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FINANCING SMALL AND MEDIUM SCALE ENTERPRISES BY MICROFINANCE BANKS IN SOKOTO STATE, NIGERIA

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ABSTRACT

*It can be observed that governments in Nigeria-both federal and state levels have launched various programmes aimed at providing access to micro-credit as strategy for promoting the development of SMEs the impact of the credit to SMEs is abysmal. The main thrust of this study is to investigate the effect of microcredit on the growth of SMEs in Sokoto State. The study used stratified and purposeful sampling methods to select 240 SMEs that have received micro-credit and operate for at least ten (10) years. Paired sample t test and regression were used to test hypotheses. It is discovered that after receiving micro-credit the firms have recorded a significant change in the rate of employment. The results also indicate that micro-credit has significant influence on SMEs growth in terms of employment with p-value of 0.004*** and 0.009***. Even though the SMEs in the area have achieved growth, some constraints have been identified to affect the activities of enterprises which include inadequate infrastructure, lack of adequate finance and inadequate professional personnel, lack of conducive business environment among others. This study therefore recommends that Microfinance banks should create awareness and provide finances to SMEs to facilitate their activities. Government should partner with donor agencies to focus attention on the regular training and retraining of the SMEs operators to enhance their skills for rapid growth of their enterprises.*

KEYWORDS

SMEs, microfinance banks, micro-credit, growth.

JEL CODES

G21, G29, L25, L26.

INTRODUCTION

In fact, the concept of microfinance is not new. Global Envision (2006) noted that many savings and credit groups operated for centuries and they include; the "chit funds" in India, "*tandas"* in Mexico, "*arisan*" in Indonesia, "*cheetu"* in Sri Lanka, "*pasanaku"* in Bolivia and *susus"* of Ghana among others. It has been noticed that formal credit and savings institutions for the poor have been in existence for centuries providing customers, who were traditionally neglected by commercial banks-with financial services through cooperatives and development finance institutions.

Global Envision (2006) confirmed that one of the earliest and long-lived micro-credit organizations providing small loans to the poor with no collateral was the Irish Loan Fund system, which was initiated in the early 1700s. The idea began slowly but in the 1800s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was to make available to the poor small loans with interest for short periods. At their peak, they were granting loans to 20% of all Irish households annually. With the successful operation of Grameen Bank in Bangladesh, the institution of micro-lending was revolutionized in 1976 and became the source of inspiration for the establishment of similar institutions in many countries (Global Envision, 2006; Vanroose, 2007 and Dignity Fund, 2005). Okoye (2006) however, observed that more than 1,200 micro-finance institutions were later established in Bangladesh and supplied microfinance services to about 13 million clients.

Muhammad and Hassan (2008) argue that what precipitated the proliferation of microfinance institutions in many countries was primarily the dismal performance of the conventional finance sector. They submit that this development has led to more than 7000 micro lending organizations providing loans to more than 25 million poor individuals across the world and the vast majority of them, women.

Just like in other countries, according to CBN (2005), the practice of microfinance in Nigeria has been culturally-rooted and dates back to several centuries. Mejeha and Nwachukwu (2008) pointed out that before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefit of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names such as; *esusu* among the Yorubas, *etoto* for Igbos and *adashe* for the Hausas. The traditional microfinance institutions provide access to credit for the rural and urban low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and co-operative societies. Generally, the informal financial institutions have limited outreach due primarily to paucity of loanable funds (CBN, 2005).

To mitigate the aforementioned constraint of poor access to financial services including micro-credit among micro, small and medium enterprises, according to Anyanwu (2004), Nigerian government had in the past, initiated a series of publicly-financed micro/rural credit programmes and policies. More recently; precisely in 2005, the desire to spur SMEs growth as well as that of the economy the government launch the microfinance policy. The policy provides for the establishment of microfinance institutions (MFIs) also known as microfinance banks (MFBs) to cater for the financing needs of small and micro enterprises as well as other non financial services (CBN, 2011). Oni, Imam and Ormim (2012) highlight that information disclosed on the CBN website shows that since the launch of the policy, not less than 900 microfinance institutions (though some had their license revoked) have been established and registered with the regulatory authority in Nigeria. With the spring up of such a large number of institutions in pursuance to the microfinance objectives, it is necessary for an impact assessment to be made to determine how these institutions have influenced the development of SMEs in the country. It is against this backdrop that this study seeks to assess the effect of microcredit on SMEs growth in Sokoto State.

