

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

How Do the Recital of Small and Medium Enterprises (SMEs) in Nigeria Getting Affected by Microfinance Bank Interest Rate?

Dr. Olaifa Olubunmi Ikeolape

Senior Lecturer, Department of Management and Accounting Lautech,
Ogbomoso, Oyo State, Nigeria

Abstract:

This study aimed to find the influence of interest rate of Microfinance Bank on the recital of Nigerian SMEs. The population is the whole amount of staffs from Olowolagba Microfinance Bank, Ogbomoso, Oyo state, Nigeria. The sample frame for this study was random sampling techniques and consists of the staffs in Olowolagba Microfinance Bank, Ogbomoso. However, there are twenty (25) and the sample size is made up of twenty-five (25) of those staffs. In carrying out this study, the researcher made uses of both primary and secondary sources of data. With the help of descriptive and inferential statistics research design and regression analysis as test the testing of hypothesis has been conducted. The study suggested that transparent national development goals are required to fulfill objectives of the SMEs sector. It has been revealed that proper policy formulation is not only solution as it often led to failure in case of policy employment.

Keywords: Microfinance bank, interest rate, SMEs and performance

1. Introduction

Just like any developing country, Nigeria also aims to provide easily accessible financial services to the poor in terms of bank loans, insurance, and pension funds. But the major problem lies with the system, as the available credit mainly handled by community savings groups or informal money-lenders who often charge a huge amount of interest. This interest, needless to say, becomes almost impossible for local entrepreneurs. This problem always highlights the need for formal market.

For long period of time mobilization of savings at local level has become important element in case of community development. As per Egwuatu (2008), loans are generally taken from moneylenders, community savings. Highlighted by The Economist, May 18th 1996, contribution of microfinance in case of entrepreneurship activities is growing. Entrepreneurs tend to add value through commercialization of new products, which creates job opportunity. Small and Medium Enterprises (SMEs) activity are growing (The Global Entrepreneurship Monitor (GEM)). Ultimately, new ideas and economic development are being connected by entrepreneurs. Many legal formalities are being handled by United States of America, the Netherlands and Japan to contribute towards economic growth through entrepreneurial activities. This is the reason why government should focus on this.

1.1. Statement of the Problem

Meagerness of capital for production, improper financial assistance from the banking institutions, undeveloped infrastructural facilities are some of the major problems of SMEs operators in Nigeria. Challenges of micro enterprises and of their owners had been highlighted by Aderibigbe (2011). Poor suffer from inability to afford tangible collateral, hence not able to get credit. The Small and Medium Enterprises (SMEs) are suffering from many problems, some of which governments in Nigeria had tried to solve but did not succeed much. For developing countries microfinance institutions are acting as an agent. Many innovative ideas are also suffering a lot due to lack of financial resources. Slow economic activities also contributing to this. This is the reason why formation of MFIs so as to support the SMEs operators are being required (Oshitola, 2012). To make sustainable Entrepreneurship development SMEs can be a solution for Nigeria.

1.2. Objectives of the Study

The primary objective of this research is to find the effect or influence of interest rate of Microfinance Bank on the recital of SMEs in Nigeria. Other allied purposes are

- Finding the assistances of Microfinance Bank interest rate policy on the recital of SME's.
- Inspect the substantial connection between Microfinance Bank interest rate policy and the performance of Nigerian SMEs.

1.3. Research Hypotheses

Keeping in mind about the research objectives following null hypothesis has been formulated.

- Microfinance Bank interest rate policy has no significant relationship with the performance of SMEs in Nigeria.

