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Effect of Microfinance Banks Services on the Performance of Micro-Enterprises in Benue State, Nigeria

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Abstract:
The study investigates the effect of microfinance banks services on the performance of micro-enterprises in Benue State, Nigeria. The study adopts a survey design and a sample of 350 respondents was determined from population 311,502 micro enterprises in Benue State. The questionnaire was subjected to validity and reliability using factor analysis and Cronboch Alpha respectively. Multiple regression was used data analysis and test of formulated hypotheses with the aid of the Statistical Package for Social Sciences (SPSS Version 21). Findings revealed that there is no significant effect of microfinance loan on performance of micro-enterprises in Benue State, Nigeria (p-value 0.631 > α 0.05). The study showed a positive significant effect of microfinance technical training on performance of micro-enterprises performance in Benue state, Nigeria (p-value 0.000 < α 0.05). Finally, the study revealed that microfinance advisory services have a positive significant effect on performance of microenterprises in Benue State, Nigeria (p-value 0.019 < α 0.05). The study concludes that microfinance banks services contribute significantly to enhance the performance of micro enterprises by narrowing the resource gap for micro-enterprises. The study recommends amongst others that management of microfinance banks in Nigeria should increase the duration of their clients' asset loans over a longer period of time. The study will enlighten micro-enterprises about services rendered by microfinance banks and how to utilize them to improve business performance.

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1. Introduction

The contributions of micro-enterprises to economic growth and development have been globally recognized. Microenterprises have continued to play a dynamic role in developing countries hence their recognition as engines of growth and catalysts for socio-economic transformation of any country (Onugu, 2005). Ofoegbu, Akanbi and Joseph (2013) assert that microenterprises are the panacea for the economic development of many developing countries including Nigeria. Microenterprises contribute to creation of jobs, reduction in income disparity, production of goods and services in the economy and provide a fertile ground for skill development and acquisition as well as serve as a mechanism for backward integration and a vehicle for technological innovation and development especially in modifying and perfecting emerging technological breakthroughs agriculture, commerce, manufacturing/construction, entertainment, service amongst others (Ofoegbu et al., 2013).

Microfinance refers to the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. The introduction of Micro Finance Institutions (MFI's) in Nigeria is seen as the best alternative source of financial services for low income earners and their micro enterprises as a means to raise their income, hence reducing their poverty level and contributing in the country's economy (Kessy & Urio, 2006). Microfinance activities has increased in recent times due to the inability of the formal financial sector to provide services, needed by the low income groups and the poor (CBN, 2005). The services of microfinance institutions to majority of Nigerians who are low income earners have created opportunity to them including managing scarce household and enterprise resources more efficiently, protection against financial risks by taking advantages of investment opportunities and gaining economic returns (Oni & Daniya, 2012). Microfinance banks enable microenterprises to protect, diversify and increase their incomes as well as accumulate assets thereby reducing their vulnerability to income and consumption shocks (Odebiyi & Olaoye, 2012).

Microenterprises contribute to improved living standards, bring about substantial local capital formation and achieve high level of productivity and capability. They are recognized as the principal means of achieving equitable and sustainable industrial diversification (Musa & Aisha, 2012). Microenterprises constitute the most viable and veritable vehicle for self-sustaining industrial development, as they possess the capability to grow an indigenous enterprise culture more than any other strategy (Musa & Aisha, 2012; Ogbujiuba et al., 2013). In Nigeria, one of the greatest obstacles faced by microenterprises is having access to funds and the lack of adequate collateral to access such credit facilities. This situation has led invariably to many of them closing their businesses, resulting in the loss of thousands of unskilled, semi and skilled jobs across the country. It is expected that the existence of microfinance institutions will improve the performance of microenterprises in terms of business survival, employment creation, market share and profitability (Khandker, 2005). However, lack of access to finance has been identified as one of the major constraints affecting microenterprises across many countries (Carpenter & Petersen, 2002; Anyanwu, 2003; Bekele & Zeleke, 2008). Most of the microenterprises in Nigeria have remained relatively small and seen stunted growth over the years because of non-availability of finance from formal financial institutions. Even though microfinance banks have proven to be one of the means of bridging the resource gap created in the Nigerian economy by providing different financial services to microenterprises in the country their objective has not been achieved to the fullest. Microenterprises still face daunting challenges amidst their existence hence the need to investigate the role played by microfinance banks in the provision of services to these in Nigeria. This study therefore examines the effect of microfinance banks services such as loans, technical training and advisory services on the performance of microenterprises in Benue State, Nigeria. This study will help microfinance banks in Nigeria to implement better programmes in providing the needed services to improve the performance of microenterprises. It will enable the government and policy makers to understand possible areas of improvement in micro-financing in Nigeria.

