IMPACT OF MICRO FINANCE LOANS ON SMALL SCALE ENTERPRISE GROWTH

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ABSTRACT

This paper examines the impact of micro finance loans on small scale enterprises using purposive and simple random sampling technique to draw the sample from the population of SMEs in Gombe state. Data were obtained through well structured 5 point likert scale questionnaire and analyzed using ordinal logic regression and chi-square statistical tools. The result shows that micro finance loans have significant impact on the growth of small scale enterprises. These finding corroborates with the study of Babalola, Moradeyo and Olowe (2013). It is recommended that small scale enterprise should be encouraged to access fund through micro finance institutions and the micro finance institutions should ensure enabling environment for small scale enterprises to access their loan facilities.

Keywords: Growth, Small Scale Enterprises, Micro-Finance Loan, Gombe state.

Introduction

Small and medium enterprises (SMEs) play an important role in the development of a nation’s economy. The reasons for this are the fact that SMEs provide benefits such as job creations, knowledge spillover, economic multipliers, innovations driver and cluster development in an economy (Chinaemerem, 2012).

SMEs represent about 90% of the manufacturing/ industrial sector in terms of enterprises in the Nigerian economy. Studies showed that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in the Europe (Banji, 2010). Nadada (2013) observes that the number of MSMEs in Nigeria is at 17,284,671 with total employment of 32,414,884. Despite the encouraging numbers of SMEs and the huge percentage they occupied in the economy, the contribution they make to the economy’s GDP is quite unfortunate as Banji, (2010) observes that SMEs contribute 1% of GDP compared to 40% in Asian countries and 50% in the Europe and US.

In Nigeria, credit has been recognized as an essential tool for promoting small and Medium Enterprises (SMEs). The small and medium scale entrepreneurs in rural areas lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Consequently they depend on families, friends and other informal sources of funds to finance their businesses. However, there had been consensus on the fact that to increase the level of growth and development of SMEs, there is need to strengthen their financial capacity through credit facility as a means for providing the required capital base, this necessitate the emergence of micro finance institutions (Odebiyi & Olaoye, 2012).

Microfinance is a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people, who are economically active, but financially constrained and vulnerable in various countries. Microfinance covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas for enabling them to raise their income level and living standards in various countries (Babalola, Moradeyo & Olowe, 2013)

In Nigeria, one of the greatest obstacles that Small and Medium Enterprises (SMEs) have to grapple with is 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 such. This situation has led invariably to many of them closing shop, resulting in the loss of thousands of unskilled, semi and skilled jobs across the country (Babalola, Moradeyo & Olowe, 2013).
Various researches had been carried out on the impact of microfinance loans on SMEs growth, most of these researches that uses binomial statistical tool in analyzing their data failed to observe the influence of the demographic characteristics of SMEs in considering the impact of microfinance loans on their growth. This renders their findings inconclusive as they cannot precisely identify the relationship of a specific impact to the characteristic of the firms. Gulani and Usman (2013), Idowu (2008). It is against this background the study aim to use ordinal logic regression statistical tool to analyze the impact of microfinance loan on small scale enterprises.

The main objective of this research work is to examine the impact of microfinance loans on small scale enterprises growth in Nigeria.

**Definition of SMEs**

Central Bank of Nigeria defined Small and Medium Scale Enterprises (SMEs) as an enterprise that has an asset base (excluding land) of between N5Million – N500Million and labour force of between 11and 300.

Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) defines MSMEs as an enterprise that has an asset base (excluding land) of less than N5million with less than 10 employees for “MICRO”, N5million to less than N50million with 10 – 49 employees for “SMALL” and N50million to less than N500million with 50 – 199 employees for “MEDIUM”.

Alternative Securities Market (ASEM) for emerging businesses defines SMEs as an enterprise with an asset base excluding land and building of N10million to less than 100million with 10 – 49 employees for “SMALL” and N100million to less than N1billion with 50 – 199 employees for “MEDIUM”.

Banji (2010) defines SMEs as business with turnover of less than N100million and/or less than 300 employees.

It can be observed that the scope of these definitions is within the same framework, but notwithstanding, the study adopts the definition of SMEDAN.

