International Journal of Innovative Finance and Economics Research 4(1):25-31, Jan.-Mar. 2016

© SEAHI PUBLICATIONS, 2016 **www.seahipaj.org** **ISSN: 2360-896X**

The Impact of Microfinance Banks on Small Scale Businesses in Cross River State: A Case Study of Calabar Metropolis

Augustine Ele ASOR; Mabel Ekanem ESSIEN & Ndem NDIYO
Department of Economics,
University Of Calabar, Cross River State, Nigeria

ABSTRACT

This paper examines the impact of Microfinance Banks on Small Scale Businesses in Calabar Metropolis of Cross River State. The nature of the research was descriptive and the research design was survey design which covered both the Small Scale Businesses and the Microfinance Banks in Calabar Metropolis. Structured questionnaires were designed to enhance the collection of related data used for the analysis involving simple percentages. The study reveals the increase of Microfinance Bank operations in recent years and the challenges faced by both the Small Scale Businesses and Microfinance Banks. Despite the challenges, and coupled with the unwillingness of the commercial banks to lend to the Small Scale Businesses, the results show that the Microfinance Banks have very significant impact on the growth of Small and Medium Businesses. The result also demonstrated that increased awareness on the activities of Microfinance Banks impacted positively on the establishment of Small Scale Businesses. Nevertheless, since the Microfinance Banks have become the major source of credit to the Small Scale Businesses in Nigeria, the paper recommends that the Central Bank of Nigeria should regulate the interest rates charged by the Microfinance Banks so that the Small Scale Businesses will not close shops due to high interest rate burden.

Keywords: Small Scale Businesses, Microfinance Banks, Entrepreneurship, Credit,

INTRODUCTION

The contribution of small scale businesses to economic growth has been recognized worldwide, they are very necessary for economic development in developing countries like Nigeria. The importance of small scale businesses cannot be over emphasized, as they contribute to employment generation, income equality, production of goods and service as well as improved standard of living and rapid industrialization. Small scale businesses can foster economic and social development in Nigeria, as they are the back bone of the Nigerian 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. They avoid doing business with the 'poor' and their micro enterprises because the associated cost and risk 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 therefore become the main source of funding for small scale businesses in Nigeria and other developing countries.

Small scale businesses or small and medium enterprises have been defined differently at various times by different countries. In Nigeria, according to Oshagbemi (1983), the Central Bank defined it as business with an annual turnover of less than half a million naira. The Bankers Committee defined

SMEs as any enterprise with a maximum asset base of 1.5 billion naira (excluding land and working capital) and with no lower and upper limit of staff (CBN, 2006). Globally SMEs are firms with fewer than 250 employees and with a turnover of less than 50 million euros or a balance sheet total of less than 43 million euros (EC recommendation, 2013). The Committee of Economic Development (CED) of the United States of America has defined a small business as one having any two of the following characteristics; managers are owners, owners supplied capital, area of operation mainly local, small in size within the industry, small capital layout, and the volume and value of operations relatively small.

SMEs have been identified as a major player in any nation's economic growth and the mainstay of the private sector and particularly industrialization. In developed countries where SMEs have been given their rightful place, their contributions have been outstanding. Ariyo (2000), records that in the United States of America, the states and federal government and big corporations are respectively responsible only for about 6% and 8% of total employment while the SMEs sector provides 84% of the employment. Thus SMEs generates 50% of that nation's GDP. In UK, of the 3.7 million businesses, 99% of them are described as SMEs. In the European Union, one million SMEs are set up annually, SMEs account for 99.8% of all companies and 65% of business turnover in European Union (Ariyo, 2000). The microfinance banks existing in Nigeria serves only about 2 million people out of 70 million potential people that need their services (CBN 2010). The major challenge of microfinance in Nigeria at present is how the microfinance banks can reach a sizeable number of small and medium scale entrepreneurs.

The introduction of microfinance bank is a laudable one because it replaced the ailing community banks created by former military head of state General Ibrahim Babangida. This commendable project has been hijacked by money bags and the concept misapplied because of the CBN directive that every microfinance bank should have not less than 20 million naira as its minimum reserve, while at the same time ordering the NDIC to insure each depositor for a maximum 100 thousand naira regardless of the amount of money invested. The implications of these requirements are that the microfinance banks or industries are out of reach of the very poor people it was meant to serve. The interest rates sadly is not regulated by the CBN so you can imagine if 20 million naira is legally tied up in the CBN custody as a reserve ratio, what would be left for the operators to commence business activities and what interest rate could they possibly charge to remain in business.

In Cross River State, about 70% of the microfinance banks are located in Calabar metropolis making it difficult for the rural communities to access. It is against this background that this paper examines the impact of microfinance banks on small scale businesses in Cross River State: A case study of Calabar metropolis.

