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Assessment of Microfinance Banks and the Growth of SMEs in Jos South Plateau state, Nigeria

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Abstract— *The study seeks to examine the assessment of microfinance banks and the growth of Small and Medium scale Enterprises (SMEs) in Jos South, Plateau State, Nigeria. The study covered small and medium scale farmer entrepreneurs within Jos South. A sample size of 150 was obtained from the population of 201 at 5% error tolerance and 95% level of confidence, using Simple Random Sampling. 140(93.3%) of the questionnaire distributed were returned while 10(7.1%) of the questionnaire distributed were not returned. self-structured questionnaire was used to collect data. The study conducted a pre-test on the questionnaire to ensure the validity of the instrument. Data collected were presented in frequency tables. To measure the effect of microfinance bank on the growth of SMEs, descriptive statistics and Pearson's Chi-Square model were used. The Chi-Square value is shown as $X^2_{calculated}$ 29.376 > $X^2_{tabulated}$ 14.201. The study therefore revealed that Microfinance bank activities has made significant contribution to the growth of SMEs in Nigeria. The study recommends among other things, that government form a powerful team made up of all relevant parties to ensure that microfinance banks stay focused on their primary goal of providing ongoing funding for SMEs and that the Central Bank of Nigeria (CBN) be more proactive in addressing any areas where microfinance banks violate the law.*

Keywords— *Microfinance Bank, SMEs, Pearson's Chi-Square and economic growth.*

I. INTRODUCTION

Small and medium-sized enterprises (SMEs) are essential to the world's developed and developing economies because they foster entrepreneurship, financial inclusion, and policies to reduce poverty. Studies have shown that the contributions of SMEs to a nation's economic development have also received widespread recognition (Asor et al; 2016). Microfinance banks were established in Nigeria to address the vacuum created by SMEs' inability to access the necessary working capital loans to build and grow their businesses through traditional banking, deposit money banks, and commercial banks. Similar to this, inadequate operating capital and promoter equity contributions for SMEs, which restrict productive capacities, are thought to be responsible for the high mortality rate and early demise of the sector (Khan, 2020; Akingunola et al; 2018). The main factor contributing to these firms' relative absence in developing economies is considered to be the shortage of adequate finance (Alalade et al; 2013). As a result, microfinance banks were established, which helped to address the financial incapacity of SMEs and foster the growth of business capacity. The development of microfinance was important for the low-income class to obtain loans and other financial services because governments were unable to effectively help the poor in eradicating poverty worldwide (Ailemen et al; 2016).

Khan (2020) contends that despite their significance for the growth of SMEs in Nigeria, and specifically Jos South, small business owners do not use microfinance institutions. According to the author, militating factors include high interest rates and strict borrowing requirements. Alalade et al. (2013) state that because investments are needed for new ideas to materialize into marketable products and services, finance continues to be a vital resource for the development of SMEs. The inability of SMEs to access suitable funding from MFBs is a major obstacle to Nigeria's anticipated economic growth as a result. Stakeholders and academics have voiced concern about the need to examine the extent to which funds granted to microfinance organizations were routed to the appropriate goal as a result of Khan's assumption (2020). The next objective of microfinance is to assist long-term economic growth, build small and medium-sized businesses, and lend money to small company owners so they can grow their operations and escape poverty (Abubakar et al., 2015). It is therefore anticipated that the utilization of microfinance bank resources will increase SMEs in Nigeria, leading to the eradication of poverty and ensuing economic prosperity. (Khan, 2020)

Studies have shown that this has not resulted in observable SMEs development in Nigeria, nonetheless. The majority of Nigeria's less fortunate individuals are believed to still not fully understand the notion of microfinance as businesses continue to decline (Khan, 2020; Ede and Elikwu, 2018). These experts think that not enough of the target demographic has access to microfinance services. The use of microfinance services by entrepreneurs is still deterred by a number of factors, and given Nigeria's slow economic growth, it is debatable if microfinance has helped to reduce poverty (Khan, 2020; Akande and Yinus, 2015; Ede and Elikwu, 2018). In this study, the impact of microfinance banks on the expansion of SMEs in Nigeria is examined.

