, excluding land and working capital and with the number of employees not less than 10 or more than 300 (Eniola et al, 2015). Federal Government of Nigeria defined small scale enterprises for the purpose of commercial loans as those enterprises with annual turnover not exceeding N500, 000 and for merchant loan as those for the purpose of commercial loan as those enterprise with capital investment not exceeding N2 million (excluding cost of land or a maximum of N5 million) (Aremu & Adeyemi, 2011).

Concept of Performance

The performance level of most of these SMEs has been most unsatisfactory, as the problems of delay in delivery of services and high cost of service delivery has become a norm rather than an exception. In some other cases where the cost and time are within acceptable limits, the issue of customer satisfaction has often not been met simply due to the delivery of sub-standard outputs (Oforegbunam & Okorafor, 2010)

Performance is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account and it relates to the motive of maximizing profit both to the shareholders and on assets (Ishaya et al, 2014).

SMEs performance can be measured based on the variables that are involved in the productivity, returns, growth or even customer satisfaction. Financial performance (reflected in profit maximisation, maximising return on assets and maximising shareholders return) is based on the firm's efficiency (Mihaela, 2012). But Barbosa (2005), financial performance is based on the return on investment, residual income, earnings per share Dividend yield, price/earnings ratio, growth in sales and market capitalisation.

Performance is a core concept within work and organizational psychology. During the past 10 or 15 years, researchers have made progress in clarifying and extending the performance concept (Campbell, 2004). Moreover, advances have been made in specifying major predictors and processes associated with firm performance.

Effect of Employment Generation on Profitability

Employment generation is a natural process of social development of human being brings with them into the world, on array of needs that present employment opportunities for other to meet. It is generally regarded as a symptom of basic microeconomic

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disequilibrium (Anyanwa, 2015). Similarly, the International Labor Organization (ILO, 2014), suggested that employment generation is one of the most common justification for land acquisition, rehabilitation and resettlement, it is concern with sector but notable in manufacturing and urbanization, the proven messiahs of poverty. The government has a key role to play in employment generation in the country.

Furthermore, International Labour Organization (ILO, 2012) stated that employment generation recognising the contribution of small and medium enterprises to job creation and promoting measures including access to affordable credit that would ensure a favourable environment for their development in the business all, the facilitating activities of trade are means of employment and the entrepreneur may adopt any of these activities is an independent business. Hence, it is undoubtedly true that entrepreneur employment generation opportunities directly or indirectly through business.

Effect of Loan Utilization on Sales Volume

Loan utilization is a properly or other material goods given to another party in exchange future repayment of the loan value or principal amount along with interest or finance charge. Loans are typically issued by corporations, financial institutions and government, it allows for growth in overall money supply in an economy and open up competition by lending to business (Castilo, 2009). In the same vein, Hossain (2012) stated that loan utilization also helps existing companies expand their operations. The interest and fees from loans area primary source of revenue for many banks as well as some retailers through the use of credit facilities and credit cards loan with high interest rate have higher monthly payment or takes longer to pay off. Loan utilization is regular periodic fee assessed by a lender against a barrower, the fee is based on the amount of credit actually used by borrower in a revolving line of credit. There are possibly relationships among the determinants of standard practices of microfinance banks and loan utilisation. An understanding of the concept of micro financing by the operators will have moderating effect on Loan repayment and poverty alleviation.

According to Obamuyi (2011) provision of loan with other financial services by microfinance banks encourage the unbanked people to establish their small businesses, mitigate their poverty situation, and create new job for themselves, which is hundred times better than relying on the government subsidies or donors grant to make sure that the provision of microfinance will achieve its maximum output. Similarly, the use of microfinance bank loan led to better living standards over poor than before due to the growth of the assets and income generated. It is believed that using microfinance bank loan also creates more job opportunities and variety of economic activities, provide more job for people (Teng, 2011). In the same light, Enison and Oluwafemi (2012) asserts that credit (loan) allows beneficiaries to take positive advantages of the economic opportunities and this is done by providing a fundamental basis for planning and expanding business activities loans may only be granted if the group has a good history

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of repayment. To ensure early loan repayment, members of the group are pressured to adhere to repayment rules (Edward & Olsen, 2006).

Effect of Wealth Creation on Market Share

Wealth creation is anything which could be owned and controlled and have monetary value or have the potential to create the monetary value. It is concern with the accumulation of assets especially those that generate income over a period of time (Ruben, 2007), Meanwhile, Schumpeter (2008) of the opined that wealth creation provides a unique value to its environment by adding more value to produced those output. In the same vein, Obadan (2007) suggest that wealth creation is the process described by a few essential laws of money, if you live by these rules your chance of financial success if very good.

According to King (2007) that many developing countries, microfinance institutions through small and medium enterprise has been a powerful engine of economic growth and wealth creation, and is crucial for improving the quality, number and variety of employment opportunity for the poor. Similarly, it has several multiplier effects on the economy, spurs innovation, and fosters investment in people which is a better source of competitive advantage than other natural resources, which can be depleted. Aminu (2012), who stated that wealth may change as established firms "destroy" competitors by means of innovation, this leads to increased concentration of wealth since one large firm gains wealth at the expense of another. Only when innovation is accomplished by newly formed independent firms does wealth.

