

# The Impact of Micro-finance Institutions Credit on the Survival of Small- and Medium-Scale Enterprises in Irepodun LGA of Kwara State, Nigeria.

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## ABSTRACT

The failure of many small-scale businesses in Nigeria is largely due to a shortage of finances for a continued period of time. The microfinance banks serve as a bailor to the financial collapse that would have befallen many of these businesses. This paper looks at the impact of microfinance credit on the survival of small- and medium-scale businesses in Irepodun Local Government Area (LGA) of Kwara State, Nigeria.

The two functional microfinance banks in the Irepodun LGA were the population/sample for this study. ANOVA was used to test the hypothesis. The findings revealed that microfinance banks contribute significantly to the survival of small- and medium-scale enterprises in the study area. The study recommends that: repayment periods should be increased and more funds should be released to potential entrepreneurs for enterprise creation and to generate more employment.

(Keywords: impact, microfinance, credit, survival small-scale business, entrepreneurship)

## INTRODUCTION

The bureaucratic red-tape in conventional money deposit banks in Nigeria and the collateral requirements for traditional loans has made the available credit in these banks invisible to many small-scale business promoters. Micro-savings have existed in the developing world across many countries. According to Noah, Gafar and Muftau (2009), Rotating Savings and Credit Associations

(ROSCAs) are found in nearly every part of the world. ROSCAs involve pooling resourced with neighbours and friends to improve the situation of all members. The importance of small scale enterprises in the development of a nation's economy cannot be overemphasized.

Ranjami (2012) asserted that SMEs and entrepreneurship are now recognized worldwide as the key source of economic growth and development. In other words, if the Nigerian government will introduce policies that will lead to the creation of entrepreneurship development and enterprises, the unemployed army of youths may be drastically reduced.

Micro-finance was coined as the financial service rendered to the deprived group of people and small entrepreneurs to help them in developing self-employment opportunities and various income generating activities. Therefore, this represents a financial leeway of providing service to the poor who are traditionally not served by the conventional money deposit banks.

The distinguishing characteristics of micro-finance banks according to Olaitan (2001) include:

- a) The smallness of loans advanced and/or savings collected.
- b) The absence of collateralized security and
- c) The simplicity of operations.

Wolfenson (2001) sees small scale enterprises as the driving force for economic growth, job

creation and poverty reduction in developing countries.

The Federal Office of Statistics in 2004 conducted a study on small-scale businesses in Nigeria. In that study, it was found that 97% of all businesses in Nigeria employ less than 100 employees implying that 97% of all businesses in Nigeria are small. The implication of this statistics therefore is that the failure rate of these small businesses in Nigeria, the higher the figure of unemployment and its attendant dangers.

This paper therefore seeks to investigate the impact of credit supply of micro-finance banks to the survival of small-scale businesses in Irepodun LGA of Kwara State in Nigeria.

### **STATEMENT OF THE PROBLEM**

The threat of graduate unemployment to the Nigerian economy has made even the tertiary institutions redesign their syllabuses to make every graduate an enterprise creation graduate. Brilliant ideas of these graduates from tertiary institutions would only become wealth creation engines when the funding to actualize their ideas is available. The existence of micro-finance institutions creates a platform for securing loans devoid of administrative bottlenecks associated with commercial banks. This paper seeks to examine how micro-finance credit has enhanced the survival of small- and medium-scale enterprises in Nigeria. This paper affirms that the continuous provision of credit by micro-finance banks will go a long way in reducing graduate unemployment and create the urge in young entrepreneurs to be self-reliant.

### **Objective of the Study**

The main objective of this study is to evaluate the role of micro-finance banks in the survival of small- and medium-scale enterprises in Irepodun LGA of Kwara State.

### **Research Hypothesis**

The following hypothesis would be tested:

Ho<sub>1</sub>: Micro-finance banks do not contribute to the survival of small- and medium-scale enterprises.