LITERATURE REVIEW

Firm growth has been described as the rate of expansion as measured by sales volume experienced by a firm during its initial years. Simply puts, firm growth can be defined as an increase in a firm's size. Tihula (2004), states that firm growth can be measured, for example, by sales volume, increase in the number of employees, increase in number of customers, subcontractors, products or innovations and increase in market share. He specifically suggested (in his study) that the concept can be measured by sales volume (increase in sales by a given percentage) and increase in the number of employees.

According to Sun (2004), the concept of enterprise growth connotes the developmental process of an enterprise with a sustained balanced and stable growth of total performance level (including output, sales volume, profit and asset growth) or keep recording enhancement of total performance and the stage spanning of developmental quality and level.

Nitcher and Goldmark (2005) defined firm growth as an increase in the number of employees overtime. They argued that the majority of studies on small enterprise growth employ this metric. Some scholars use alternative metrics such as revenue or asset growth. The majority of researchers studying small business growth in developing countries rely on employment growth because it is often extremely difficult to obtain reliable financial data from small firms. Nitcher and Goldmark (2005) stressed that even when Micro and Small Enterprise owners do not keep written records they can usually recall their number of employees. Vega (2010) posited that the growth of MSEs can be measured in different ways, such as growth in sales, increase in the number of workers or increment in profits. According to McPherson (1996) "growth in terms of sales or profits might be preferable to a labour-based measure from an accuracy standpoint", given that measurement is not an obstacle and data is available.

Divergent views on what specifically constitute the dimension and nature of enterprise growth linger among micro-economists. According to Mao (2004), concept of enterprise growth is best analyzed in the perspectives of prime property of enterprise, dynamic property and unification of quantity and quality of specific variables.

In respect of measuring an enterprise growth, Miroslav (2010) highlights that there is little agreement in existing literature on how to measure growth and scholars have used a variety of different measures. These measures include, for example, growth of sales, employees, assets, profits, equity, and several others (Davidson & Wiklund, 2000). Moreover, the time span over which growth is analyzed in the literature varies considerably ranging from one to several years. Again, growth has been measured in absolute or relative terms. Perhaps the most common means of operationalizing firm growth are through relatively objective and measurable characteristics such as growth in sales turnover, total assets and employment growth.

These measures are relatively uncontroversial (methodologically) and data tend to be easily available, thereby increasing the scope for cross-study comparisons (Freel & Robson, 2004). Naqeeb (2012) posits that number of researchers have analyzed firm performance through various indicators such as; growth in sales, growth in employment, return on assets (ROA), age of firm, firm profitability, and others (Sleuwaegen & Goedhuys, 2002; Robson *et al.* 2008 and Rogerson *et al*, 2000; Salojarvi & Furu *et al.* 2005). In addition, Saleh and Ndubisi (2006) measured firm performance by using labour and capital productivity for Malaysian SMEs and suggested that barriers to SMEs should be removed. These barriers such as; low human capital, insufficient funds and' lower firm R&D undertaking, affect the growth of SMEs. It should be noted that growth and performance are used interchangeably by researchers. Some consider growth as a performance measure can be ascertained through change in the structure or capacity of an enterprise. Even though in several occasions scholars describe firm performance as ability of firm to achieve growth, other measures of performance go beyond a mere growth. Firm performance is measured in terms of survival, scale up to another category or enterprise development.