Objectives of the Study

The main objective of this study was to examine the effect of microfinance banks services on the performance of micro enterprises in Benue State, Nigeria. The specific objectives of the study include to:

i. examine the extent of effect of microfinance loans on the performance of micro enterprises in Benue State, Nigeria
ii. ascertain the extent to which microfinance technical training has effect on the performance of micro enterprises in Benue State, Nigeria
iii. evaluate the effect of microfinance advisory services on the performance of micro enterprises in Benue State Nigeria

2. Literature Review

The concept of micro finance originated in Bangladesh, around 1976 through a pioneering experiment by Dr. Muhammed Yunus; a Professor of Economics (Khandker, 2005). Microfinance is a term used to refer to the activity of provision of financial services to clients who are excluded from the traditional financial system on the account of their lower economic status (Brau & Osteryoung, 2001). Microfinance also refers to a development tool used to create access for the economically active poor to financial services at a sustainably affordable price (CBN, 2005). Carpenter and Petersen (2002) defined microfinance as the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Olaitan (2005) looked at microfinance banks as institutions that provide credit, savings repositories and other financial services to low income earners or poor households to create or expand their economic activities to improve their standards of living.

Microfinance is covers several types of lending involving the poor. This type of financing could take place from a bank or from a network of individual lenders. The concept of microfinance activities in Nigeria is culturally rooted and dates back several years ago. The formal microfinance institutions that provide access to credit for the rural and urban low income earners were mainly in the form of Self Help Groups (SHGs) or Rotating Saving and Credit Associations (ROSCAs) types. Other providers included Co-operative Societies and Saving Collectors. The traditional financial institutions generally have limited scope due to facility of loanable funds (Oni, 2012). Micro finance evolved as an economic development approach intended to benefit low income earners including the self-employed through the provision of financial services. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected, (ii) the absence of asset-based collateral, and (iii) simplicity of operations (Oni, 2012). In their effort to promote entrepreneurship development in Nigeria, microfinance banks provide services in form of loans, technical training services and advisory services (Ajibetun, 2006; Idowu, 2008; Makorere, 2014).

Microfinance loans is perhaps one of the most important roles of Microfinance banks, as the loans extended are used to expand existing businesses and in some cases to start new ones. According to CBN (2005), microfinance loans granted to clients is increasing from 2007 to date and most of it goes to financing microenterprises in rural areas. Ketu, (2008) observed that microfinance banks have disbursed more than N800 million micro credits to over 13,000 micro enterprises across the country to empower their productive capacities. As such it is expected that their growth and performance will increase with the increase in funding. The entrepreneurial capacity of these micro enterprises will thus improve. Governments usually go into co-operatives to partner with the microfinance banks to raise bulk loans to be disbursed to the beneficiaries, in so doing the banks are increasing and sustaining the number of people going into small businesses (Makoreere, 2014).

Microfinance technical training services are human capital policies (skills and training) which is aimed at stimulating continuous innovation within micro enterprises as a means of driving growth (Oni, 2012). Microfinance banks provide investment training especially on how loans should be utilized by entrepreneurs to improve their business performance. Microfinance banks provide training to micro enterprises to enhance their knowledge and skills in business and this help in improving their performance. Customers of microfinance that undergo training feel confident and capable in the execution of their daily task and running the business (Oni *et al.,* 2012). Improvement of the condition of micro enterprises through the provision of skills acquisition is another role played by microfinance banks. This is done through building capacities for wealth creation among enterprising poor people and promoting sustainable livelihood (Maduagwu, 2006).

