DYNAMIC RELATIONSHIP BETWEEN MICRO FINANCE BANKS' CREDIT AND GROWTH OF MICRO ENTERPRISES IN OJO LOCAL GOVERNMENT OF LAGOS STATE

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Abstract

The Micro, Small and Medium Enterprises (MSMEs) challenges appear to be enormous and Micro Finance Banks (MFBs) thereby declining their capacities of contributing to the stability of MSMEs and decrease the rate of their performance. The failure to present required collateral or demonstrate good dignity by most MSMEs seem to be the major challenges which MSMEs are facing in today's dynamic business environment. This study, therefore, examines the dynamics relationship between MFBs and the growth of MSMEs in Ojo Local Government Area of Lagos state, Nigeria. The study employed a cross-sectional research design, while a multi-stage sampling technique was used for the study. 120 copies of the questionnaire were distributed, 97 were returned and found fit. Frequency distribution (percentage analysis) was used to analyse data. The findings revealed that MFBs have dynamic relationship with MSMEs in Ojo Local Government Area of Lagos State. The study concludes that the MFBs and MSMEs in Ojo Local Government Area of Lagos State are vital to the survival of one another. Thus, it was recommended that owners/managers of MSMEs should make use of MFBs opportunity to grow and develop their businesses from time to time.

Keywords*: Micro Credit, MSMEs, MFBs, Micro Finace Banks.*

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1. Introduction

The contribution of Micro, Small and Medium Enterprises (MSMEs) to economic growth as well as sustainable development is acknowledged globally (CBN, 2004). There is an increasing recognition of its pivotal role in employment generation, income redistribution and wealth creation (NISER, 2004). The micro, small and medium enterprises (MSMEs) represent about 87 per cent of all firms operating in Nigeria (SMEDAN, 2007). Non-farm micro, small and medium enterprises account for over 25 per cent of total employment and 20 percent of the

GDP (SMEDAN, 2007) compared to the cases of countries like Indonesia, Thailand and India where Micro, Small and Medium Enterprises (MSMEs) contribute almost 40 percent of the GDP (SMEDAN, 2007).

Credit has been recognized as an essential tool for promoting small businesses in every economy and concealed entrepreneurial capabilities mostly built on it. The micro enterprises sector is as well empowered by microfinance in which several benefits were achieved, such benefits are as follows; employment generation, creation of wealth, reduction of poverty and sustaining economic growth and development (Muktar, 2009).

Though micro business entrepreneurs lack the necessary financial services, especially credit from the commercial banks; this is because most of them lack business structure by not keeping necessary books and therefore considered not credit worthy (Muktar, 2009). Consequently micro-enterprises depended on families, friends and other informal sources of fund to finance their businesses except few because they have information about microfinance and structure out their businesses to be among beneficiaries thereby keeping the necessary book of accounts. Most micro enterprises cannot provide the necessary collateral security demanded by micro financial institution and this makes them to run micro business at a local level (Mohammed & Hasan, 2008).

For micro enterprises to function and to perform their roles, it needs the empowerment from micro finance banks, through the provision of micro loan and credit services. Micro finance is an extension of micro credit which provide three (3) types of sources as depicted; Formal institutions, such as rural banks and cooperatives, Semi formal institutions, such as non – governmental organization and Informal sources, such as Money Lenders, Esusu and daily (Ajo) contribution.

Most microfinance NGOs in Nigeria took off as credit – first financial institution. They obtained resources from donor agencies, which they loan to their members at grassroots. They are the major source of fund-provider for the medium, small and micro-enterprises. The basis of microfinance is the fact that the poor cannot access a loan from a bank of any reasonable commercial source, that is why Microfinance Institutions go out to the villages, meet with the poor who are encouraged to form an association, they give them micro-credits and sometimes even give them trainings to help them make the best use of the loan accessed (Mohammed & Hasan, 2008). In Nigeria, one of the greatest obstacles that micro-enterprises have to grapple with is lack of access to funds. This is further compounded by the fact that even where credit facilities are available, they may not be able to muster the required collateral to access it. This situation has invariably led to many of them closing shop, resulting in the loss of thousands of unskilled, semi and skilled jobs across the country and investment capital.

In the face of failure of several schemes, microfinance bank was introduced in order to provide micro loans for microenterprises. Micro financing is the provision of financial services to poor and low income households who have no access to formal financial institutions (Mohammed & Hasan, 2008). Microfinance is also described as banking for the poor. They are different from commercial banks because, they have limited banking services directed primarily to a designated catchment areas or groups. The major purpose of Microfinance Banks is to direct attention of providing credits to Micro, Small and Medium Enterprises (MSMEs).