According to Sebastad and Walsh (1995), there is a different range of indicators of growth of SMEs but, for the purpose of her study, Abdul (n.d.) proposed to use the income of the MSEs, accumulation of business assets, revenue and employment as an indicator of growth for the enterprises.

Delmar *et al.* (2003) argues convincingly that since there appears to be no one best measure of firm growth, as well as no one best composite measure of firm growth, it would be advantageous to explore the use of many different growth measures in a study of firm growth. The use of multiple measures of firm growth would likely provide a more complete picture of any empirical relationships as well as provide a way to test the robustness of any theoretical model to misspecifications in the dependent variable. The use of multiple measures also offers the opportunity to use a measure optimized to the study's specific purposes while allowing comparisons with the results of previous studies using other growth measures.

On the reasons for enterprise growth, Papadaki and Chami (2002) construed that the relatively small body of business literature dealing with the reasons for small firm growth can be categorized into two schools of thought. The first adheres to an organizational life cycle perspective, which sees growth as a natural phenomenon in the evolution of the firm. The second school of thought sees growth as a consequence of strategic choice. In either case, the attributes of the business owner, organizational resources and environmental opportunity are crucial in expanding the firm or in overcoming the barriers to the evolution of the firm from one stage to the next. Indeed, a distinction can be made between a business owner and an entrepreneur; the latter being a "special individual committed to the growth of his/her business. Papadaki and Chami (2002) cited Sexton and Smilor (1997) and Carland*et al,* (1984), who argued that for some authors, "growth is the very essence of entrepreneurship," and commitment to growth is what primarily distinguishes small business owners and entrepreneurs.

Storey (1994) adumbrated number of factors influencing the growth of small enterprises as the entrepreneur/resources, firm itself and the strategy used by the entrepreneur.However,King and McGrath (2002) in Bowen (2009) argue that education is one of the factors that impact positively on growth of firms. They further stated that those entrepreneurs with large stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. Bokea, *et al* (1999) argues that infrastructure as it relates to the provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs.

Mao (2004) posits that growth is used to describe a developmental process of an enterprise from small to big and from weak to strong. The concept of development is broader than that of growth, and includes not only the growth of a firm but also the generation stage of growing out of nothing, before growth and the periodic process of the stages, the cycle process going round and round. Mao (2004) further describes the dimensions of enterprise growth as prime property of enterprise growth, dynamic property of enterprise growth and enterprise growth as the unification of quantity and quality.

Empirical evidences shows that employment is one of the important indices accentuating business growth. Though, argument on which specific factor determines SMEs growth is inconclusive. But myriad of studies confirm that access to finance play significant role in firm growth particularly through increased employment. In a survey conducted using a panel data technique, Brown *et al* (2004) established that access to external credit increases the growth of both employment. But sales and taxes appear to constrain growth. However, data on this research conducted in Bolivia also suggested that entrepreneurial skills have little independent effect on growth once demand conditions are taken into account. Again, in a separate study, Jennifer and Gregory (1999) examined the impact of credit (usually upon a single assisted enterprise) on employment and findings of the research show a positive relationship between the variables. Results of the study indicate that when external finance is accessed by small firms and the amount utilized in expansion, more workers would be employed to handle the activities production and distribution. However, in a study conducted by Kuzilwa (2005), results show that a significant increase in the output and employment generation was resulted from access to micro-credit. The study also supported the fact that access to credit is not the only parameter for success because there are several other factors that may lead to success or may create hindrances; like infrastructure problems, competition in the market and so on.

RESEARCH METHODOLOGY

The study is a cross-sectional survey that examines the relationship between access to micro-credit and SMEs growth. It examines whether or not micro-credit affects the growth of SMEs in terms of employment. Rate of employment constitute the measure of business growth (proxy the dependent variable). The credit size, interest rate and loan tenor serve as independent variables. Enterprise age has been introduced to control the relationships between independent variables and the dependent variable SMEs growth.