Another microfinance banks service provided to microenterprises is advisory services. Microfinance banks provide advisory services to microenterprises before the loan is given and during monitoring of the project in order to ensure that the loan serve the right purpose. Most of the recipients of the loans are illiterate hence do not know how to use the loans given to them judiciously (Coleman, 2000). Microfinance therefore provides expert advice to them on how best to use the loans and other services provided to them. Other advisory roles played by microfinance banks include; reorientation of the rural populace on a sound financial practices, as well as issues such as reproductive health care, and girl child education. All these areas have a direct link with entrepreneurial capabilities of the rural people (Daniels, 2003).

Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bekele & Zeleke, 2008). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Anyanwu, 2003). Performance is defined in terms of output terms such as quantified objectives or profitability (Chan et al., 2006). Duru and Ogbe (2013) stated that performance is usually measured using financial growth and adequate profits. Global Entrepreneurship Monitor (GEM) defined performance in relation to positive outcome as a result of equitable use of resources. A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include sales revenue, profit before tax and turnover, while the non-financial measures focus on issues pertaining to customer satisfaction and customer referral rates, delivery time, waiting time and employee turnover or creation of employment (Khandker, 2005).

Given that each business venture is established for some known purposes, an ideal way of determining its performance would be to examine the extent to which such purposes have been achieved (Bekele & Zeleke, 2008). The measures of micro enterprises performance used in this study are employment generation, development of organizational capabilities and business expansion. Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. A lot of youths, retired workers and out of school graduates are now gainfully employed, thereby reducing the unemployment rate and its attendant's social complication of armed robbery and other crimes in the society (Akande, 2012). The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming (Afrane, 2002).

Developing managerial capabilities is necessary for growth and performance of micro enterprises (Oni & Daniya, 2012). Organizational capabilities refer to the skills, experience, and abilities of individuals within an organization. Capabilities also include decision making practice "competencies" (Magaji & Saleh, 2010) and "managerial capacity". This implies that small firm development depends on the abilities of the firm owners or managers and employees to plan for and adapt to the business environment in which they operate. Mahdi and Osman (2000) established a significant relationship between competencies and growth rate of small businesses.

Business expansion can pose problems for micro-enterprises that are not ready for the challenges of growth. The essence of business expansion is to make profitable; business owners are required to periodically review the return on investment from an expansion (Musa & Aisha, 2012). Business expansion is considered as a business strategy in which growth is obtained by increasing the number of stores in which customers can buy a company's products and services. Business expansion also entails the growth of a business' product and service offerings (Oni & Daniya, 2012). They further explained that business expansion could be in terms of new personnel, broader customer base and favourable financing opportunities (Kent, 1999; Makorere, 2014). Business expansion may present the owner with the opportunity to relocate the business, whether it is across town or across state or international lines (Makorere, 2014).

Effect of Microfinance Loan Services on the Performance of Micro Enterprises

The primary objective of microfinance institutions (MFIs) is to provide financial services (credit and savings) to the poor in orderto release financial constraints and help alleviate poverty (Kessey & Urio, 2006). Many studies have suggested that firms that collect loans from microfinance banks recorded significant increase in their revenues, net profits and increase number of employees (Kessey & Urio, 2006; Oni et al. 2012). A study by Oni et al. (2012) showed that business enterprises that have participated and received microfinance loans before are very likely to apply for and receive microfinance loans in the future. Asset loan enhances growth of firms irrespective of size provided the loan is properly utilized (Kessey & Urio, 2006). Kibet et al. (2015) argued that the provision of credit to the SMEs serves two purposes. First, as borrowed capital is invested in small enterprises, it often results in significant short-term increase in household expenditure and welfare. Secondly, microenterprises credit spurs economic growth in the informal sector through fostering increase capitalization of business, employment creation, and long-term income growth. This is supported by Onyeneke and Iruo (2012) who affirmed that MFBs loan impacted positively on the microenterprises through business expansion, poverty reduction, employment creation, income generation and business growth. Carpenter and Petersen (2002) also opined that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. However, access to credit enables them to cater to needs like expansion, purchase of equipment amongst others. Most enterprises that sourced for funds from microfinance banks recorded higher sales volume and profit (Carpenter & Petersen, 2002).