Testing the various strategies used in micro-credit operations of MFBs in Nigeria is expected to give insight into the state of sustainable development in the continent of West Africa, however, empirical studies on impact of Microfinance Banks' micro credit on the growth of microenterprises are few. Despite the proliferation of Micro Finance Institution programmes and the fact that it has been more than a decade since MFI programmes were first implemented in the country, little empirical research (such as Micro, Small & Medium Enterprises (MSMEs; (CBN, 2004; NISER, 2004 and so on) have considered the effectiveness of providing loans for the micro-enterprises particularly in Ojo local government of Lagos state in Nigeria. Moreover, little is known about level of micro-credit coverage and the growth in micro-enterprises in relation to access to and the use of microfinance services in Ojo Local Government of Lagos state in Nigeria.

Therefore this study intends to investigate the extent to which the Nigerian Microfinance banks' microcredit facilities have impacted the growth of micro enterprises in Ojo local government area of Lagos State in Nigeria.

The broad objective of this study is to examine the effect of microfinance credits of banks on the growth of micro enterprises in Ojo local government area of Lagos State in Nigeria, while the specific objectives are to determine the frequency of access to credits of microfinance banks by micro enterprises in the study area and examine the effects of microcredit facilities on the growth of microenterprises in the study area and two hypotheses

H_0 =Microenterprises do not have access to loans of microfinance banks in Ojo local government of Lagos State and

H_0 = Micro finance banks' credits do not significantly influence the growth of micro enterprises in Ojo local government of Lagos state are to be tested.

2. Literature Review

Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc). Therefore, microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance involves additional non-credit financial services such as savings, insurance, pensions and payment services. The microfinance as a product has several characteristics. Some of the characteristics put forward by Mohammed and Mohammed (2007) are as explained in the ensuing paragraphs.

The key characteristic of microfinance entails little amounts of loans which are given to individuals and groups to help them start some income generating activities. Little savings over time is also an integral aspect of microfinance as it serves as security for the poor households and also helps them accumulate substantial capital to overcome their capital constraints (Mohammed and Mohammed, 2007). The loan which are given out are also short- terms loan which is usually up to the term of one year. Payment schedules are usually on weekly basis. Instalments are made up from both principal and interest, which amortized in course of time (Mohammed and Mohammed, 2007). Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status. In terms of application the clients need not go through the cumbersome procedures which are required in the traditional commercial banks (Mohammed and Mohammed, 2007).

There is also short processing periods between the completion of the application and the disbursement of the loan. No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

Proponents of microfinance argue that small loans to poor people could serve as a powerful tool for alleviating poverty (Khan and Rahaman, 2007). This is consistent with the UNICDF's (2009) claim that microcredit for farmers or small businesses provides a potent tool for expanding economic opportunities and reducing the vulnerabilities of the poor. Asiama & Osei (2007) have noted that this is possible because microfinance helps the poor to meet their basic needs and therefore and improve household income. Gender activists also argue in favour of microfinance as a means of empowerment by supporting women's economic participation. Boyle (2009) claims that by supporting women's economic participation, microfinance helps to improve household well-being. Littlefield (2005) reports that the opportunities created by credit availability helps a lot of poor people to invest in their own businesses, educate their children, improve their healthcare and promote their overall well-being. This is supported by a study by Karlan & Zinman (2006) in South Africa where recipients of microcredit were shown to be better off than non-beneficiaries. In another study by Khan & Rahaman (2007) in the Chittagong district in Bangladesh, recipients of microfinance facilities were reported to improve their livelihoods and moved out of poverty. More importantly, Khan & Rahaman (2007) reported that microfinance recipients had empowered themselves and become very active participants in the economy. However, the UNICDF (2009) report suggests that though microcredit may be helpful in reducing poverty, it is never a panacea and that it is only one of such tools to reduce poverty or the vulnerabilities of the poor. Rodman (2009) asserts that microcredit might actually leave people worse off, just as credit cards and mortgages have made people poorer in developed countries.

3. **Methodology**

The population of this study consists of all microfinance banks and micro-entrepreneurs Ojo local government of Lagos State. In choosing the sample size and securing representative responses, the size of the sample was based on statistical estimation theory considering degree of confidence that is expected from this type of research.

In this study, the multistage random sampling technique was adopted. The study area is Ojo local government area, and the list of all micro finance banks formed the population for the study, then, judgmental (purposive) sampling technique was utilised to select two micro finance banks.