2. Literature Review

In attempting to conceptualize small and medium enterprises (SMEs) in Nigeria, some points need to be stressed. First, there is no generally accepted definition of small or medium businesses because of the classification of businesses into large, medium or small scale is a subjective and qualitative judgment (Ekpenyong, 2011). Secondly, small businesses are generally quite responsive to their environment and our environment changes fast. Changes in the environment therefore affect what constitutes a small business at a particular point in time. Thirdly, what the definition aims at is to set some limits (lower and upper) that will assist in achieving the set purpose. Such limits can be in terms of level of capitalization, sales volume, number of employees, etc. Lim (2008) argued that it is quite possible, for instance, that within the same sector, a business can be 'small' by capitalization and may not be deemed small by virtue of numbers of people employed. Therefore, definitions and concepts of SMEs continue to evolve according to particular scholars, environment and disciplinary backgrounds as well as their perceptions of present-day realities. In the developed or industrialized countries like United State of America and Canada, small business is defined in terms of annual turnover and the number of paid employees. In 1987 for example, the manufacturing sector of the United State of America has as small-scale business as the number of workers are 20 and 49, while the intermediate engagement between 50 and 499 workers in the manufacturing sector. In the same timeframe UK based small business employed workers ranging from 1 and 99 and in case of medium scale it is 100 to 499 staffs in manufacturing sector. According to Ekpenyong (2009), for Japan level of employment it is between 20 and 49 for small scale and ranges between 50 to 499 for the manufacturing sector. In the Newly Industrialize Countries, the definition of SMEs also varies and is mostly based on the number of employees and the value of assets. In Taiwan, the small-scale business was defined as a business with less than 5 employees and the medium as the business with between 10 and 499 employees in 1991 in the manufacturing sector.

2.1. Theoretical Review

2.2.1. Segmented Markets Theory

This theory assumes that markets for different-maturity bonds are completely segmented. The interest rate for each bond with a different maturity is then determined by the supply of and demand for the bond with no effects from the expected returns on other bonds with other maturities. In other words, longer bonds that have associated with them inflation and interest rate risks are completely different assets than the shorter bonds. Thus, the bonds of different maturities are not substitutes at all, so the expected returns from a bond, which has one maturity and has no effect for the demand of a bond for another maturity. It has been shown that lower inflation and interest rate risks have been noticed for bonds of shorter holding periods. The segmented market theory predicts that yield on longer bonds will generally be higher, which explains why the yield curve is usually upward sloping.

2.2.2. The Liquidity Premium Theory

Throughout our discussion of bonds, we emphasized that even the default-free bonds are risky because of uncertainty about inflation and future interest rates. The reason for the increase in inflation risk over time is clear-cut. The purchasing power of the return (the *real* return) is the main concern for bondholders. It is the received amount from bonds not just the nominal dollar value of the coupon payments. Uncertainty about a bond's real return is being created by the risk of inflation. The more time goes on, the more level of uncertainty increases with its time to maturity. An incongruity can be evoked from Interest-rate between investor's investment horizon and a bond's time to maturity. Its decision regarding selling of bonds taken by shareholders prior to maturity then fluctuations in the interest rate generate capital gains or losses. As the term of the bond increases the more price changes can be observed. Generally, compensation is being required for the buyers who invest in long-term bonds as they have more risks.

2.2.3. The Expectations Theory

The key assumption behind this theory is that buyers of bonds do not prefer bonds of one maturity over another, so they will not hold any quantity of a bond if its expected return is less than that of another bond with a different maturity. Bonds that have this characteristic are said to be *perfect substitutes*. Note that what makes long term bonds different from the short-term bonds are the inflation and interest rate risks. Therefore, this theory essentially assumes away inflation and interest rate risks.

2.3. Empirical Review

Accessing low interest credit is considered to be an important factor in increasing the performance of SMEs. It is thought that access to credit enables Small and Medium Enterprises to enhance their financial performance. The main objective of microcredit is to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions. It is argued that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to low interest credit further increases SME's risk-bearing abilities; improve risk-coping strategies and enables consumption smoothing over time. With these arguments, microfinance lending is assumed to improve the performance of SMEs.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME performance because they guarantee sustainable access to credit by the SMEs. From empirical studies carried out, low interest lending by MFIs may not be the greatest financial services for maximum of micro entrepreneurs. No significant amount of impact has been observed on the recital of SMEs among Hyderabad, India based the slum dwellers.