Questionnaire and structured interview constitute the major sources of data for this study. Data have been collected through questionnaire to measure relationship between the two variables. The study also used online publications, journal articles, the Bullion-CBN publication and microfinance newsletters for literature review. Records available in the banks under study have been used to capture the number of small and medium scale enterprises benefited from microfinance banks' credit since inception.

Business growth is the dependent variable proxied by change in rate of employment. The focus of this study is to assess how the amount received as micro-credit, interest charged on loan and loan tenor i.e period for repayment affects the proxy of dependent variable. Data collected from the SMEs were structured in panel form and tests were conducted to examine some relationships.
The study used open-ended questions in the questionnaire administered to SMEs owners/operators to measure the change in the components of dependent variable after obtaining credit. Interview was also used to get a broader view of SMEs growth in the area.
The population of this study is the total number of SMEs that have been existing since 2003 and also benefited from microfinance banks' credit in Sokoto State. A total of seven thousand two hundred and seventy (7,270) SMEs across the banks were the beneficiaries which served as the population of the study.Due to the difficulty in covering the entire population, considering their large number and also time constraint, fair representation of the population becomes imperative.
Stratified and purposeful sampling techniques were adopted for this study. The stratified nature of small businesses in the area prompted the choice of this technique. Stratified sampling, according to Moser (1968) in Muhammad (2009) involves first; the division of the population into a number of strata and secondly, selecting a random sample within each stratum. This will make the various strata in the population to be represented in the sample. Thus, this study classifies SMEs into distribution, agriculture, service, manufacturing and processing. Out of the sample two hundred and forty (240) SMEs, forty eight (48) were selected randomly from each of the five (5) sectors. However, in some situations, information about the existence of SMEs with required characteristics were supplied by bank officials (managers and marketers) or other SMEs operators. In that case, the research purposely met the respondents either at the business location, at home or in the bank and this warranted a purposeful sampling.
Data for this study were basically used the primary source of data. The research used the primary source of data to gather information to make a comparative analysis of the performance of the enterprises before and after their access to micro-credit. The research also used Focus Group Discussion for descriptive information to complement the questionnaire. The primary sources are largely the major sources of data for the research.
The instruments used for the collection of data for this study are basically questionnaire and interview for the SMEs owners/managers. Use of questionnaire in this study is simply because of the convenience in coding the information for quantitative analysis. Questions in this questionnaire are presented in both open-ended and close-ended formats.

DATA PRESENTATION AND ANALYSIS

TABLE 1: REGRESSION RESULTS ON MICRO-CREDIT AND SMES GROWTH IN TERMS OF EMPLOYMENT

Variable	RREG			FE			RE		
EMPLOYM	**Coef.**	**Std. Err.**	**P > | t |**	**Coef.**	**Std. Err.**	**P > | t |**	**Coef.**	**Std. Err.**	**P > | z |**
CREDSIZE	.2518284	.0320829	0.000***	.0299619	.0262437	0.255	.0691244	.023795	0.004***
INTR	-.6423717	.1673388	0.000***	-.067202	.06933156	0.337	-.095832	.0687566	0.163
TEN	.5400881	.2540036	0.034	.2640568	.1065634	0.014**	.2746923	.1049963	0.009***
ENTAGE	.1449952	.1070137	0.176	.5968353	.0744042	0.000***	.480345	.0670309	0.000***
INIT	-.1501317	.1209862	0.215	-.154431	.0616734	0.013	-.1187723	.0594232	0.046
_cons	-1.276513	.7141491	0.075	-.533222	.3647511	0.145	-.7766711	.3545029	0.028
R^2	0.1418			0.0094			0.0401		
Rho				.9580692			.95208275		
F Statistic				0.0000					
Wald chi2							0.069		
Hausman				0.0002					
Breusch-Pagan (LM)							0.0000		