In the hypothesis which is one of the prerequisites for any meaningful research work, the researcher in the course of this work sought to establish the following:

1. Microfinance banks has no significant impact on small scale businesses in Calabar metropolis of Cross River State
2. Small scale businesses in Calabar metropolis of Cross River State will not improve if there is more awareness on microfinance banks activities

The primary objective of this work is to examine the impact of microfinance bank on small scale businesses in Cross River State and particularly in Calabar metropolis. Other relevant objectives will include;

i. To determine whether the small scale business operators know of the existence of microfinance

ii. To identify and examine the challenges of microfinance in the country.

This study is organized into six sections: section one deals with the introduction. Section two deals with the literature review. Section three treats research methodology, while section four addresses presentation of results, analyses and discussion of findings. Recommendations and conclusion are discussed in sections five and six respectively.

LITERATURE REVIEW

The important role small scale businesses play in an economy is known world over. They have contributed largely to the economies of developed countries. Prior to the late 19th century, small and medium enterprises controlled the economy of Europe. The American economy largely depends on these small businesses for productivity, job creation and stability. In India, after agriculture, small enterprises are the second largest employer of labour. Also in Indonesia, about 99% of all businesses operate in this subsector, employing about 88.66% of the workforce and these businesses contribute about 49% of the GDP. It can be seen clearly without doubt that small businesses contribute largely to the growth of most economies.

Small scale businesses cannot be discussed without entrepreneurship; however the important feature of being entrepreneurial is that you provide something of value to others. According to Urieto, J.E, (2001), entrepreneurs are people who have the ability to see and evaluate business opportunities; to gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success. On the other hand, Meredith et al (1983) defined entrepreneurs as action-oriented, highly motivated individuals who risks achieving goals. A lot of opportunities exist for the entrepreneur in Nigeria because the country offers green pastures for establishing small scale businesses. Nigeria is one of the countries that have the largest untapped natural and human resources in the world. There is abundant supply of energy resources, raw materials, and flora and fauna of all types. Despite the presence of these huge resources, the rate of establishing small scale businesses is still several notches below the saturation point. Why is this so?

Owualah, (1999) and Lawson, (2007) identified lack of access to finance as one of the major constraint to small business growth. If small scale businesses cannot access funds, this means savings would be impossible hence accumulating own capital for further investment would be difficult.

The country is seen as an unpredictable ground for business due to political and economic instability, corruption, policy inconsistency, poor infrastructural facilities and so on. The government over the years; having realized the emerging growth of small scale businesses and its importance in stimulating economic growth, development of local technology, promoting indigenous entrepreneurship and generating employment have in the past initiated a series of programs and policies aimed at the Micro and Small Medium Enterprises (MSME) subsector. Remarkable among such programs were the formation of Industrial Development Centers across the country (1960-70), the Small Scale Industries Credit Guarantee Scheme (1971), specialized financial schemes through development financial institutions such as the Nigerian Industrial Development Bank (NIDB) 1964, Nigerian Bank for Commerce and Industry (NBCI) 1973, and National Economic Recovery Fund (NERFUND). All of these institutions merged to form the Bank of Industry (BOI). In 2003, the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) an umbrella agency to regulate to coordinate the small and medium enterprise sector was established. All these schemes targeted, among other things to assist the formation of new and viable small scale businesses. Despite all these efforts on the part of the government, small businesses still operate at very abysmal level.

Microfinance Policy in Nigeria

Microfinance refers to a source of financial service provided for people who are not eligible for services from the traditional financial system due to their poor status. These services, primarily, are in the form of savings and loan. According to CBN (2004), microfinance is an instrument used to provide those with lower economic status access to financial services at affordable and reasonable price. Thus, microfinance is all about providing the poor with access to financial services, which they would not normally have access to. These financial services enable them become self-reliant, create jobs, enhance their standard of living etc. According to Ajie, H A (2011) although the availability of microfinance and the establishment of microfinance banks are expanding in Nigeria, there are yet no established government policies and mechanisms for regulating and supervising activities in the sector. In the year 2000, a national conference on microfinance organized by the Federal Government of Nigeria recommended that the CBN should take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operatives of microfinance banks. The workshop recognized that the development of appropriate microfinance policy was critical to the development of sound microfinance practice, sustainable microfinance banks and by implication viable small scale businesses in Nigeria.

The microfinance policy, regulatory and supervisory framework for Nigeria was established on 15th December, 2005. The aim of the scheme, as noted by the central Bank of Nigeria includes the following:

- Integration of the informal subsector into the financial system.

- Make financial services readily available to productive Nigerians who are not eligible to services from the traditional financial system.
- Contribute to rural industrialization.