**Concept and Nature of Microfinance Bank**

The Central Bank of Nigeria recently introduced the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria to empower the vulnerable and poor people by increasing their access to factors of production, primarily capital. To achieve the goals of this phase of its banking reforms agenda, the apex bank seeks to re-brand and re-capitalizie hitherto community banks, to come under two categories of microfinance banks. They are MFBs licensed to operate as a unit within local governments and the other licensed to operate in the state or the federal capital territory with a minimum paid up capital base and shareholders’ funds of N20million and N1billion respectively. Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 2003).

The establishment of microfinance banks is to serve the following purposes according to Central bank of Nigeria, (2005); provide diversified, affordable and dependable financial services to the active poor; mobilize savings for intermediation; create employment opportunities and increase the productivity of the active poor in the country; enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process; provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on the non-recourse case basis.

**Microfinance loans and SMEs Growth**

Access to finance is only key to SMEs growth globally, Nigeria inclusive. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs development. Lack of access to financial institutions also hinders the ability for entrepreneurs in Nigeria to engage in new
business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. Diagne and Zeller (2001) argue that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. The idea of creating Micro Finance Institutions (MFIs) is to provide an easy accessibility of SMEs to finance/ fund particularly those which cannot access formal bank loans. Microfinance banks serve as a means to empower the poor and provide valuable tool to assist the economic development process. Idowu (2008) agrees that access to loans is one of the major problems facing SMEs in Nigeria. Sunitha (2010) posits that the main objective micro credit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Gubert and Roubaud (2011) study the impact of microfinance institution (MFI) serving small informal enterprises in Antananarivo, Madagascar using comparative time series analysis and propensity-score matching technique. Their findings indicate that clients’ enterprises recorded better average performance than enterprises without funding. Babalola, Moradeyo and Olowe (2013) investigate the impact of microfinance on SMEs growth in Nigeria using Pearson correlation coefficient and multiple regression analysis. Their findings reveal that financial services obtained from MFBs have positive significant impact on SMEs growth in Nigeria. Wang (2013) studies the impact of microfinance on the development of SMEs in China. The study shows that microfinance plays a crucial role in the revenue and profit growth of SMEs. Gulani and Usman (2013) evaluate the challenges Small and Medium Scale Enterprises (SMEs) face in financing new or existing businesses in Gombe State using chi-square. The result of the analysis revealed that: There is no significant difference in the difficulties SMEs face when accessing finance from various sources, there is a significant difference in the level of awareness of MFIs by SMEs. Kolawole (2013) is of opinion that the promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development. In view of the above review of researches, it points out that all their findings are consistent in terms of the role SMEs play in an economy and the impact of micro finance institutions on their growth.

**Methodology**
The study employs descriptive research design. The population of the study consists of all SMEs operating in Gombe State. However, the study adopted purposive and simple random sampling techniques to draw the sample of small scale enterprises from the population. The small scale enterprises were randomly drawn from three (3) local government areas; namely, Akko, Funakaye and Gombe. These local governments were chosen because they constitute the main commercial areas hence have greater number of small scale enterprises in the state. Well structured questionnaire was design using 5 point likert scale to obtain data from the sample. A total of 90 questionnaires were distributed in the study area (30 questionnaires to each Local Government Area) via research assistants. However, only 76 of the administered questionnaires were returned for analysis (36 from Gombe, 20 from Akko and 20 from Funakaye). This implies that 76 small scale enterprises were used for the study. Small scale enterprise growth was measured as a function of increase in profitability, increase in number of employees, technological advancement, innovation and expansion in size of operation. The collected study data were analyzed using ordinal logic regression and chi-square method of analysis.

**Data Presentation and Analysis**
Demographic Characteristic of Small Scale Enterprises and Associational Variations in Considering the Impact of Microfinance Loans on Small Scale Enterprises Growth.

Table 1 Parameter Estimates on profit

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>[profit = 1.00]</td>
<td>-2.445</td>
<td>.935</td>
<td>6.835</td>
<td>1</td>
<td>.009</td>
<td>-4.277</td>
<td>-.612</td>
<td></td>
</tr>
<tr>
<td>[profit = 2.00]</td>
<td>-1.401</td>
<td>.767</td>
<td>3.332</td>
<td>1</td>
<td>.068</td>
<td>-2.904</td>
<td>-.103</td>
<td></td>
</tr>
<tr>
<td>[profit = 3.00]</td>
<td>-0.519</td>
<td>.562</td>
<td>0.852</td>
<td>1</td>
<td>.356</td>
<td>-1.621</td>
<td>.583</td>
<td></td>
</tr>
<tr>
<td>[profit = 4.00]</td>
<td>-0.339</td>
<td>.525</td>
<td>0.416</td>
<td>1</td>
<td>.519</td>
<td>-1.368</td>
<td>.691</td>
<td></td>
</tr>
</tbody>
</table>

Source: researcher’s computation

From the figure above, it can be observe that years in operation is associated with the considering the odds that micro finance loan have an impact in the profit of small scale enterprise with an odd of 1.407 (95% confidence level), Wald=6.019 and P-value of 0.14 which is less than 0.05 significance level. All other demographic characteristics are not associated in considering the odds.