II. LITERATURE REVIEW

The four characteristics of microfinance, according to Muthoni (2016), who cited Ruben (2007), are group lending, targeting of women, giving out graduated loans, and higher interest rates than traditional banks. These authors asserted that microcredit is utilized to advance the economic well-being of the impoverished in society and that microfinance assists small organizations in need of loans for business growth and expansion. A crucial instrument in the global struggle against poverty, microcredit is one of the byproducts of microfinance

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organizations that enables poor individuals to become self-employed and independent (Muthoni, 2016). As a result, by acting as a bridge builder, microfinance banks assist SMEs in overcoming commercial, economic, and business challenges. The guidelines for the supervision of microfinance banks published in 2012 by the Central Bank of Nigeria categorize the services into permissible and prohibited activities. In the March 2020 Exposure Draft of the rules for the regulation and supervision of microfinance institutions in Nigeria, the prohibited activities were changed to non-permissible activities (CBN, 2020). accepting different kinds of deposits from people, groups, and associations—aside from public sector deposits (government)—giving credit to clients—including formal and informal self-help groups, people, and associations—and encouraging and keeping track of how often clients use their loans by offering ancillary capacity building.

Foreign exchange transactions, international commercial papers, international corporate finance, international electronic fund transfers, check clearing activities, dealing in land for speculative purposes, and real estate, except for use as office space, are some of the prohibited activities for MFBs. Public sector (government) deposits cannot be accepted, with the exception of permissible activities (CBN, 2020). The updated regulations were required to reposition and strengthen MFBs in order to enhance performance and support other ongoing industry reforms (CBN, 2020). To encourage microfinance institutions to concentrate on and provide products for performance development, the updated guideline for the 2020 exposure draft streamlined the contents of approved and prohibited activities.

According to Ede & Elikwu, the financing strategies of microfinance banks in Nigeria include the distribution of microcredit, the mobilization of modest savings and deposits, and the implementation of microinsurance and guarantee schemes (2018). According to the researchers, MFBs' roles in SMEs financing in Nigeria include serving the unbanked population, offering microcredit, fostering SME entrepreneurial growth, financial intermediation, creating opportunities for SME employment, and financial inclusion. In order to promote effective service delivery, these banks are intended to serve as a hub and data bank for the government and conventional banks regarding the poor in both urban and rural areas. In addition to being located in the center of cities for aggressive marketing campaigns, they are also intended to serve as the government's central hub and data repository on the impoverished in both urban and rural areas (Obasi et al., 2014).

With a primary concentration on agriculture, agro-allied industries, and small companies, among other things, the administrative method of providing small, uncollateralized loans to people in rural communities aims to set microfinance banks apart from other financial institutions (Obasi et al., 2014). Although MFBs offer loans, savings, money transfers, and insurance, Ailemen et al. (2016) postulated that important concerns in microfinance also include the understanding that impoverished people's financial needs are diverse. MFB generates assets and serves as a buffer against outside whims and financial shocks, which makes it an effective tool in the battle against poverty, the researchers claim. Microfinance banks will enhance income distribution among Nigerians, encourage rural industrialization, which will lessen rural-urban migration, and encourage entrepreneurship among youth, women, and the poor to help them become self-sufficient. By directing local savings into productive activities, microfinance banks will also improve savings and investment opportunities (Asor et al., 2016)

The slow development of the nation may be to blame for the high rate of poverty in emerging countries like Nigeria. Small and medium-sized firms are one of the most widely used business models in Nigeria, although they have a number of difficulties, such as restricted access to finance, according to Khan (2020). According to this researcher, small and medium-sized businesses produce goods and services, generate jobs at a low cost of capital, act as a vehicle for reducing income disparities by increasing the availability of skilled and semi-skilled workers for industrial expansion, and serve as a superb incubator for managerial and entrepreneurial talent. Small and Medium Enterprises (SMEs), also known as small and medium size enterprises, are the foundation for the ascent of young entrepreneurs to the level of established commercial firms (SMEs). Small businesses aid in job creation, provide income equality, enhance living standards, support rapid industrialisation in Nigeria, and encourage economic and social growth, according to Asor et al. (2016).