From the selected two (2) micro finance banks, the list of all micro enterprises that have benefited from their loan was obtained from their records with the aid of a structured questionnaire. And from this list, 120 consistent beneficiaries of micro credit (micro entrepreneurs) was purposively selected from each MFB to make a total of one twenty micro entrepreneurs that was used for the study.

Methods of Data Analysis

The data collected was analyzed with the use of descriptive statistics (percentage analysis) with the help of Statistical Package for Social Sciences (IBM-SPSS 23.0).

4. Data Description, Demographic Information of Respondents

This section presents the results of the data collected in this study. It was carried out to examine the dynamic relationship between micro-finance banks' credit and the growth of micro-enterprises in Ojo Local Government of Lagos State Nigeria. The presentation done in this study were based on the responses got from the completed and returned questionnaires to the one hundred and twenty respondents from selected small and medium businesses in Ojo Local Government of Lagos State, Nigeria.

Data Analysis

The information gathered on the returned questionnaires is systematically presented on the table below. Each table explains the results got from the respondents on the dynamic relationship between micro-finance banks' credit and the growth of micro-enterprises in Ojo Local Government of Lagos State Nigeria.

Below Table 4.1 analyze the Sex, Marital Status, Education Qualification, Year of experience, and nature of business with their percentage score. The questionnaire was divided into two sections, section 'A' was designed to collect some necessary personal data of the respondents for analysis, while the section 'B' contained the questions which were drawn is find out the feelings and opinions of the respondents.

Section A

Gender of the Respondents

Table 4.1 depicts the gender of respondents for entrepreneurs in Ojo Local Government of Lagos State, Nigeria gender distribution of entrepreneurs across Ojo Local Government of Lagos State, Nigeria.

Table 4.1 Gender of the Respondents

Sex	Frequency	Percentage %
Male	34	35.1
Female	63	64.9
Total	**97**	**100**

Source: Field survey, 2022

Table 4.1 showed that 34 (35.1%) of the respondents were males while 63 (64.9%) were females. This implies that we have more females (64.9%) small business owners in Ojo Local Government of Lagos State in Nigeria, it is observed that the rate of women outstrip that of men.

Marital Status

Table 4.2 depicts the marital status of the respondents in Ojo Local Government of Lagos State, Nigeria.

Table 4.2 Marital Status of the Respondents

Marital Status	Frequency	Percentage %
Single	15	15.5
Married	71	73.2
others	11	11.3
Total	**97**	**100**

Source: Field survey, 2022

Table 4.2 depicted that 15 (15.5%) of the respondents were single and 71 (73.2%) were married while 11 (11.33%) of the respondents fell under other categories. This implies that we have more married people 71 (73.2%) owned small business in Ojo Local Government of Lagos State in Nigeria, it is observed that few respondents were not with their spouse.

Table 4.3 Education Qualification of the Respondents

Education Qualification	No of entrepreneurs	Percentage Score
Master	11	11.3%
HND/B.Sc	62	63.9%
OND/NCE	23	23.7%
SSCE	1	1.0%
Total	97	100%

Source: Field survey, 2022

From the table 4.3 analysis, it has shown that majority of the respondents who participated in this study have First degree respectively as their highest qualification in various disciplines with a total number of 62 respondents or 63.9%. Eleven (11) respondents or 11.3% of them have Master degree, 23 (23.7%) respondents with OND or NCE as their highest qualification and one of the respondents or 1% have SSCE certificates as their highest qualification. From the above analysis, it is quite agreed that relevant opinions were collected from the respondents due to their qualified educational certificates.

Table 4.4 Years of experience

Years of experience	No of Entrepreneurs	Percentage Score
31 years and above	9	9.3%
21 – 30 years	24	24.7%
11-20 years	56	57.7%
0 – 10 years	8	8.2%
Total	97	100%

Source: Field survey, 2022

At a glance on the entrepreneurs' year of experience was presented in table 4.4, one can easily see that the highest number of the respondents have between 11 years and twenty years, followed by 21 – 30 yearsworking experience with the total number of 24 respondents or 24.7%. The total number of 9 respondents with 9.3% has 31 years and above, while 8 respondents are having 0 – 10 years of working experience with a percentage score of 8.2%. From the indication, it is quite shown that the majority of the respondents in this study have gotten enough experience, which would be useful in their responses to this study.