Table 2 Parameter Estimates on employees

<table>
<thead>
<tr>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
from the table above, none of the demographic characteristics is associated in considering the odds that microfinance loan have impact in the increase in number of employees of small scale enterprise as their P-value are all higher than 0.05 significance level.

### Table 3 Parameter Estimates on technology

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threshold</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.00</td>
<td>-5.438</td>
<td>1.043</td>
<td>27.170</td>
<td>1</td>
<td>.000</td>
<td>-7.483</td>
<td>-3.393</td>
<td></td>
</tr>
<tr>
<td>2.00</td>
<td>-3.741</td>
<td>.923</td>
<td>16.422</td>
<td>1</td>
<td>.000</td>
<td>-5.551</td>
<td>-1.932</td>
<td></td>
</tr>
</tbody>
</table>

Source: researcher’s computation
From the above table, it can be observe that type of business (trading) is associated the odds of considering micro finance loan have impact on the technological advancement of small scale enterprise with P-value of 0.01 and wald= 11.825

Table 4 Parameter Estimates on innovation

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threshold</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[innovation = 1.00]</td>
<td>-2.622</td>
<td>1.056</td>
<td>6.167</td>
<td>1</td>
<td>.013</td>
<td>-4.692</td>
<td>-.553</td>
<td></td>
</tr>
<tr>
<td>[innovation = 2.00]</td>
<td>-.829</td>
<td>.846</td>
<td>.960</td>
<td>1</td>
<td>.327</td>
<td>-2.486</td>
<td>.829</td>
<td></td>
</tr>
<tr>
<td>[innovation = 3.00]</td>
<td>.564</td>
<td>.828</td>
<td>.464</td>
<td>1</td>
<td>.496</td>
<td>-1.059</td>
<td>2.188</td>
<td></td>
</tr>
<tr>
<td>[innovation = 4.00]</td>
<td>2.912</td>
<td>.899</td>
<td>10.480</td>
<td>1</td>
<td>.001</td>
<td>1.149</td>
<td>4.675</td>
<td></td>
</tr>
<tr>
<td><strong>Location years</strong></td>
<td>-.341</td>
<td>.309</td>
<td>1.216</td>
<td>1</td>
<td>.270</td>
<td>-.946</td>
<td>.265</td>
<td></td>
</tr>
</tbody>
</table>
From the above table, it can be observe that, ownership (sole ownership), and nature of business (trading and manufacturing) are associated with considering the odds that micro finance loan have impact on innovation of small scale enterprises with P-value of 0.011, 0.028 and 0.013; wald= 6.442, 4.804, and 6.126 respectively.

**Table 5 Parameter Estimates on expansion in size**

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threshold</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[size = 1.00]</td>
<td>-2.550</td>
<td>.995</td>
<td>6.565</td>
<td>1</td>
<td>.010</td>
<td>-4.500</td>
<td>-.599</td>
</tr>
<tr>
<td>[size = 2.00]</td>
<td>-1.483</td>
<td>.877</td>
<td>2.858</td>
<td>1</td>
<td>.091</td>
<td>-3.203</td>
<td>.236</td>
</tr>
<tr>
<td>[size = 3.00]</td>
<td>.261</td>
<td>.830</td>
<td>.098</td>
<td>1</td>
<td>.754</td>
<td>-1.367</td>
<td>1.888</td>
</tr>
<tr>
<td>[size = 4.00]</td>
<td>2.547</td>
<td>.890</td>
<td>8.187</td>
<td>1</td>
<td>.004</td>
<td>.802</td>
<td>4.293</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ownership=1.00]</td>
<td>-.014</td>
<td>.487</td>
<td>.001</td>
<td>1</td>
<td>.977</td>
<td>-.969</td>
<td>.941</td>
</tr>
<tr>
<td>[ownership=2.00]</td>
<td>0</td>
<td>.</td>
<td>.</td>
<td>0</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>[education=1.00]</td>
<td>.392</td>
<td>.763</td>
<td>.263</td>
<td>1</td>
<td>.608</td>
<td>-1.888</td>
<td>1.104</td>
</tr>
</tbody>
</table>
from the above table, it can be observe that years of operation is associated with considering the odds that microfinance loan have an impact on expansion in size of operation of small scale enterprises with P-value of 0.022 and wald=5.275.