Effect of Microfinance Technical Training on the Performance of Micro Enterprises

Training programmes are provided by microfinance banks to successful entrepreneurs to equip them with both entrepreneurial and business skills that improve their performance. A study by Abiola (2012) indicated that business and entrepreneurial skills are vital to the sustainability of micro enterprises and would-be entrepreneurs. Solomon (2004) suggested the need for entrepreneurial skills by business owners for the upkeep of their businesses. It is also argued by Cressey (2006) that the entrepreneur's initiatives and skills are significant determinants of business success. Microfinance banks usually provide training such as marketing, finance, record-keeping, human relation and interpersonal relations to owners of micro-enterprises (Solomon, 2004). Oni and Daniya (2012) argued that to achieve their objectives, microfinance banks recapitalize and assist their customers by providing training on credit utilization and provide information on government programmes to business operators in the country. They added that technical training provided by these banks enable business owners to run their businesses effectively. Oni et al. (2012) noted that proper record keeping is an imperative for business success. The absence of record keeping couple with poor managerial skills results to poor decision making which impacts negatively on the growth and performance of the enterprises. Kessy and Urio (2006) confirmed the importance of microfinance technical training to business organizations. They found that firms that are recipient of business training record higher levels of performance than enterprises without this training. Similarly, Amin *et al.* (2003) found that variables such as pre-loan training and entrepreneur level of education impact significantly on business performance.

Effect of Microfinance Advisory Services on the Performance of Micro Enterprises

The provision of advisory services is one of the paramount functions of microfinance banks. A study by Oleka et al., (2014) showed strong correlation between business advisory services and performance of micro-enterprises. This implies that microfinance banks provide advice to business owners before loans are disbursed and continuously monitor them to ensure that such loans serve the right purpose. The potentials of the poor for entrepreneurship is significantly enhanced through the provision of microfinance advisory services which would enable them engage in economic activities and be more self-reliant, thus increasing employment opportunities, enhancing household income and creating wealth (CBN, 2004). Abiola (2012) also emphasized the importance of microfinance advisory services on the performance of micro-enterprises. Based on the literature review the study hypothesized that:

$H0_1$: Microfinance loans have no significant effect on the performance of micro enterprises in Benue State, Nigeria

$H0_2$: Microfinance technical training has no significant effect on the performance of micro enterprises in Benue State, Nigeria

$H0_3$: Microfinance advisory services have no significant effect on the performance of micro enterprises in Benue State, Nigeria.

3. Methodology

The research adopts a survey research design. The use of survey design enables the collection of data from owners of micro enterprises regarding microfinance bank and performance of microenterprises. Primary data were collected through questionnaire administration to owners of micro-enterprises who were the participants. The study area for this study is Benue State. The target population for this study consists of micro-enterprises in the Agricultural sector, Commerce, Manufacturing/Construction, Entertainment and Service Sector in Benue State. The four Local Government Areas sampled for the study includes Katsina-Ala, Gboko, Makurdi and Otukpo. One local government area was chosen from each senatorial district and the state capital. The four local government areas were chosen because they constitute the major commercial centers hence have greater number of micro-enterprises in the state. These four local governments formed the sample size of the study. It covers micro enterprises that have access to microfinance for a period of at least five years (2012 – 2017). The choice of the 5 years is based on statutory regulations by SMEDAN. Relying on the survey of SMEDAN (2015), the population of micro-enterprises was 311,502. However, because it was unrealistic to cover the whole population of the micro-enterprises in the state, hence the need for drawing a reasonable sample size that can sufficiently capture the interest of the entire population of the study.