Another study found no significant association for probability of being below the poverty line and the quality of food that people took. Some proactive nature of findings revealed that

- Low interest lending based microenterprises do not get benefit from microfinance;
- Relatively well-established smes can perform better in case of microfinance lending
- Huge mainstream with incomes below the poverty line actually ended up with less incremental income after getting micro-loans compared to a control group which did not get such loans. It is argued that, the indicators of success of microcredit namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism". Carrying out research in three countries; nigeria, malawi and ghana, it was concluded that, there was little evidence to suggest any significant and sustained impact of microfinance lending on clients in terms of sme development, increased income flows or level of employment. The focus in this argument is that improvement to access to low interest lending by mfris and market for smes was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Stimulating investment interest in new ventures has been created by Nigerian SMEs through innovation capability. As per Agyapong (2010), Ghanaian firms had been criticized for not being innovative. Jun & Deschoolmeester (2003), had discussed about the shift in paradigm from traditional way to advanced technology, strategy, skills. SMEs had been observed as an alternative way to generate job opportunities through its nature of facilitating accessibility to poors (Mukras, 2003).

3. Methodology

This study makes use of both primary and secondary data, primary data were sourced from oral interview with top management staff and questionnaire, whilst, the secondary source of data involves information gotten from already conducted research work that relates to the study. This includes textbooks, journals, magazines, Population refers to all the members eligible for our research. All the employees of Olowolagba Microfinance in Ogbomosho, Oyo state, Nigeria are the population of this study. However, the population size is thirty. The sample size of this study comprised all staffs of Olowolagba Microfinance in Ogbomosho, Oyo state, Nigeria. While a sample size of twenty-five (25) respondents were randomly selected simple random sampling technique was used. A regression analysis was used as a method of data to analyse the hypotheses of this study

3.1. Model Specification

In order to make the regression analysis possible, the study adopt the following analytical model:

$$IR = a + b_1X_1 + b_2X_2 + e \quad (1)$$

Where: IR= interest rate, a= constant, b_1X_1 = monthly income, b_2X_2 = accessibility and availability of finance, e= error

4. Results and Discussion

Regression coefficient was used to test if there is any significant relationship between organization SMEs growth and productivity (criterion/dependent variable) and interest rate (predictor/independent variables). The ordinary least square regression analysis was used. The result from the analysis shows that a low relationship exists between interest rate and organization growth and productivity; this is depicted by the R value of 0.203. From the regression results for the, it is evident than the R value of 0.041. This implies that the two dependent variables of interest rate lead to organization growth and the productivity can be enhanced in order to reduce poor performance in an organization. This is an indication that corporate governance explained 41% of the variance in the organization performance. a. Predictors: (Constant), the productivity can be enhanced in order to reduce poor performance in an organization, interest rate leads to organization growth. Conclusively interest rate affects monthly income of SMEs.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.203 ^a	.041	-.002	.798

Table 1: Model Summary

Source: SPSS Table Result, 2019

a. Predictors: (Constant), Availability and Accessibility Sources of Finance to Business, Monthly Income

The significant value of 0.389 implies that interest rate is relatively significant to availability and accessibility source of finance to SMEs. Nevertheless, interest rate leads to SMEs growth.

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.229	2	.615	.964	.389 ^a
	Residual	28.687	45	.637		
	Total	29.917	47			

Table 2: ANOVA^b

Source: SPSS Table Result, 2019

Dependent Variable: interest rate leads affect SMEs monthly income. Using the overall regression coefficients, it is possible to obtain an empirical equation to explain the relationship between CCDEenQ interest rate and SMEs performance in Nigeria

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.234	.432		5.174	.000
	monthly income	.167	.122	-.202	-1.369	.178
	availability and accessibility sources of finance to business	.109	.256	.063	.426	.672

Table 3: Coefficients^a

Source: SPSS Table Result, 2019

Therefore, $IR = 2.234 + 0.167x_1 + 0.109x_2 + 0.432$. Thus 2.234= interest rate, when all other variables are zero. An increase in interest rate decreases SMEs growth by 0.167. An increase in interest rate will increase the decrease productivity by 0.432.

5. Conclusion and recommendations

5.1. Conclusion

In Nigeria, development of SMEs and its effective promotion has not been taken seriously. Economy has faced this problem. Nigeria based SMEs sector aim to be developed by programs from government institution. Nowadays, Non-Governmental organization and Donor Agencies are also promoting SMEs. Interest rate has been highlighted as one of the major problems for SMEs sector in Nigeria. Credit needs of the SMEs have not been fulfilled by traditional financial institutions. Hence, more requirements of economic reforms have been highlighted. Moreover, source of credit from the informal institutions is often so inadequate. Huge number of inhabitants is living under miserable paucity with a dawdling economic development although there are numerous natural resources.