### **Scope of the Study**

The study covers Irepodun Local Government Areas of Kwara State. Two micro-finance banks that were functional were covered (Omu-Aran and Iludun-Oro).

### **LITERATURE REVIEW**

Okoye (2005) identified the benefits of microfinance as: (i) reduction of the vulnerability of the poor, (ii) increase in household income and consumption, (iii) reduction in poverty and growth of business and employment generation for the rural populace. This Okoye's view sees microfinance as the basis for growth of businesses.

Chiyah and Forchu (2010) supported this view when they argued that the promotion of micro-enterprises in developing countries is justified in their abilities to foster economic growth, alleviate poverty and generate employment.

Appah, Sophia, and Wisdom (2012) asserts that micro-finance is coined as the financial service rendered to the deprived grew of people and small entrepreneurs to help them in developing self-employment opportunities and various income generating activities.

A micro-finance bank therefore has three characteristics features that distinguish it from conventional money deposit banks. They are: the smallness of loans advances and savings collected, the absence of asset-based collateral and simplicity of operations (Olaitan, 2001).

In other words, what makes micro-finance appealing to the small- and medium-scale enterprises is the ease with which loans and advances are secured.

The CBN (2005) gave the following reasons for the establishment of micro-finance institutions:

- 1) A majority of the Nigerian population lives in rural areas and are generally characterized by low income, poor standards of living, and they are generally engaged in agricultural activities, artisanship, and other forms of small businesses that need funding, technical and professional assistance;

- 2) The formal financial service providers are unable to reach these people and areas for reasons such as; high operational and administrative cost, inability to reach the widely spread population in the rural areas, the assumption that the target market lacks the capacity to pay bank loans, hence making the business vulnerable and risky, non-profitability of the rural based clientele business, illiteracy of the rural people to understand the basics of the banking business; and
- 3) The role of micro-finance in poverty reduction, income and employment generation.

The theory underlining this is the effective theory as propounded by Simonowitz in 2004. Effectiveness according to him is the extent to which an activity fulfils its intended purpose. In other words, the effectiveness of micro-finance should be gauged *vis-a-vis* its goals and objectives.

Olowe, Moradeyo, and Babalola (2013) examined the impact of micro-finance on SMEs' growth in Nigeria. The population of the study consists of the entire SMEs in Oyo State and it was restricted to Ibadan metropolis. The study recommended that micro-finance banks should lessen the condition for borrowing and increase the duration of their customers' loan and also spread the repayment over a long period.

## METHODOLOGY

Primary data were used for the study and the primary data were sourced through the use of

structured questionnaire. The population of study were the two functional micro-finance banks in Irepodun LGA (i.e. Omu-Aran Micro-Finance and Iludun-Oro Micro-Finance banks). A total of 320 customers from both micro-finance banks were served the questionnaires. Owners of 300 small- and medium-scale businesses returned and responded to the questionnaire as shown in Table 1.

Research assistants were stationed at the two micro-finance banks at the end of the month which coincide with repayment date, to assist the respondents in interpreting the questions because some of them were illiterate.

## MATERIALS AND METHODS

This study selected five businesses that ranged across farming, trading, contracts, construction, and manufacturing sectors. A total of 300 respondents were served the questionnaire, namely 156 for Omu-Aran microfinance and 144 for Iludun-Oro microfinance.

A Likert scale of 5 – points was used to measure the level of agreement and disagreement by the respondents. The responses format is as follows:

- SA - Strongly Agree
- A - Agree
- N - Not Sure
- D - Disagree
- SD - Strongly Disagree

Frequency distribution and ANOVA were used to analyzed the data.

**Table 1:** Respondents to the Research Questionnaire.

BUSINESSES	OMU-ARAN MICROFINANCE BANK	ILUDUN-ORO MICROFINANCE BANK	TOTAL
FARMING	30	34	64
TRADING	30	26	56
CONTRACT	33	32	65
CONSTRUCTION	33	30	63
MANUFACTURING	30	22	52
<b>TOTAL</b>	<b>156</b>	<b>144</b>	<b>300</b>

## RESULTS AND DISCUSSION

The responses of the respondents were captured using frequency counts and percentages.