Using Taro Yamane's (1967) formula, a sample size of 390 was drawn for the study. The microfinance clients selected for the study was based on the following criteria: the client that has stayed for a minimum of 5 years with the Microfinance Banks, that is, from the period 2012 to 2017 and the client operates/manages a small or micro business enterprise. In measuring validity of the instrument, factor analysis was adopted. Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) were used to assess the construct validity of each variable in this study. According to the results from the KMO and Bartlett's Test, the Kaiser- Meyer- Olkin (KMO) which measures the sample adequacy was .731 while the Bartlett's Test of Sphericity was significant (App. chi-square= 336.680, sig. is .000) which indicates the sufficient inter correlations of the factor analysis. A pilot test was carried out on $^1/_3$ of the sample size (0.333 x 390 = 130). This was necessary to ensure the consistency of the measurement items. The result in Table 1 showed that the Cronbach's Alpha for each of the constructs was greater than .70. This implies that all the constructs were reliable and consistent. Multiple regression analysis was for test of formulated hypotheses at 0.05 level of significance with the aid of the Statistical Package for Social Sciences (SPSS 21) software.

Table 1: Reliability Test Results

Variable	Cronbach's Alpha	No. of Items
Microfinance Loan	0.768	4
Microfinance Technical Training	0.833	4
Microfinance Advisory Services	0.718	5
Performance of Micro-enterprises	0.789	7
Overall Reliability	**0.777**	**20**

Source: SPSS Output, 2017

4. Results

Multiple regression was used for data analysis and test of hypotheses. It shows the result of model summary, analysis of variance and regression coefficients as presented in Table 2:

Table 2: Multiple Regression Coefficients

	Unstandardized Coefficients			Standardized Coefficients		Tolerance	VIF
	B	Std. Error	Beta	T	Sig.		
(Constant)	.085	.203		.417	.667		
Microfinance Loans	.062	.037	.723	.478	.631	.879	1.138
Technical Training	.424	.093	.467	4.538	.000	.785	1.274
Advisory Services	.228	.097	.243	2.357	.019	.883	1.132

R = .775
R Square = .601
Adj. R Square = .597
F-Statistics = 176.503
Sig. = .000
Durbin-Watson = 1.160

a. Dependent Variable: Performance of Microenterprises

Source: Field Survey, 2017.

The result in Table 2 showed that the regression coefficient, R = .775 or 77.5 % which shows the relationship that exist between the independent variables and dependent variable. The coefficient of determination (R^2) was .601 and this explains the percentage of variation in the dependent variable (performance of microenterprises) that is explained by all independent variables. The coefficient of determination showed that 60.1 % of the variation in microenterprises performance is explained by microfinance loans, microfinance technical training and microfinance advisory services. The F value from the ANOVA Table is 176.503 and is significant (.000 < 0.05). This implies that over all regression model is statistically significant, valid and fit. The valid regression model implies that all independent variables are capable of explaining a positive and significant relationship with the dependent variable.
The regression coefficient in Table 2 for microfinance loans (β_1) = .062 which implies that one percent increase in microfinance loans will result to 0.62 % increase in performance of microenterprises if other variables are kept controlled. The T value is 478 and is not significant at .631 because significance level is greater than P > 0.05. The alternate hypothesis was rejected that, microfinance loans have no positive significant effect on performance of microenterprises. The regression coefficient for microfinance technical training (β_2) = .424 which means that one percent increase in technical training leads to 42.4 % increase in performance of microenterprises. The T value is 4.538 which is significant at .000. The study accepted the alternate hypothesis that is, microfinance training has significant positive significant effect on the performance of microenterprises. The regression coefficient for microfinance advisory services (β_3) = .228 which means that one percent increase in advisory services result to 22.8 % increase in performance of microenterprises if other variables are kept constant. The T value is 2.357 which is significant at .019 level. The alternate hypothesis was accepted that is, microfinance advisory services have a positive significant effect on the performance of microenterprises.