Table 4.5 Nature of Business

Description	Frequency	Percentage %
Sole Proprietor	63	64.9
Partnership	34	35.1
Total	**97**	**100**

Source: Field survey, 2022

Table 4.5 revealed that 64.9 are sole proprietors while 35.1% of the respondents are partners operating partnership businesses

Table 4.4 Responses to the questions

Questions	To what extent did you encounter the following problems/challenges when obtaining loan or credit facility	Very large Extent	Large Extent	Uncertain	Little Extent	Very little Extent	Frequency/ Cumulative
1	Collateral issue	43 (44.3)	44 (45.4)	6 (6.2)	4 (4.1)	0 (0)	97 (100)
2.	Time consumption associated with loan procedure	27 (27.8)	62 (63.9)	4 (4.1)	3 (3.1)	1 (1.0)	97 (100)
3.	Unavailability of fund as the time applied for loan	2(2.1)	14(14.4)	27(27.8)	42(43.3)	12(12.4)	97 (100)
4.	Guarantor issue	48(49.5)	40(41.2)	6(6.2)	2 2(2.1)	1(1.0)	97 (100)
5.	Call back	20(20.6)	71(73.2)	3(3.1)	2(2.1)	1(1.0)	97 (100)
6.	Over dependent on the source by other people in the family	5(5.2)	18(18.6)	44(45.4)	9(29.9)	1(1.0)	97 (100)
7.	Fund available for loan meet up with the loan demanded	48(49.5)	40(41.2)	3(3.1)	0 (0)	6(6.2)	97 (100)
8.	High interest rate	**49 (50.5)**	**4 4 (45.4)**	**3 (3.1)**	**1 (1.0)**	**0 (0)**	97 (100)
9.	Those that due for loan are paid	**13 (13.4)**	**6 9 (71.1)**	**15 (15.5)**	**0 (0)**	**0 (0)**	97 (100)
10.	Term of repayment	**81 (83.5)**	**1 0 (10.3)**	**3 (3.1)**	**3 (3.1)**	**0 (0)**	97 (100)
11.	Management Problems of the bank/source of loan or credit facility	**29 (29.9)**	**6 7 (69.1)**	**1 (1.0)**	**0 (0)**	**0 (0)**	97 (100)
12.	Guarantor issue	**66 (68.0)**	**2 2 (22.7)**	**5 (5.2)**	**3 (3.1)**	**1 (1.0)**	97 (100)
13.	Policy consistencies	**67 (69.1)**	**2 0 (20.6)**	**10 (10.3)**	**0 (0)**	**0 (0)**	97 (100)
14.	Fund available for loan meet up with the loan demanded	**23 (23.7)**	**6 6 (68.0)**	**3 (3.1)**	**3 (3.1)**	**2 (2.1)**	97 (100)
15.	Taken loan or any credit facility before count	**16 (16.5)**	**7 8 (80.4)**	**2 (2.1)**	**1 (1.0)**	**0 (0)**	97 (100)
16.	You take credit or loan facility often	**19 (19.6)**	**6 7 (69.1)**	**6 (6.2)**	**4 (4.1)**	**1 (1.0)**	97 (100)
17	The purpose of obtaining the loan is working capital augmentation	**78 (80.4)**	**1 3 (13.4)**	**3 (3.1)**	**3 (3.1)**	**0 (0)**	97 (100)
18	The amount granted is the same as requested	**16 (16.5)**	**7 9 (81.4)**	**2 (2.1)**	**0 (0)**	**0 (0)**	97 (100)
19	You do not use the loan obtained for other purpose(s)	**70 (72.2)**	**2 1 (21.6)**	**2 (2.1)**	**2 (2.1)**	**2 (2.1)**	97 (100)
20	Taking loan or credit facility help your business	**20 (20.6)**	**7 5 (77.3)**	**1 (1.0)**	**1 (1.0)**	**1 0 (0)**	97 (100)

Source: Field survey, 2022

The result in the Table 4.6 above revealed that the extent at wish the respondents are facing one challenges or the other are enormous most importantly in the area of collateral 87 (89.7%) of the respondents confirmed that to very large and large extent collateral remain a big issue, 89 (91.7) of the respondents confirmed that the time consumption associated to loan processes is not friendly while guarantor issue is another critical challenge facing the micro and small enterprises because it was confirmed by 88 (990.7) respondents. Almost all respondents complain about term of repayment 91 (93.8%) of the respondents affirmed this circumstances and it shows that majority (if not all) of the micro and small business owner are in one way or the other encountered policy inconsistencies and government bureaucracy as constraint to MFBs loan acquisition. Though the research shows as well that high interest rate was one of the issues faced by MSMEs in Ojo Local Government of Lagos State because 93 ((95.9%) of respondents confirmed this in this present study, it was also reported that majority of MSMEs operators are frequently taking loan which means that most of them use the loan to augment their day to day running capital, to be précised, 94 (96.9%) confirmed it. Above all, 95 (97.9%) of the respondents confirmed that loan from micro finance banks go a long way in facilitating the activities of the micro and small enterprises, this imply that a lot of MSMEs businesses could have gone under if not the presence of micro finance bank despite the high interest charged. Therefore, that Microenterprises have access to loans of microfinance banks in Ojo local government of Lagos State and also that Micro finance banks' credits do significantly influence the growth of micro enterprises in Ojo local government of Lagos state have been tested. The two null hypotheses were rejected and alternative hypotheses were accepted.