**Table 2:** Socio-Economic Characteristics of Respondents.

Factor	Frequency	Percent	
<b>Age</b>	15-25	24	8.0
	26-35	55	18.3
	36-45	140	46.7
	46-55	69	23.0
	55 +	12	4.0
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Sex</b>	Male	148	49.3
	Female	152	50.7
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Marital Status</b>	Single	28	9.3
	Married	187	62.3
	Divorced	54	18.0
	Widow/Widower	31	10.3
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Educational Qualification</b>	No formal education	59	19.7
	Secondary education	83	27.7
	OND/NCE	59	19.7
	HND/B.Sc	95	31.7
	PGD/M.Sc/Ph.D	4	1.3
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Monthly Income</b>	Less than N10,000	62	20.7
	N10,000 – N20,000	52	17.3
	N20,001 – N30,000	67	22.3
	N30,001 – N40,000	51	17.0
	N40,001 – N50,000	68	22.7
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Years of Patronage</b>	Less than 1 year	63	21.0
	1 – 2 years	51	17.0
	3 – 4 years	64	21.3
	5 - 6 years	72	24.0
	7 years +	50	16.7
	<b>Total</b>	<b>300</b>	<b>100.0</b>
<b>Occupation</b>	Farming	64	21.3
	Trading	56	18.7
	Contract	65	21.7
	Construction	63	21.0
	Manufacturing	52	17.3
	<b>Total</b>	<b>300</b>	<b>100.0</b>

**Age:** About 37% (219) of the respondents belong to the active labor force (i.e., 15 – 45 years). This shows the potency of enterprise creation among the youth. The reason for this is obvious, a majority of the unemployed graduates prefer to be entrepreneurially driven than to do nothing.

**Sex:** Women accounted for about 50.7% of the respondents. This again could be a result of gender bias that seems to favor women over men.

The micro-finance banks feel more comfortable providing loans to women than men because women generally are disposed to repayment at higher frequencies than men. Many of the non-performing loans were from men's accounts.

**Marital Status:** About 62.3% (187) of the respondents were married. This again is a critical factor in granting of credit. Married customers appear to be more responsible and fear possible

repercussions that may emanate from non-repayment of loans. This is because the family ties and family members are usually considered as stakeholders in the bargain. Single respondents represented about (9.7%) of the population. They have less at stake and the youthful exuberance may make them prone to direct the loans to purchase of exotic cars or similar items, which invariably makes the repayment of loans practically impossible.