Source: Stata 12.0 outputs

Note: ***, **, * denote 1%, 5% and 10% significance levels respectively
Table 1 shows relationship between micro-credit and employment growth of the SMEs. It is very conspicuous that credit size is significantly related to the employment growth in OLS regression with β coefficient of 2518284, standard error of .0320829 and p value of 0.000. The relationship between the two variables is significant at 1% significance level. Interest rate and employment are also significantly related at 1% level of significance with β coefficient of -.6423717, standard error of .1673388 and p value of 0.000. The R Squared valued at 0.418. In the second column of Table 5.15 the fixed effects show β coefficient of .2640568, standard error of .1065634 and p value of 0.014 with R Squared of 0.0094 and intra-class correlation of 96%. The results indicate that relationship between loan tenor and employment growth is significant at 5% significance level. The Hausman test presents Prob>chi2 is equal to 0.0002.
In the third column of the table, the random effects estimates show that β coefficient is .0691244, standard error is .023795 while the p value is 0.004 and this indicates that size of credit and employment growth of the SMEs have significant relationship at 1% significance level. Not only credit size, the table also shows that the loan tenor has significant relationship with employment growth at 1% level of significance with β coefficient of .2746923, standard error of .1049963 and p value of 0.009. Furthermore, R square is 0.0401; intra class (rho) is .95208275 and the Wald Chi2 is 0.069 while the Breush Pagan LM test shows Prob > chibar2 = 0.0000. Based on the results from the random effects model the null hypothesis that significant relationship does not exist between microfinance banks' credit and SMEs employment growth is rejected.

DISCUSSION OF FINDINGS

Saeed (2009) posits that a firm's financial resource endowment is a vital determinant of firm growth. Limmuel (2009) also argues that having access to finance gives SMEs the chance to develop their businesses and to acquire better technologies for production, therefore ensuring their competitiveness. The micro-credit effect is relevant for SMEs in Sokoto State because those enterprises that have accessed credit were able to record significant change in their capacity to generate employment and record significant increase in the percentage of their market share. This result is in consonance with results obtained by Singh (2009), Alam and Miyagi (2004), Bekele and Zeleke (2008), Fasehun and Bewayo (2009), Babagana (2010),Quaye (2011), Oni *et al.* (2012) and Moruf (2013).
According to Pecking Order Theory, when the sums so borrowed are invested by the firm and the investment has proved a success, additional assets are created, which can again be used as security for further borrowing. Thus, accessibility to finance is expected to positively influence the availability of factors of production such as land, labour, capital, equipment and machinery, subject to the constraints of asymmetric information and high cost of capital. All things being equal, increased quality and quantity of factors of production available to a firm will generate more production and through effective and efficient marketing strategies enhance a firm's performance. Availability of finance also enhances bulk purchases of productive resources, which decrease the unit cost of production as a result of economies of scale. The reduction in unit cost of production is also expected to generate an increase in profit. Thus, improved firm performance ensures higher profits, higher growth in sales and employment and wealth maximization for the owners. Access to micro-credit made it possible for the SMEs in Sokoto State to have increased capital base, acquire more productive assets and enjoy economies of scale in production and incur relatively low cost of production compared to the pre-loan period. This resulted to employment of marginal labor and consequently market expansion. Similar results were obtained in the studies of SMEs who have accessed micro-credit from microfinance institutions by Sebstad and Walsh (1991), Mosley (1996) Brown *et al* (2004).
Olutunla and Obamuyi (2008) argue that the growth of SMEs is not just dependent on accessing bank loan but accessing the right size of loan at the right time. In this study, three variables represent terms of loan, which includes; credit size, interest rate and loan tenor. The question is; how do these affect SMEs growth? The Pecking Order Theory explained that interest rate being cost of obtaining credit is inversely related to the profitability of the firm, since rising interest will force producers to incur higher costs of production. Akisimire (2010) observed that MFI-SME relationships and MFIs credit terms are very crucial in determining