Furthermore, Dalton (2008) stated that wealth creation is the result of a process in which man through the power of his will and work create added value by transforming the national environment (nature, national resources) from primitive state into change. Similarly, the business owners are more committed to create wealth through microfinance institutions, capital accumulation and business growth and are willing to ensure direct consumption in order to expand their entrepreneurial activities.

Market share is a company's sales in relation to total induce sales for a certain period. It is sales relative to those of other competitors in the market. (Roger, 2013). In the same vein, Buzzel, (2015) stated that market share is the determinant of return on investment and therefore, increase in market share will lead to maximise in profitability. However, increase market share can be equated with success whereas decrease market share is a manifestation of unfavourable actions by firm and usually equated with future.

Game Theory of Microfinance

The micro finance games theory a so supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves. It is based on Grameen lending model of micro finance which is based on group peer pressure whereby loans are made to individual

groups of four to seven group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of micro finance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network. Legerwood (1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts. Gruber (2005).

Uniting Theory of Micro Finance

The uniting theory of micro finance emphasizes on joint liability. Ghatak and Guinnane (1999) reviewed the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit constrained borrowers. They established that all the theories have in common the idea that joint liability can help alleviate the major problems facing lenders i.e. screening, monitoring, auditing and enforcement by utilizing the local information and social capital that exists among borrowers under explicit joint liability, when one borrower cannot repay a loan, group members are contractually required to repay instead. Such repayments can be enforced through the threat of common punishment typically the denial of future credit to all members of the defaulting group or by drawing on a group savings funds that serves as collateral. Second, the perception of joint liability can be implicit. That is borrowers believe that if a group member defaults, the whole group will become ineligible for future loan even if the lending contract does not specify this punishment.

Financial Sustainability Theory

Long term survival and Sustainability is critical for any Micro Finance Institute (MFI) in being able to reach its target clientele and cover administrative and other costs. While social goals of reaching the poorest and poverty alleviation are valid, sustainable standing on one's own feet is as true for low income households receiving micro finance as for micro finance itself. Sustainability for the micro finance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing etc. Morduch (2002).

Methodology

The study was conducted in Maiduguri the capital of Borno State. The population of the study comprises three thousand five hundred and thirty-six (3,536) customers of the three (3) selected Microfinance Banks. The Banks under consideration are Borno Renaissance

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MFBs Limited, Unimaid MFBs Limited and Yerwa MFBs Limited. The sample size for this study was three hundred and fifty-nine (359) respondents to be selected from the study population using Yamane formular (1967). i.e. n=N/ (1+N(e2) Where n=Sample size, N=Population=level of significance (5%), 1= constant. From the data given, N= 3536, e= 5%, n= 3536/ (1+3536(0.0025) = 359. Questionnaires were distributed to 359 respondents and 352 questionnaires were returned. The data was analysed using multiple regression with the aid of statistical package for social science (SPSS) and model was specified in line with the hypotheses.

Ho1: There is no significant effect between employment generation and profitability in Maiduguri, Borno State.

Table 1 Model Summary

Model	R	R-square	Adjusted R-Square	Std. Error of the estimate	
1	0.8948[a]	0.8427	0.7756	2.327	2.463

Source: Field Survey 2023

Table 1 show a strong correlation between employment generation and profitability with on R value of 0.8948 which represent 89% and R-square value of 0.8427 (appropriately 5% percent of the dependent variable was explained by the independent variables).

Table 2 Regression Coefficient[a]

Model	Unstandardised Coefficient		Standardised Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	19.324	1.005		19.143	.000
Employment Generation	.327	.234	.085	1.424	.000

Source: SPSS, Version 20.7

Table 2 shows that standardised beta weights of the r coefficient and part correlation signifying the correlation between employment generation and profitability with a p-value <0.05 implying that employment generation has significant effect on profitability of the study are. Therefore, null hypothesis which state that employment generation has not significantly affected profitability is not accepted otherwise rejected.

Decision: Since the R-square value of (0.8427) which represent 84% by which the variables explain the model fits of the data. However, T-value of the coefficient of multiple regression is 1.424 therefore, the Beta value of coefficient is (0.85) which represent 85% of the coefficient in responses to p-value of the regression coefficient are also significant at the level of (0.000) which is less than alpha value of (0.05) that is p<0.000 p<0.05. this concludes that the null hypothesis is rejected and the result shows that there is a significant effect between employment generation and profitability in Maiduguri Metropolis.

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Ho2: There is no significant effect between loan utilisation and sales volume in Maiduguri, Borno State.

Table 3 Model Summary

Model	R	R-square	Adjusted R-Square	Std. Error of the estimate	Durbin
1	0.8814[a]	0.7989	0.7724	2.9262	2.5742

a predicators sales volume
b Dependent loan utilisation

Table 3 show a strong correlation between loan utilisation and sales volume with on R-value of 0.8814 which represent 88% and R-square value of 0.7987 which shows that 80% of the variability in loan utilisation are explain by sales volume. It indicates that there is a positive correlation between sales volumes and loan utilisation in the study area.