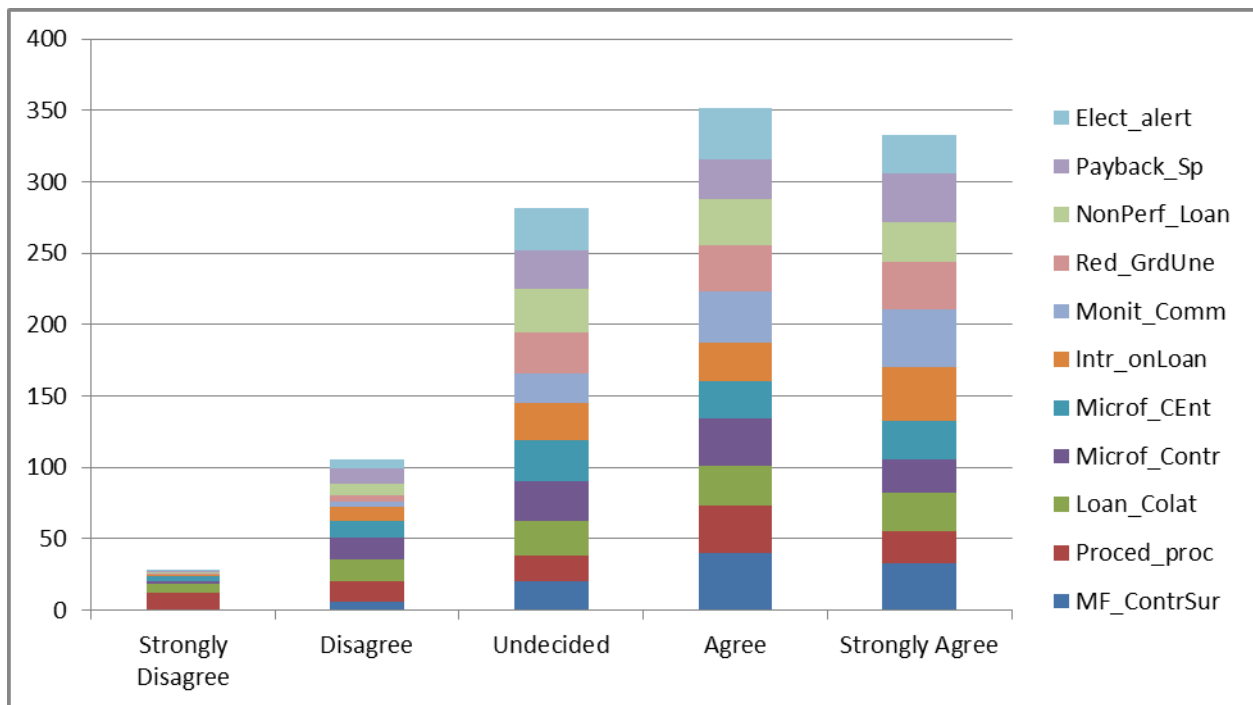
**Educational Qualification:** About 19.7% (59) of the respondents have no formal education meaning that micro-finance banks' activities were not only for the educated but also for the uneducated. About 80.3% (241) had secondary

school education and above. The implication of this is that they had basic understanding of the requirements for loans and the consequence of non-repayment of loans.

**Year of Patronage:** About 62% (186) of the respondents are customers who have been patronizing the banks for more than three years. This year of patronage is a critical condition for granting of loans.

**Occupation:** The petty traders and contractors constitute about 39.4% of the respondents while about 21.3% are vegetable farmers whose generation of profit is not up to a year.

**Figure 1:** Presentation of Respondents' Opinion Concerning Services Rendered by Micro-finance Institutions.



**Key Note:**

**Elect\_alert:** The electronic banking alert aids repayment

**Payback\_Sp:** Pay back is spread over a considerable length of time

**NonPerf\_Loan:** Non-performing loans are reduced to barest minimum

**Red\_GrdUne:** Micro-finance banks have reduced graduate unemployment in Nigeria

**Monit\_Comm:** The micro-finance banks have a monitoring committee that follow up the utilization of funds collected

**Intr\_onLoan:** The interest on loans is lower in micro-finance than conventional loan banks

**Microf\_CEnt:** Micro-finance banks have contributed greatly to enterprise creation

**Microf\_Contr:** Micro-finance has contributed significantly to my business

**Loan\_Colat:** Loans are not collateralized like commercial banks

**Proced\_proc:** Procedure for loans procurement is less complicated than conventional commercial banks

**MF\_ContrSur:** Micro-finance contribute immensely to survival of small- and medium-enterprises

## HYPOTHESIS TESTING

### Hypothesis 1:

Ho<sub>1</sub>: Microfinance banks do not contribute to the survival of small and medium scale enterprises. This hypothesis was tested to measure the contribution of services rendered by microfinance banks to the survival of small and medium scale enterprises using linear regression and the result obtained is as shown in the Table 3 – 5.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.553 <sup>a</sup>	.306	.282	.761

a. Predictors: (Constant), The electronic banking alert aids repayment, The microfinance banks have a monitoring committee that follow up the utilization of funds collected , Microfinance banks have reduced graduate unemployment in Nigeria, The interest on loans is lower in microfinance than conventional loan banks, Loans are not collateralized like commercial banks, Non-performing loans are reduced to barest minimum, Procedure for loans procurement is less complicated than conventional commercial banks, Microfinance banks have contributed greatly to enterprise creation, Pay back is spread over a considerable length of time, Microfinance has contributed significantly to my business

The model summary reveals that 55.3% of survival of small and medium scale enterprises is accounted for by the 11 variables identified in the questionnaire.