5.2. Recommendations

Following are some suggestions which aim to promote SMEs sub-sector in Nigeria:

- Requirement to create flawless national development objectives to fulfill the needs of the SMEs. Focus should be placed on policy implementation rather than generation of policy.
- Government can accelerate the development of markets for financial services suited to the special characteristics of SMEs by promoting product innovation and building institutional capacity. In financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable. 3. through specialized or development-oriented banking or financing institutions easy availability to credit. Creation of well-funded National Credit Guarantee Fund which will operate as a buffer for credit facilities from banks and other financial institutions.

6. References

- Aes, Z., Morek, R., and Young, B. (2009) "Productivity Growth and Size Distribution". In AcsZoltan, Bo Carlson, and Charlie Karlsson, ed, Entrepreneurship, Small and Medium-Sized Enterprises, and Macroeconomy. Cambridge: University Press.
- Akande and Ajagbe (2011). "Impact of monetary and fiscal policy on manufacturing company".
- Aderibigbe, O. (2011) "Beyond Bank Consolidation: Effects on Banking and Real Sectors" in CBN Fourth Annual Monetary Policy Conference on Consolidation of Nigeria's Banking Industry. November, 18 - 19. pp 81 - 87
- Basu, A., Blavy, R. and Yulck, M. (2005) "Microfinance in Africa: Experience and Lessons from Selected African Countries" IMF Working Paper 04/1 7 4, Washington.
- Bensel, R. F. (2001) The Political economy of American Industrialization, 1877 - 1990, EH.NET, PP 1- 6
- Coase, R. H. (1937) "The Nature of the Firm". Econometrica. November (1988) "The Firm, the Market and the Law". Chicago: University of Chicago Press.
- Cottareli, C., Dell' Ariccia, G. and Vladcover-Heller, (2001) "Early Risers" Dangote, A. (2001) "Developing Manufacturing Industries in Nigeria" CBN First annual Monetary Policy Conference proceedings: Growing the Nigerian Economy. Abuja, 5 - 6, November. Pp76 - 83.