According to Alalade et al. (2013), the main reasons why capital sources are unwilling to finance SMEs in Nigeria are the high transaction costs, low returns, and the possibility of failing in business, which they consider to be exceedingly dangerous. Alalade et al. (2013) assert that financing is still an essential tool for the development of novel concepts and the survival of SMEs. Andabai and Jessie (2018) contend that despite the necessity of capital for small-scale business expansion, microfinance bank activities have not significantly benefited their expansion.

Andabai and Jessie's (2018) premise was addressed by Obadeyi (2015), who made the case that traditional banks' reluctance to lend to low-income earners, microbusiness owners, and rural residents is the root cause of the underdevelopment issue. With only 50% of Nigeria's lowest households having access to financial services, MSMEs continue to be underfunded in this area (Obadeyi, 2015; Akande and Yinus, 2015). When contributing, Moruf (2013) said that instead of concentrating on the small-scale businesses for which they were designed, microfinance banks are vying with commercial banks for universal banking. In order to provide more effective service delivery, it is necessary for the pertinent regulatory agencies to carefully monitor the operations of microfinance banks. Bakare (2019) disagreed, asserting that Nigeria's economy has grown significantly as a result of SME financing.

Theoretical Literature

Examples of theories pertaining to financing practices, lender-borrower interactions, and financial intermediation include the financial constraint theory, the pecking order theory, and others. According to Ede et al. (2018), the development of other economic sectors would be facilitated by

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the presence of a well-functioning financial intermediary between the lender and the borrower. Therefore, the pertinent theories will show how lenders and borrowers are related to economic growth.

According to Ede et al. (2018), the Theory of Financial Constraints (FCT) was the first to put forth this idea (1988). According to the study, FCT is supposed to test for changes in investment sensitivity to internal finances in organizations, taking into account various degrees of informational opacity. This is done by creating subsamples from a sample of businesses that are characterized in accordance with the relevant theoretical antecedent that distinguishes between constrained and unconstrained enterprises (Ede et al., 2018). However, Mansour and Chichti (2011) state that FCT investigates how financial frictions affect corporate funding. The researchers claim that this strategy is founded on a theoretical framework that takes into account the information-driven difficulties of researching company investment under incentive restrictions (s).

Empirical Literature

There is a ton of work on the interactions between small and medium-sized businesses and microfinance institutions, notably in terms of funding. Researchers have also examined the effect of SMEs on the growth of emerging economies like Nigeria, with varying degrees of success. For instance, Taiwo et al. (2016) looked into how microfinance institutions and banks affect small and medium-sized enterprises, as well as how much the latter's lending program has benefited smaller companies. For its research, the study used primary data from 15 small businesses in Lagos State, Nigeria. According to the report, small businesses have not received the necessary and sufficient recognition that is proportionate with the extent of their contributions to economic development. The study also shows that frequent microfinance contributions and non-financial services have a significant potential to improve small business performance. Obadeyi (2015) looked into the connection between microfinance banking and the growth of small businesses in Nigeria. 80 participants who completed a questionnaire and an oral interview for the study—70 of whom responded well—provided the study's primary data. According to the paper, microfinance banks have the ability to support Nigeria's economic expansion. Asor et al. (2016) looked into the effects of microfinance banks on small businesses in Calabar, Cross Rivers State, Nigeria. On both small companies and microfinance banks, the study used a descriptive research method. The research revealed that microfinance operations and small-scale firms face growing hurdles. The results show that microfinance banks have a significant effect on the expansion of small and medium-sized businesses.

Khan (2020) conducted research on the effects of microfinance institutions on the growth of small and medium-sized businesses by administering a questionnaire to 50 respondents in Damaturu, Yobe State, Nigeria. 41 of the 50 respondents successfully completed the survey and sent it back. The researchers examined the data using the chi square technique to evaluate the hypothesis. The results showed that enterprises' attempts to use banks to raise capital are thwarted by their rigorous borrowing restrictions. Bakare (2019) examined the association between microfinance loans and the expansion of small and medium-sized businesses in Nigeria from 2006 to 2014. Bank credit in Nigeria has a bad and statistically insignificant relationship with company growth, according to panel data analysis. Ailemen et al. (2016) looked into how microfinance affected the working poor's access to credit and quality of life. Following a field survey, data were examined using descriptive and inferential statistics. According to the results of the cross-sectional data research, microfinance institutions in Nigeria are modeled after the Grameen Bank, with an emphasis on the underprivileged. Akande and Yinus (2015) assessed how microfinance banks in Nigeria affected the growth of small and medium-sized businesses. In the study, primary and secondary data were both used. A questionnaire, which was sent to 120 registered SMEs in Lagos State and deemed beneficial by 104 of them, served as the primary data gathering tool. The research found that a sizable percentage of those who use microfinance institutions are aware of the problem. According to the study, the growth of entrepreneurship is positively impacted by microfinance banks.