Microfinance in Nigeria

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 (2004) 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 former consists of banks, while the latter include cooperative societies, self-help groups etc. Several microfinance programmes 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: the Esusu/Itutu/Adashai, Daily/periodic contribution. While the formal group includes: The Nigerian Bank for Commerce and Industry (NBCI), The Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperation Bank (NACB) etc.

Benefits of Microfinance Banks 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:

- Enhancement of savings and investment opportunities, they mobilize local savings into productive activities, thereby contributing to the growth of the economy.
- Improve income distribution of the Nigerian population
- They encourage rural industrialization thereby reducing rural-urban migration.
- They encourage entrepreneurship behavior among the youth 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.

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, 2011). 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 real sector activities especially agriculture and manufacturing are less funded by it, instead the bulk of the microfinance bank funding goes to commerce. Again Ajie, (2011) noted that currently only about 14.1 and 3.5% went to Agriculture and manufacturing while 78.4% went to commerce. All these factors among others contribute to small scale businesses' inability to access funds hence making the establishments of small scale businesses still very low. Adeyemi, (2008), established some of the problems faced by microfinance banks to be: undercapitalization, inefficient management, which has impinged on their ability to perform. Also, Nwanyanwu, (2011), cited diversion of funds, inadequate finance, and inconsistency of government policies, huge loan losses as hindrances to the growth of this subsector. Kanu, Clementina and Isu, Gabriel (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.

RESEARCH METHODOLOGY

The research is descriptive in nature and uses the survey method in examining the impact of microfinance banks on small scale businesses in Calabar metropolis of Cross River State, Nigeria. The research design used for the purpose of the study is the survey design; the survey covered both the small scale businesses and the microfinance banks in Calabar metropolis of Cross River State. The researcher used descriptive statistics and primary data was obtained from administered questionnaires. The questionnaires consisted of 10 close-ended questions whose response was simply "Yes" or "No". 100 copies of questionnaires were administered, but 77 were filled and returned. The questionnaire contained questions on the general information of small scale businesses and microfinance. The business climate and the size of the Cross River State market were considered. Interest rates, credit accessibility, nature of collateral and employment generation were other issues captured in the questionnaire. The researcher employed simple percentages in the study.

PRESENTATION OF RESULTS, ANALYSIS AND DISCUSSION OF FINDINGS

Due to the nature of the research and the target population, it was possible to administer 100 questionnaires and 77 were returned to the researcher. The table below indicates the number of questionnaire administered; those that were successfully filled and returned and the ones that were not filled at all and not returned.

Table 1: Summary of Result

Questionnaires	Responses (according to categories)		Total Response	% Response
	SCBO	MFBS		
Returned	42	35	77	77%
Not Returned	18	5	23	23%
Total number	60	40	100	100%

Source: Response to Questionnaire

Note: SCBO – Small Scale Businesses Operators; MFBS – Micro Finance Banks Staff.

In Table 1 above, it is clear that 60 questionnaires were administered to the small scale business operators while 40 were administered to the microfinance bank staff. Out of the 60 administered to SCBO, 42 were returned and 18 not returned. For the MFBS, 35 questionnaires were returned while 5 were not returned.

Hypothesis One: Microfinance banks has no significant impact on small scale businesses in Calabar metropolis of Cross River State

Table 2: Summary of Responses to Hypotheses 1

Responses	Number of Respondents	Percentage
Yes	69	89.61
No	08	10.39
Total	77	100%

Source: Author’s Computation

Hypothesis Two: Small scale businesses in Calabar metropolis of Cross River State will not improve if there is more awareness on microfinance banks activities

Table 3: Summary of Responses to Hypotheses 2

Responses	Number Of Responses	Percentage
Yes	65	84
No	12	16
Total	77	100%

Source: Author’s computation

DISCUSSIONS AND FINDINGS

From table 2 above, it was discovered that 69 out of 77 respondents representing 89.61% answered “YES”; that microfinance banks have significant impact on small scale businesses in Calabar metropolis while 8 out of 77 respondents representing 10.39 answered “NO”; that microfinance bank has no significant impact on small scale businesses in Calabar metropolis.

From table 3 above, it was discovered that 65 out of the 77 respondents representing 84% answered “YES”; that small scale businesses in Calabar metropolis will improve with more awareness on microfinance bank activities while 12 out of the 77 respondents representing 16% answered “NO”;

that small scale businesses in Calabar metropolis will not improve with more awareness on microfinance bank activities.

1. Microfinance banks have a great impact on small scale businesses in Calabar metropolis of Cross River State.
2. More awareness on the activities of microfinance banks will improve small scale businesses.
3. The policies of the CBN on microfinance banks affect the improvement of small scale businesses.
4. A lot of small businesses still find it difficult to access credit from the microfinance banks.