5. Conclusion and Recommendations

The study having examined Microfinance banks' credit and the growth of microenterprises in Nigeria with special reference to Ojo Local Government of Lagos state in Nigeria, it was concluded that microfinance banks’ credit contribute immensely to the growth of microenterprises in Ojo Local Government of Lagos state in Nigeria. It was concluded based on the report (output of the data gathered) that Microenterprises have access to loans of microfinance banks in Ojo local government of Lagos State and also that Micro finance banks' credits do significantly influence the growth of micro enterprises in Ojo local government of Lagos state are to be tested.

Recommendations

In view of the discoveries above, the following recommendations are made for the enhancement of Micro credits provisions for small scale enterprises in the study area:

That policies aimed at promoting the growth of micro and small enterprises should address specific problems that affect enterprises at the lower and upper ends of the range of growth and development. Thus, approaches and resources should address the most critical determinants of growth in sub-sectors, aiming to boost access to critical resources and, perhaps, overcome the difficulties that cannot be easily varied.

The study also recommends that loan repayment period should be elongated. This will ensure that the end-users have better use of the loan, and increase ease of repayment because payment will be spread over a wide period of time and creditors will be able to make more profit.

Micro entrepreneurs must also try to source for loan from more than one source. This will lead to an increase in the volume of loan obtained and also increase in the proportion of loan used for business activities. While microfinance banks should also review interest on loan in such a way that the end-users will be able to service the loan and also have some margin on the net returns. The bureaucratic bottleneck involved in small business registration should also be removed.

The Government should urgently tackle the problem of infrastructure decay by providing basic amenities like; electricity, water and efficient transportation system which has greater impact on MSMEs operations in Nigeria.

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Appendix

AZTECA UNIVERSITY, MEXICO
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QUESTIONNAIRE

Dear Respondent,

I am a Researcher from above university currently researching on the topic: Dynamic Relationship between Micro Finance Banks` Credit and the Growth of Micro Enterprises in Ojo Local Government of Lagos State, Nigeria. It would be appreciated if you can help me complete this questionnaire, as your response shall be treated confidentially and anonymously. Thank you

SECTION A: SOCIO-ECONOMIC CHARACTERISTICS OF RESPONDENTS

INSTRUCTION: Kindly tick {√} the most appropriate options that express your opinion on the questions below. Note that Very large Extent = 5, Large Extent = 4, Uncertainty = 3, Little Extent = 2 and Very Little Extent = 1

Please complete the appropriate information as required by ticking the gap provided.

1. Sex: Male [ ] Female [ ]

2. Marital status: Single [ ] Married [ ] others [ ]

3. Educational Qualification: SSCE [ ] ND/NCE [ ] BSc/HND [ ] Masters [ ] Others [ ]

4. Years of experience: 0 - 10 [ ] 11 - 20 [ ] 21 - 30 [ ] 31 and above [ ]

5. Nature of business by ownership. Sole Proprietor [ ] Partnership [ ]

SECTION B: MICRO CREDIT LOANS OBTAINED BY MICRO BUSINESS

	To what extent did you encounter the following problems/challenges when obtaining loan or credit facility	**Very large Extent**	**Large Extent**	**Uncertain**	**Little Extent**	**Very little Extent**
1	Collateral issue					
2.	Time consumption associated with loan procedure					
3.	Unavailability of fund as the time applied for loan					

4.	Guarantor issue					
5.	Call back					
6.	Over dependent on the source by others people in the family					
7.	Fund available for loan meet up with the loan demanded					
8.	High interest rate					
9.	Those that due for loan are paid					
10.	Term of repayment					
11.	Management Problems of the bank/source of loan or credit facility					
12.	Guarantor issue					
13.	Policy consistencies					
14.	Fund available for loan meet up with the loan demanded					
15.	Taken loan or any credit facility before count					
16.	You take credit or loan facility often					
17	The purpose of obtaining the loan is working capital augmentation					
18	The amount granted is the same as requested					
19	You do not use the loan obtained for other purpose(s)					
20	Taking loan or credit facility help your business					