Akingunola et al. (2018) assessed the effect of microfinance institutions on micro and small companies in Ogun State, Nigeria. Using the survey design method, 408 questions on micro-enterprises were administered. The results showed a conflict between small- and medium-sized businesses and intermediate financial services. According to the results, there was also evidence of a positive relationship between microcredit and firm expansion. Alalade et al. (2013) looked into the relationship and causality between microfinance bank operations and the growth of entrepreneurship in Ogun State. Data for the study was gathered utilizing a questionnaire and financial statements using a survey research methodology. According to the research, there is no discernible difference between entrepreneurs who use microfinance banks and those who do not in terms of loans and advances. Additionally, it was found that SMEs' owners' inability to produce collateral assets prevented them from securing the required loans from microfinance organizations. The ease of obtaining credit, the appropriateness of loan supplied in accordance to demand, and the degree to which SMEs have profited, among other things, from microfinance banks, were all evaluated by Moruf (2013). A questionnaire and financial records were also included in the study, which focused on SMEs in the Nigerian state of Osun. The results showed a positive and significant relationship between SMEs' performance and the microcredit delivery service offered by microfinance banks.

III. METHODOLOGY

A survey study design was used to collect primary data. Self-administered questionnaires were utilized to gather the data required for the inquiry. 150 microfinance operators, small and medium-scale entrepreneurs in Jos South, Plateau State, Nigeria, were the target demographic and sample size, with 140 (93.3%) properly returning their copies. Because Jos South is the commercial hub of Plateau State, Nigeria, and has the biggest number of businesses and microfinance operators in the state, it was chosen for the study. The data was analyzed using

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descriptive statistics and the Pearson's Chi-Square approach.

IV. Interpretation of Results and Discussion

TABLE 1. Microfinance Bank and the Growth of SMEs

Statement/Responses	Frequency	Percentage (%)
Micro finance bank loan can enhance the growth of SMEs in Jos South		
Agree	24	17.1
Strongly Agree	110	78.6
Undecided	0	0
Disagreed	0	0
Strongly disagree	6	4.3
Total	140	100
It is easy to access micro-finance bank loan by SMEs owners in Jos South		
Agree	43	30.7
Strongly Agree	55	39.3
Undecided	6	4.3
Disagreed	15	10.7
Strongly disagree	21	15
Total	140	100
Loan from micro finance bank has improve my enterprise by way of expansion in Jos South.		
Agree	71	50.7
Strongly Agree	62	44.3
Undecided	7	5
Disagreed	0	0
Strongly disagree	0	0
Total	140	100
The expansion of my business has led to the increase in profits or income in Jos South		
Agree	80	57.1
Strongly Agree	25	17.9
Undecided	11	7.9
Disagreed	0	0
Strongly disagree	24	17.1
Total	140	100
Increased income from my enterprises has improve the standard of living in Jos South		
Agree	70	50
Strongly Agree	34	24.3
Undecided	0	0
Disagreed	0	0
Strongly disagree	36	25.7
Total	140	100

Source: Field Survey, 2022.

The table above shows that strongly agree and agree respondents were 78.6% (110) and 17.1% (24), while 0% respondents are undecided. Moreover, 0% of the respondents disagree and 4.3% (6) strongly disagree respectively. Based on the analysis above, we agreed that Micro finance bank loan enhances the growth of SMEs in Jos South. It also shows that 39.3% (55) respondents strongly agree and 30.7% (43) respondents agree. Also, 4.3% respondents are undecided while 10.7% (15) of the respondents disagree and 15% (21) respondents strongly disagree. Based on the analysis above, we can conclude that, it is easy to access micro-finance bank loan by SMEs owners in Jos South. 44.3% (62) respondents strongly agree and 50.7% (71) respondents agree. Also, 5% (7) respondents are undecided, while 0% of the respondents disagree and strongly disagree. Based on the analysis above, the study conclude that Loan from micro finance bank has improve my enterprise by way of expansion in Jos South.