**Impact of Micro finance Loan on Small Scale Enterprises.**

**Table 6 Descriptive Statistics**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>increase in profit</td>
<td>76</td>
<td>3.5263</td>
<td>1.07671</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>increase in employees</td>
<td>76</td>
<td>3.3026</td>
<td>1.09569</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>technological advncement</td>
<td>76</td>
<td>3.4605</td>
<td>1.18255</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>innovation</td>
<td>76</td>
<td>3.6974</td>
<td>.99358</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>expansion in size</td>
<td>76</td>
<td>3.6842</td>
<td>.99613</td>
<td>1.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Source: researcher’s computation

The table above shows the descriptive statistics of the variables for measuring growth of small scale enterprises. Increase in profit, increase in employees, technological advancement, innovation and expansion in size.

**Table 7 Test Statistics**

<table>
<thead>
<tr>
<th></th>
<th>increase in profit</th>
<th>increase in employees</th>
<th>technological advncement</th>
<th>innovation</th>
<th>expansion in size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square df</td>
<td>34.000</td>
<td>18.605</td>
<td>17.947</td>
<td>40.711</td>
<td>39.000</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.000</td>
<td>.001</td>
<td>.001</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: researcher’s computation

From the above table, it shows that microfinance loan have positive significant impact on all the variables used for measuring growth of small scale enterprises. This is explained by their P-value; 0.000, 0.001, 0.001, 0.000 and 0.000 for increase in profit, increase in employees, technological advancement, innovation and expansion in size respectively which are lower than 0.05 significance level.
from the above table, it can be observe that years of operation and nature of business(manufacturing) are associated with considering the odds that late approval of loan is among the constraint faced in accessing micro finance loan by small scale enterprises with their P-value of 0.02 and 0.032; wald 5.408 and 4.619 respectively.

Table 9 Parameter Estimates on high interest rate
from the table above, it can be observe that years of operation and nature of business (manufacturing) are associated with considering the odds that high interest rate is among the constraint faced in accessing micro finance loan by small scale enterprises with their P-value of 0.021 and 0.007; wald 5.355 and 7.226 respectively.

Table 10 Parameter Estimates loan duration

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thrashold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[interest = 1.00]</td>
<td>-3.126</td>
<td>.894</td>
<td>12.232</td>
<td>1</td>
<td>0.00</td>
<td>-4.877</td>
<td>-1.374</td>
</tr>
<tr>
<td>[interest = 2.00]</td>
<td>-1.934</td>
<td>.838</td>
<td>5.329</td>
<td>1</td>
<td>0.021</td>
<td>-3.576</td>
<td>-.292</td>
</tr>
<tr>
<td>[interest = 3.00]</td>
<td>-.959</td>
<td>.815</td>
<td>1.384</td>
<td>1</td>
<td>.239</td>
<td>-2.556</td>
<td>.638</td>
</tr>
<tr>
<td>[interest = 4.00]</td>
<td>1.041</td>
<td>.825</td>
<td>1.592</td>
<td>1</td>
<td>.207</td>
<td>-.576</td>
<td>2.659</td>
</tr>
<tr>
<td>Location</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ownership=1.00]</td>
<td>-.712</td>
<td>.308</td>
<td>5.355</td>
<td>1</td>
<td>0.021</td>
<td>-1.315</td>
<td>-.109</td>
</tr>
<tr>
<td>[ownership=2.00]</td>
<td>-.212</td>
<td>.477</td>
<td>.198</td>
<td>1</td>
<td>.656</td>
<td>1.147</td>
<td>.723</td>
</tr>
<tr>
<td>[education=1.00]</td>
<td>.701</td>
<td>.745</td>
<td>.886</td>
<td>1</td>
<td>.346</td>
<td>.759</td>
<td>2.161</td>
</tr>
<tr>
<td>[education=2.00]</td>
<td>1.070</td>
<td>.553</td>
<td>3.746</td>
<td>1</td>
<td>.053</td>
<td>.014</td>
<td>2.154</td>
</tr>
<tr>
<td>[education=3.00]</td>
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<td>.</td>
<td>0</td>
<td></td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>[business=1.00]</td>
<td>.184</td>
<td>.514</td>
<td>.129</td>
<td>1</td>
<td>.720</td>
<td>.822</td>
<td>1.191</td>
</tr>
<tr>
<td>[business=2.00]</td>
<td>-1.668</td>
<td>.621</td>
<td>7.226</td>
<td>1</td>
<td>.007</td>
<td>2.884</td>
<td>-.452</td>
</tr>
<tr>
<td>[business=3.00]</td>
<td>0</td>
<td>.</td>
<td>0</td>
<td></td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
</tbody>
</table>