Table 4 Regression Coefficient

Model	Unstandardised Coefficient		Standardised Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	19.782	1.009		19.694	.000
Loan utilisation	.342	.253	.080	1.391	.000

Source: SPSS, Version 20.7

Table 4 show the standard beta weight of their coefficient and part correlation signifying the correlation between loan utilisation and sale volume with a p-value <0.05 implying that sales volume has significant effect on loan utilisation in the study area. Therefore, the null hypothesis which states that there is no significant effect between loan utilisation and sales volume in the study area is not accepted otherwise rejected.
Decision: Since the R-square value of (0.7987) which represent 80% by which the variables explain the model fits of the data. However, value of coefficient is 1.391. therefore the Beta value of coefficient (0.80) which represent 80% of the coefficient in respondent to p-value of the regression coefficient are also significant at the level of (0.000) which is less than the alpha value of (0.05) that is p<0.000 p<0.05. This concludes that the null hypothesis is rejected and the result shows that there is a significant of sales volume on loan utilisation in the study area.
Ho3: There is no significant effect between wealth creation and market share.

Table 5 Model Summary

Model	R	R-square	Adjusted R-Square	Std. Error of the estimate	Durbin
1	0.8014	0.7248	0.7194	2.9186	2.618

a predicators market share
b Dependent variable: wealth creation

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Table 5 show a strong correlation between wealth creation and market share with a R-value of 0.8014 which represent 80% and R-square value of 0.7248 which shows 72% of the variability in wealth creation are explain by market share. It indicates that there is positive correlation between wealth creation and market share in the study area.

Table 6 Regression Coefficient[a]

Model	Unstandardised Coefficient		Standardised Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	19.782	1.009		19.884	0.00
Wealth creation	.372	.273	0.73	1.278	0.00

Source: SPSS, Version 20.7

Table 6 show the standardised beta weights of the r coefficient and part correlation signifying the correlation between wealth creation and market share with a p-value <0.05 implying that market share has significant effect on wealth creation in the study area. Therefore, the null hypothesis which states that there is no significant effect between wealth creation and market share in the study area is not accepted otherwise rejected.
Decision: Since the R-square value (0.7248) which represent 72% of which the variables explain the fits of the data. However, T-value of the coefficient is 1.278. therefore, the Beta value is (0.73) which represent 73% of the coefficient are also significant at level of (0.000) which is less than alpha value of (0.05) that is p<0.000 p<0.05. This concludes that the null hypothesis is rejected and the result shows that there is a significant effect of wealth creation on market share in the study area.

Discussion and Result

This study assessed the impact of microfinance institutions on the performance of small and medium enterprises in Maiduguri Metropolis, Borno State. Findings of this study revealed that there is significant of employment generation on profitability in the study area. This study revealed that central to the attainment of employment creation in any grass root is availability of fund, generally cheap, fiancé. Financed is an importance tool in the portfolio of employment which government alone cannot achieve, with the assistance of microfinance institutions and other private sector organization are also involve in financing business which to employment generation in the study area.
Another finding also revealed that there is significant loan utilisation on sale volume in the study area. They study revealed that provision of loan and other financial services by microfinance banks encourage the unbanked people to established their small and medium business and mitigate their poverty situation and create new jobs for themselves,

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which is hundred times better than relying on the government subsidies or donors grants to make sure that the establishment of microfinance output. However, the utilisation of microfinance banks loan led to better sales volume and standard of living over poor than before due to the growth of assets and income generated. Findings of this study revealed that there is significant of wealth creation on market share in the study area. The study revealed that microfinance banks are sources of funds for capital accumulation and wealth creation.

Similarly, microfinance institutions are engine room which are committed to wealth creation, capital accumulation and business growth in order to reduce poverty of the grass root people of the Maiduguri Metropolis. In the same vein, the business owners are also more committed to create wealth through microfinance banks in the study area.

Conclusion

It is evident from the foregoing that microfinance banks if adequately promoted can serve as a diving force for employment generation, profitability, loans utilisation sales volume, wealth creation and market share in the study area.

Therefore, there is a little to celebrate about since their aim of transforming the local government area is yet to come to friction. The expected financial services would enable the active poor to undertake and develop alone time sustainable business activities. In the same vein, mobilising saving for financial intermediation, create employment opportunities wealth creation loan utilisation, profitability, sales volume and market share to increase their performance. Also, there is no doubt about the fact that microfinance bank was established to make it possible for grass people to secure credit from the banks on more easy terms, but there is still need more to be done to facilitate easy access to sub loan.

Finally, microfinance institution should emphasise on the provision of financial services to people who are economically poor and who therefore experience financial exclusion in that they do not have access to main stream conventional financial institutions in the country.

Recommendations

1. Government should regulate and monitor the activities of microfinance banks and redress the problems affecting them in the area of financial intermediation for employment generation.
2. The study recommended that the size of the loan being disburse by the microfinance banks should be increased and the income will also increase, thus will in turn reduce poverty.
3. The microfinance banks through the ability of the beneficiaries to make average returns in their business which lead to wealth creation.

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