In addition the table above shows that 17.9% (25) respondents strongly agree and 57.1% (80) respondents agree. Also, 7.9% (11) respondents are undecided while 0% of the respondents disagree and 17.1% (24) strongly disagree. Based on the analysis above, the study further conclude that the expansion of business has led to the increase in profits or income in Jos South. It also shows that 24.3% (34) respondents strongly agree and 50% (70) respondents agree. Also, 0% respondents are undecided while 0% of the respondents disagree and 25.7% (36) strongly disagree. Furthermore, based on the analysis above, the study also conclude that increased income from my enterprises has improve the standard of living in Jos South.

TABLE 2. Summary of the responses to the questionnaires used for data analysis.

Statement	SA	A	SD	D	U	Total
Micro finance bank loan enhances the growth of SMEs in Jos South.	110	24	6	0	0	140
It is easy to access micro-finance bank loan by SMEs owners in Jos South	55	43	21	15	6	140
Loan from micro finance bank has improve my enterprise by way of expansion in Jos South	62	71	0	0	7	140
The expansion of my business has led to the increase in profits or income in Jos South	25	80	24	0	11	140
Increased income from my enterprises has improve the standard of living in Jos South	34	70	36	0	0	140
Total	**286**	**288**	**87**	**15**	**24**	**700**

Source: Field Survey, 2022.

Table 1 has shown the observed frequencies of responses to question 8, 9, 10, 11 and 12 selected from the questionnaire. The result of the analysis was depicted as follows:

TABLE 3. SPSS Data Table

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.376[a]	5	.000
Likelihood Ratio	25.412	5	.000
Linear-by-Linear Association	14.201	1	.000
Number of Valid Cases	140		

Author's computation from SPSS, 2022.

To reject H_o, the calculated X^2 value must be greater than the table value of X^2. Comparing the calculated X^2 value of 29.376[a] with the table X^2 value of 12.101, it was observed that the calculated value is greater than the table value.
From our computed values:
$X^2_{calculated} = 29.376 > X^2_{tabulated} = 14.201$ therefore, we reject the null hypotheses and conclude that Micro Finance Bank has contributed significantly to the growth of SMEs in Nigeria.

V. Summary of Findings

Despite the sector's significance for national development, research has shown that finance is a significant barrier to its growth (Khan, 2020; and Akingunola et al., 2018). The government created microfinance banks to aid SMEs in order to address this gap. According to academics, this hasn't led to the industry's anticipated growth (Khan, 2020; and Ede and Elikwu, 2018). Stakeholders are concerned about this and want to know if the resources of microfinance banks are going to the right people. They also want to know if there is any concrete proof of a relationship between microfinance banks and SMEs in Nigeria, which is the main objective of the study.

VI. Conclusion and Recommendations

Implementing government development goals requires effective small- and medium-sized business financing, particularly in developing economies like Nigeria. On the other hand, earlier studies have concentrated on how MFBs affect small enterprises, particularly in terms of entrepreneurial growth (Bakare, 2019; and Akingunola et al, 2018). These outcomes were attained without conducting a detailed investigation into how resources were allocated to SMEs. This study shed light on how resources were allocated to SMEs from the standpoint of MFB operators. However, the results showed that the resources were allocated to the expected location (SMEs). The findings showed that there was a substantial positive association between the expansion of small and medium-sized businesses in Nigeria and the presence of microfinance institutions. This suggests that long-term industry growth will arise from any expansion of the use of microfinance bank services targeted at SMEs, such as Small Scale Financial Services (SSFS), Financial Sustainability (FST), Absence of Assets-based Collateral (AAC), and Advisory Services (ADS). To make sure that microfinance banks do not stray from their fundamental objective of sustaining funding for SMEs, the government should create a robust and more effective team made up of all stakeholders. The Central Bank of Nigeria (CBN) should be more proactive in resolving any areas of microfinance banks' violations in order to improve administration. To avoid the accumulation of internal control weaknesses, especially when it comes to the issue of loans to SMEs, microfinance banks should undergo a timely statutory audit. To guarantee that the facilities given are used as intended, competent management and monitoring of SMEs is required..

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