Source: researcher’s computation
Table 11 Parameter Estimates qualification requirement for granting loan

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>[qualification = 1.00]</td>
<td>-2.555</td>
<td>1.024</td>
<td>6.231</td>
<td>1</td>
<td>.013</td>
<td>-4.561 to -.549</td>
</tr>
<tr>
<td>[qualification = 2.00]</td>
<td>-.023</td>
<td>.824</td>
<td>.001</td>
<td>1</td>
<td>.978</td>
<td>-1.639 to 1.593</td>
</tr>
</tbody>
</table>

From the above table, it can be observe that education (primary level and secondary level) are associated with considering the odds that short duration period of loans granted are among the constrained in accessing microfinance loan by small scale enterprises with P-value of 0.010 and 0.002; wald= 6.691 and 9.841 respectively.
The table above indicates that education (primary level) is associated with considering the odds that strict qualification requirement is among the constrains of accessing micro finance loans with P-value of 0.001, Wald= 11.206.

**Table 12 Parameter Estimates on insufficient amount granted as loan**

<table>
<thead>
<tr>
<th>Location</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold</td>
<td>amount = 2.00</td>
<td>-0.097</td>
<td>.818</td>
<td>.014</td>
<td>1</td>
<td>.906</td>
<td>-1.700</td>
<td>1.507</td>
</tr>
<tr>
<td>Threshold</td>
<td>amount = 3.00</td>
<td>.382</td>
<td>.819</td>
<td>.218</td>
<td>1</td>
<td>.641</td>
<td>-1.223</td>
<td>1.988</td>
</tr>
<tr>
<td>Threshold</td>
<td>amount = 4.00</td>
<td>2.370</td>
<td>.870</td>
<td>7.428</td>
<td>1</td>
<td>.006</td>
<td>.666</td>
<td>4.074</td>
</tr>
<tr>
<td>Location</td>
<td>years</td>
<td>.144</td>
<td>.303</td>
<td>.225</td>
<td>1</td>
<td>.635</td>
<td>-.451</td>
<td>.738</td>
</tr>
<tr>
<td>Location</td>
<td>ownership=1.0</td>
<td>.074</td>
<td>.483</td>
<td>.023</td>
<td>1</td>
<td>.879</td>
<td>-1.020</td>
<td>.872</td>
</tr>
<tr>
<td>Location</td>
<td>ownership=2.0</td>
<td>0^a</td>
<td>.</td>
<td>0</td>
<td>.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: researcher’s computation
The above table indicates that none of the variable is associated with considering the odds that insufficient amount is among these constrains of accessing microfinance loan by small sale enterprises.

### Small Scale Enterprises Constrain in Accessing Loan from Micro Finance Banks

**Table 13 Descriptive Statistics**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>high interest rate</td>
<td>76</td>
<td>3.1974</td>
<td>1.30660</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>short duration</td>
<td>76</td>
<td>2.9474</td>
<td>1.25321</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>strict qualification</td>
<td>76</td>
<td>3.8684</td>
<td>3.66003</td>
<td>1.00</td>
<td>34.00</td>
</tr>
<tr>
<td>insufficient amount</td>
<td>76</td>
<td>3.3684</td>
<td>1.11764</td>
<td>2.00</td>
<td>5.00</td>
</tr>
<tr>
<td>late approval</td>
<td>76</td>
<td>3.4211</td>
<td>1.28855</td>
<td>1.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Source: researcher’s computation

The above table shows the descriptive statistics of the variables proxies as constrained in accessing loan from micro finance institutions by small scale enterprise.