5. Discussion

The analysis of the data collected from the respondents revealed that microfinance loans had no significant relationship with performance of microenterprises performance. The result shows that there is a positive but insignificant relationship between microfinance loans and performance of microenterprises due to high percentage of interest charged on the loans by microfinance banks and the duration for payment of loans which is not usually convenient. The findings of this study are in agreement with Adamu (2015) whose study revealed that high interest rate, lack of collateral security, too much bureaucracy and frequent repayment of loan are seriously affecting sustenance and expansion of micro businesses.

This result disagrees with Haydon (2004) who found positive relationship between access to microfinance loans and business growth. The result is also in disagreement with Oni *et al.* (2012) who affirmed that micro enterprises that have participated and received microfinance loans before are likely to apply and receive microfinance loans in the future again. The implication of this finding to the microenterprises is that microfinance banks that charged high percentage of interest on the loans with a short duration for payment of loans was not convenient for the performance of microenterprises. The appropriateness of loan size, proper utilization of loan given and a good repayment plan schedule are the factors that make micro credit worthwhile for micro enterprises and small business operators.

Findings of the study indicated that microfinance technical training has a positive significant effect on the performance of microenterprises in Benue State. The study has shown that businesses that participate in microfinance training programmes, particularly at the group level, have survived much better than those which do not participate. These results have shown that there is positive correlation between business survival and regular participation in microfinance training activities. This result is supported by Kessy and Temu (2010) whose study found that firms that are recipient of business training record higher levels of performance than enterprises without training. Alege and Ogunrinola (2008) also found that variables such as pre-loan training and entrepreneur level of education impact significantly on micro enterprises development. Bekele and Zekele (2008) affirmed that enterprises that did not participate in such schemes regularly are more likely to fail in comparison with businesses that participated regularly. The implication of the finding to the study is that micro enterprises that are engaged in pre-loan training are more likely to impact significantly on their business performance. Finally, results of the third objectives indicated that microfinance advisory services have positive significant effect on the performance of microenterprises in Benue State. This result agrees with Oleka et al. (2014) who found positive correlation between business advisory services and performance of micro enterprises. The implication of the finding to microenterprises is that advisory services provided by microfinance banks are important in improving the growth, performance and survival of micro-enterprises.

6. Conclusion

Entrepreneurs operating micro enterprises in Nigeria require finance for their businesses to thrive and remain sustainable. The results from this study showed that both financial and non-financial services obtained from microfinance banks have highly benefited microenterprises in Nigeria and have facilitated the acquisition of business skills and innovative ideas among microenterprises. The study concludes that microfinance banks technical training and advisory services contribute significantly towards enhanced performance of microenterprises. The study also concludes that loans provided by microfinance banks have no significant effect on their performance hence the need to reduce stringent conditions attached to such loans.

7. Recommendations

Based on the findings of this study and conclusion drawn, the following recommendations were made: First, in order to encourage the expansion of micro-enterprises, management of microfinance banks in Nigeria should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time, or increase the moratorium. This will enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology. Second, management of microfinance banks in Nigeria should assist their clients by providing training on credit utilization and provide information on government programmes to micro-enterprises operators in the country. The support and training institutions should be strengthened and properly funded while the services should be properly delivered too. Microfinance banks should partner with other relevant organizations in the provision of training to their clients to enable them acquire relevant business skills. Lastly, Management of microfinance banks in Nigeria should always advice their customers on how to use loans provided to them and encouragement on savings culture. This is because some beneficiaries who are owners of microenterprises are not educated enough to understand how to properly utilize loans provided to them.

8. Suggested Areas for Further Studies

The study was limited to microenterprises in Benue State Nigeria hence the need for further studies to cover other states or towns in Nigeria. Further studies could also use interview in addition to questionnaire to allow participants freely express their opinions regarding the effect of microfinance on performance of micro-enterprises in Nigeria. Also, further studies could cover other microfinance services such as saving services since the current study covered only three aspects of microfinance services (microfinance loans, microfinance technical training and microfinance advisory services). Finally, the study suggests that other researchers should investigate on business training and performance of microfinance clients and institutions in Nigeria.

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