RECOMMENDATIONS AND CONCLUSION

The following recommendations are made in the course of this work:

1. Most of the microfinance banks are situated in the cities and urban areas; there is great need for the operators of microfinance banks to be encouraged to open branches in the rural areas so as to also meet up the needs of the local artisans and peasant farmers.
2. The issue of the interest rate charged by the microfinance banks should be looked into by the CBN and regulate it so that beneficiaries of the credit would not choke under very high interest rates. On that premise the CBN should develop a regulatory and supervisory framework bordering on all the operations of microfinance banks in Nigeria in general and Calabar metropolis in Cross River State in particular.
3. To avoid fraudsters and quacks in the microfinance industry, CBN should establish an institution with the responsibility of building capacity through the periodic training of directors and managers of microfinance banks. Also the necessary authorities should take their duties seriously so that problem of poor management and diversion of funds will be addressed.
4. The government should ensure that the financial services provided by the microfinance banks be given enough publicity and captured clearly in the official financial statistics, this would assist in evaluating its contribution to the GDP of the country.
5. Finally, the government should ensure that activities of the microfinance banks are directed to sectors of the economy which have linkages to promote growth and development.

This study examines the impact of microfinance banks on small scale businesses in Calabar metropolis of Cross River State. The expansion of the informal sector, which most of the Small scale businesses fall into; has brought more focus on the microfinance banks since the commercial banks are reluctant to fund the activities of the small scale businesses. The study reveals that despite the increased emergence of microfinance banks, it still faces the challenge of reaching out to a greater number of the poor. However, for the small scale business to improve on their activities, the CBN needs to formulate friendly policies that would aid the growth and smooth running of the microfinance institutions so as to be more beneficial to the small scale businesses.

REFERENCES

Adewunmi, Wole (1988) Business Management. Macmillan Nigeria Publishers Ltd, Yaba.

Adeyemi, K. S. (2008). “Institutional Reforms for Efficient Microfinance Operations in Nigeria”. Central Bank of Nigeria. Bullion, 32 (1), 26-34

Ajie, H A (2011) Fundamentals of Monetary Economics. Pearl Publishers, Port Harcourt.

Ariyo C (2000) in Musa, N Y, Kamba, M K: Private Public Partnership (PPPs) Promote Entrepreneurship in Nigeria? Evidence from SMEEIS in Sokoto Metropolis. Paper Presented at The 3rd National Conference of the Academy of Management Nigeria at the University of Benin, Benin City, Oct, 2008.

Broom, H N & Longneck J (1975) Small Business Management. South-Western Publishing Co., England.

Casson, M (2005) Entrpreneurship And The Theory Of The Firm. Journal of Economic Behaviour And Organization, 58(2).

CBN (1985) Annual Report And Statement of Account. December P8

CBN (2006) Small And Medium Enterprise Equity Investment Scheme (SMEIS). Revised Guidelines.

CBN (2008) Guidelines And Procedures For The Establishment Of Microfinance Banks in Nigeria. CBN.

Kanu, C. and Isu, G. (2015). "Microfinance Banks Operations In Nigeria, Constraints and Suggested Solutions: An Evaluation". Global Journal of contemporary Research in Accounting, Auditing and Business Ethics (GJCRA), Vol 1, Issue 2.

Lawson B (2007) Access to Finance For SMEs, Financial Systems Strategy 2020. International Conference Abuja. Available at http//www.cenbank.org/fss/mon/fss2020presemtation%20at%international%20conference ppt.

Meredith C G et al (1982) The Practice of Entrepreneurship. International Labour Organization, Geneva.

Nwanyanwu, O. J. (2011). "Microfinance in Nigeria: problem and Prospects". International Multidisciplinary Journal, Ethopia, Vol 5 (2), No 19.

Ojua, T.A, Tiku, O. T. and Agbor, R. A. (2014). "Micro-finance Operations and Socio-economic Development of Nigerian Rural Commumities". Mideterranean Journal of Social Sciences, MCSER Publishing, Rome-italy, Vol 5, No 23.

Oshagbemi, T D (1985) Small Business Management in Nigeria. Longman Nigeria Ltd., Lagos.

Owualah, S I (1999) Entrepreneurship in Small Business Firms. Lagos: G-Mag Investment Ltd., Chap 3.

UNDP and SMEDAN (2005) National Policy on Micro, Small and Medium Enterprises, Abuja, info@smedan.gov.ng.

Urieto, J E (2011) Entrepreneurship And Small Business Management: Theory and Practice. University of Port Harcourt Press, Port Harcourt.