SME performance, Fagiolo and Luzzi (2006) established that small size of loan, charge high interest rates and short loan period offered by microfinance institutions inversely affects SMEs growth.
Results from this study indicate that age of the entrepreneur is positively related to growth of the SMEs. Similar results were found in researches such as Olutunla and Obamuyi (2008) and Olusola (2012). Jovanovic (1982) gives reason why age affects firm growth by saying only as the years pass do firm owners and/or managers begin to be more efficient at choosing the best of alternative investment opportunities. Based on this argument, Jovanovic (1982) concludes that at more advanced stages of their life-cycle firms are more able to obtain higher rates of financial performance. Aw (2002) further clarifies that firm age and productivity of SMEs have a positive relationship because older firms have experience in production and have already been exposed to competition from other firms.
If reasonable size of credit is given to the SMEs their ability to expand their activities and achieve growth through increase penetration into the market is expected. Even though in some occasions serious competition and other exogenous factors affects the activities of firms to achieve expansion of the share of the market even with the increase in finance resources. Again, the interest rate also affects firm performance where his interest adds to cost of production and thereby affects the profitability of the borrowers. Also, the loan tenor has significant relationship with employment growth because when loan is administered to SMEs and adequate repayment period is given, the enterprises use the funds for a long duration which will help in keeping the working capital at reasonable level and enhance the capacity to acquire required inputs and enjoy sustained liquidity. According to Fagiolo and Luzzi (2006) if adequate loan repayment period is given the SMEs can manage their financial resources with less stress, which can be fundamental for taking advantage of all good investment opportunities that arise. Pedro (2013) argues that, in these circumstances, access to debt on relatively beneficial terms may be crucial for efficient management of financial resources in small firms. In this results, the size of credit and loan tenor are significant, even age of the enterprises is also significantly related to employment growth of the SMEs.

CONCLUSIONS
Even though, the SMEs in Sokoto State who have accessed credit are said to have improved it is observed that the type of growth they have recorded is not vertical since none of them scaled up to the status of a large enterprise. The Problems affecting growth of the enterprises includes; lack of business support services, poor and inadequate infrastructures, lack of conducive business environment, lack of adequate finance and lack of qualified professionals at the disposal of SMEs. Other constraints to firm growth are competition, poor sales, credit sale and bad debt.
Micro-credit terms such as loan size, interest rate and loan tenor have not influenced the turnover of SMEs. The age of the enterprises is seen to be influential in that relationship. The size of credit is not enough, the interest rate is high and the tenor of the loan is also short to enable the enterprises facilitate the increase of their turnover.
In contrast to the above scenario, the sizes of credit and period given to the SMEs to repay the loan have contributed to the employment growth. It implies that microfinance programme can serve as means of enhancing business growth and job creation for poverty reduction in less developed economies.

RECOMMENDATIONS
1. Governments have critical role to play in the provision of adequate infrastructure to address the problems encountered by SMEs in the area. In Brazil, government support the activities of SMEs by providing industrial areas, by linking those areas with roads, electricity, water, energy and other facilities to make business easy. In Nigeria, governments at all levels should venture into provision of adequate infrastructures for SMEs operation and enhanced growth. This serves as a strategy for underdeveloped economies to boost economic activities through proliferation of SMEs, which will in turn help government to create jobs and reduce poverty.
2. SMEs associated lack of business support services with poor growth of their enterprises, on that basis government should continue to partner with donor agencies to provide regular training and retraining and business counseling to SMEs operators in order to enhance growth of the SMEs. Training and retraining of SMEs operators will be of immense importance to the businesses going by the result of this study where majority of the owners/managers are having lower education qualification. The improved quality of SMEs operators will facilitate proper management of the enterprises and rapid growth, which impact on the ability of the enterprises to contribute significantly to economic growth and development.
3. Conducive business environment is also said to be critical factor in the enhancement of growth of SMEs. In Nigeria, issue of insecurity and corruption affects smooth running of businesses. Government should focus its attention on the provision of secured business environment in which SMEs can operate.
4. State government should establish a Business Incubation Centre that will house the SMEs that have graduated from skill acquisition programme of the State government in order to support their take up activities; especially the technology based SMEs.

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