**Table 4: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	73.685	10	7.369	12.730	.000 <sup>b</sup>
	Residual	167.285	289	.579		
	Total	240.970	299			

a. Dependent Variable: Microfinance contribute immensely to survival of small and medium enterprises

b. Predictors: (Constant), The electronic banking alert aids repayment, The microfinance banks have a monitoring committee that follow up the utilization of funds collected , Microfinance banks have reduced graduate unemployment in Nigeria, The interest on loans is lower in microfinance than conventional loan banks, Loans are not collateralized like commercial banks, Non-performing loans are reduced to barest minimum, Procedure for loans procurement is less complicated than conventional commercial banks, Microfinance banks have contributed greatly to enterprise creation, Pay back is spread over a considerable length of time, Microfinance has contributed significantly to my business

The ANOVA table above reveals that  $F_{\text{calculated}} = 12.730$  and  $F_{\text{tabulated}} = 1.8307$ . since  $F_{\text{calculated}}$  is greater than  $F_{\text{tabulated}}$ , we reject the null hypothesis that says microfinance banks does not contribute significantly to the survival of small and medium scale enterprises and accept the alternative hypothesis that microfinance banks contribute significantly to the survival of small and medium scale enterprises in Irepodun L.G.A. Since the Pvalue 0.000 is less than 0.05, we reject the null hypothesis that microfinance banks do not contribute to the survival of small and medium scale enterprises.

**Table 5: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.189	.435		.434	.665
	Procedure for loans procurement is less complicated than conventional commercial banks	.056	.036	.081	1.571	.117
	Loans are not collateralized like commercial banks	.165	.037	.225	4.483	.000
	Microfinance has contributed significantly to my business	.204	.045	.237	4.517	.000
	Microfinance banks have contributed greatly to enterprise creation	.087	.039	.111	2.218	.027
	The interest on loans is lower in microfinance than conventional loan banks	.082	.043	.093	1.885	.060
	The microfinance banks have a monitoring committee that follow up the utilization of funds collected	-.031	.052	-.030	-.596	.551
	Microfinance banks have reduced graduate unemployment in Nigeria	.098	.048	.102	2.045	.042
	Non-performing loans are reduced to barest minimum	.109	.046	.118	2.372	.018
	Pay back is spread over a considerable length of time	.065	.044	.076	1.472	.142
	The electronic banking alert aids repayment	.193	.049	.203	3.957	.000

a. Dependent Variable: Microfinance contribute immensely to survival of small and medium enterprises

## FINDINGS

The followings are findings of the study:

1. By reason of employment creation, the micro-finance banks have significantly reduced the graduate unemployment in the study area.
2. The intricacies of securing a loan from micro-finance banks are less complicated than conventional commercial banks. Hence, awareness should be created by the microfinance banks in their immediate environment concerning their product portfolio.
3. Economic realities affect repayment plan of loans, hence, the terms of the payment should take into cognisance this uncontrollable factor by extending the duration for repayment.

## CONCLUSIONS

From the foregoing analysis, micro-finance banks contribute immensely to employment creation and rural development, which has a multiplier effect on the overall economy. The importance of microfinance banks can be felt in all the subsectors of the rural economy under study. The more the funds from microfinance banks are channelled to real sector, the greater the contribution of microfinance to Gross Domestic Product (GDP).

## RECOMMENDATIONS

The study also recommends as follows:

1. Electronic banking alerts should be emphasized to inform the beneficiaries of repayment balance.



2. Repayment plans should be extended so as to take care of possible vagaries of economic challenges.
3. A monitoring committee should be set up in the bank to oversee credit being administered.

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