- viii. Davis, S. J., Haltiwanger, J., and Schuh, S. (2003) "Small Business and Job Creation: Dissecting the Myth and Reassessing the Facts". National Bureau of Economic Research, Working Paper No. 4492, October.
- ix. Ekpenyong, D. B. (2011) "Problems of Small Business and why they Fail." Journal of General Studies, Bayero, University, Vol. 3, No.1 (2011) "Financing Small Enterprising in Nigeria: Sources, Constraints and Prospect." A Paper Presented at the West African SubRegional Seminar on Enterprise Credit, Accra, Ghana; March 15 - 17
- x. Egwuatu, A. (2008) "Promoting Entrepreneurship and Small Businesses in Cameroon." In FadahunsiOlu and TunjiDaoduedts., Small and Medium Enterprises Development: Policies, Programmes and Prospects. West African Management Development Institutes Network (W AMDEVN): pp 82 - 108.
- xi. Essien, O. E. (2001) "The Role of Development Finance Institutions (DFIs) in the Financing of Small-Scale Industries (SSIs)" CBN Bullion, Abuja, Nigeria: pp 3 - 7
- xii. Hallberg, K. (2011) "A Market Oriented Strategy for Small and Medium Scale Enterprises". IFC Discussion Paper No. 40, The World Bank, Washington D.C.
- xiii. Hagnauer, J. R. (2005) "Delivering Business Development Services to SMEs on a Sustainable Basis: Can it be Done?" Draft Note, Small Enterprise development Unit (PSDSE), World Bank, Washington, D.C.
- xiv. Haltiwanger, J. (2005) "Job Creation and Destruction: Cyclical Dynamics". In AcsZoltan, Bo Carlson, and Charlie Karlson, eds., Entrepreneurship, Small and Medium-Sized Enterprises, and the Macro-Economy. New York: Cambridge University Press.
- xv. Hammond, P. (2007) "Magnitude and Demand for Credit by SMEs." A Paper Presented at the West African Sub-Regional Seminar on Enterprises Credit, Accra, Ghana: March, 15 - 17.
- xvi. IFC, (2010) International Financial Statistics
- xvii. IFC, (2010) International Finance Corporation Publication
- xviii. Iniodu, P. U. (2008) "Smallholder Credit for Agricultural Development: A Model for Akwalbom State." In Ukpong, I. I. and Iniodu, eds., Priorities for the Development of Akwalbom State. Center for Development Studies, Uyo: pp 15 1 - 1 75.
- xix. Ikechukwu S. (2008) "SMEs Borrowing Constraint and Banking Relationship in japan"
- xx. Ihyembe, Olajide, Adelaja and Dayo (2000) "Industrial Development Through the Promotion of SMEs
- xxi. Kayode, M. O. (2004) "Towards a Re-Birth of Nigeria's Economic Development." A Paper Delivered at the Nigerian Economic Society Fifth Annual Public Lecture, Abuja: February, 24
- xxii. King, R. G. and Ross, L. (1993) "Finance, Entrepreneurship and Growth: Theory and Evidence" Journal of Monetary Economics, Vol. 32, December: pp 513 - 542
- xxiii. Little, I. M., Mazundar, D. and Page, J. M. (2011) "Small Manufacturing Enterprises: A Comparative Analysis of India and other Economies." New York: Oxford University Press.
- xxiv. Nasar, S. (2005) "Myth: Small Business as Job Engine." The New York Times, March 25.
- xxv. Nchari, A. N. (2011) "Small Scale Enterprises Development and the Role of Education and Training." Education, Employment and Human Resources Development, Report of a Sub-Regional Intensive Training Course, B. C. Sanyal, Cameroon: pg 138.
- xxvi. Ndubusi (2004) "Investigating the Factors Inhibiting SMEs.
- xxvii. Obadina, T. (2009) "Nigeria's Economy at a Cross-Road." Africa Recovery, Vol. 13, No.1: June 8 - 14; pg 7 -16.
- xxviii. Okraku C. G and Croffie K. E. (1913) "Management of Small-Scale Business in Nigeria." Enugu, Fourth Dimension.
- xxix. Odetola, T. O. (2007) "Alternative Sources of Credit Delivery to Finance SMEs." In FadahunsiGlu and TunjiDaoduedts., Small and Medium Enterprises Development: Policies, Programmes and Prospects. West African Management Development Institutes Network (W AMDEVN): pg 53 - 60.
- xxx. Odife (2006) "Capital Market and the Development of SMEs
- xxxi. Osinowo, O.A. (2010) "Small and Medium scale enterprise"
- xxxii. Oshitola, E. (2012) "Access to Bank Credit in Sub-Saharan Africa: Key Issues and Reform Strategies". International Monetary fund (IMF) Working Paper WP/05/166, August.
- xxxiii. SMEDAN, (2005) "Small and Medium Enterprises and Funding in Nigeria". <http://cc.msnsnscache.com>
- xxxiv. Snodgrass, D. and Biggs, T. (2010) "Industrialization and the Small Firm: Patterns and policies." International Center for Economic Growth.
- xxxv. Stanworth, M. J. K. and Curran, J. (1976) "Growth and the small Firm: An Alternative View." Journal of Management Studies; pp 95 - 110.
- xxxvi. Synge, R. (1993) Nigeria - The Way Forward Euromoney Books. Nestor House, Play House Yard London. Pp 103 - 112.
- xxxvii. Udechukwu. (2003) "Development of Small and Medium enterprises in Nigeria". Investing the Problems and Prospect of SMEs.
- xxxviii. United Nations Development Programme (2001) "Financing for Development" International Conference on Financing for the development, Facilitators Working Paper: http://www.UN.org/esq/ffd/0501pc_facilitators.htm
- xxxix. Uzor, O. O. (2004) "SMEs Cluster Development in South Eastern Region of Nigeria" <http://www.iwim.uni-bremen.de>.
- xl. World Bank, (2011) "Boom, Crises and Adjustment: The macroeconomic Experience of Developing Countries. Washington D. C. New York.
- xli. Wynarczyk, P., Watson, R., Storey, D. J., Short, H. and Kersey, K. (1993) "The Managerial Labour Market in Small and Medium Sized Enterprises." London, Routledge.