**Table 14 Test Statistics**

<table>
<thead>
<tr>
<th></th>
<th>high interest rate</th>
<th>short duration</th>
<th>strict qualification</th>
<th>insufficient amount</th>
<th>late approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>9.921a</td>
<td>13.605a</td>
<td>44.789b</td>
<td>17.895c</td>
<td>30.974a</td>
</tr>
<tr>
<td>df</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>.042</td>
<td>.009</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: researcher’s computation

From the above table, it indicates that high interest rate, short duration of loans, strict qualification requirement, insufficient amount granted as loan and late approval are constrained faced by small scale enterprise in accessing loan from micro finance institutions. As their P-value 0.42, 0.09, 0.00, 0.00 and 0.00 respectively are below 0.05 level of significance.
From the overall analysis, the study shows that micro finance loan have significant impact on the growth of small scale enterprises. But the demographic characteristic of the small scale enterprises indicate variations in terms of considering the impact on individual variables.

Small scale enterprises with high number of years in operation consider the impact on increase in profit and expansion in size of operation mostly. This implies that the impact of micro finance loan on small scale enterprises growth in terms of profit and expansion in size of operation is only significant in the long run.

Sole owners of firms, trading firms and manufacturing firms mostly consider the impact on technological advancement and innovation. This might be as a result of their operations such as manufacturing businesses that need sophisticated machineries, and trading businesses that are involved in strategizing their business environment. There was no variation in considering the impact of microfinance loan on small scale enterprise growth in terms of increase in number of employees. This implies that the significance of the loan is not peculiar to a particular firm characteristic as it is applicable in all ramifications.

The study also shows that high interest rate, short duration of loans, strict qualification requirement for granting loan, insufficient amount of loan granted and late approval are constrains faced by small scale enterprises in accessing loan from micro finance institutions. The demographic characteristic of the small scale enterprises indicate variations among these constrain.

Firms with high number of years in operation and manufacturing firms mostly consider late approval of loan and high interest rate as constrain. This implies that the high interest rate is mostly felt by firms seeking for huge amount as most manufacturing firms require larger amount for sophisticated machinery while firms with high number of years in operation require larger amount for expansion and strategizing to maintain their competitiveness in the market. This is consistent with the view of (Vickery, 2006).

Business owners with primary education level and secondary education level mostly consider short duration and strict qualification as constrain. This might be due to their level of literacy; microfinance institutions consider them as not credit worthy and therefore secure their facility by granting it with strict requirement and at a shorter period. This supports the arguments of Greenwood (2003) and (Odebiyi & Olaoye, 2012).

There was no variation in considering insufficient amount granted as loan. This implies that microfinance institutions do not offer sufficient amount as loan to small scale enterprises. Therefore, this study provide empirical evidence that microfinance loan have positive significant impact on the growth of small scale enterprises. The study corroborate with the studies of Diagne and Zeller (2001); Babalola, Moradeyo and Olowe (2013); Gulani and Usman (2013).

**Conclusion and Recommendation**

This study assesses the impact of micro finance loan on small scale enterprise growth after reviewing researches of various scholars. The study reveals that micro finance loan have significant impact on small scale enterprise growth. Although, small scale enterprises are faced with numerous constrain in accessing these loans.

It is therefore recommended that small scale enterprise should be encouraged to access fund through micro finance institutions and the micro finance institutions should ensure enabling environment for small scale enterprises to access their loan facilities.

**References**


Central bank of Nigeria (2008) "Guidelines and Procedures for the establishment of Microfinance banks in Nigeria"


Nadada, M. U. (2013) Emerging businesses, growing from small to large: the role of SMEDAN; presentation at the launch of the alternative securities market (ASEM).


Appendix

Socio-demographic characteristics of small scale enterprises in Gombe State

Name of business

<table>
<thead>
<tr>
<th>Name of business</th>
<th>Nature of business ownership</th>
<th>Type of business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sole ownership</td>
<td>Trading</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>Manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Servicing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nature of business ownership</th>
<th>Type of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole ownership</td>
<td>Trading</td>
</tr>
<tr>
<td>Partnership</td>
<td>Manufacturing</td>
</tr>
<tr>
<td></td>
<td>Servicing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of years in operation</th>
<th>Type of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>Trading</td>
</tr>
<tr>
<td>Less than 10 years</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>10 years and above</td>
<td>Servicing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Educational qualification</th>
<th>Type of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school</td>
<td>Trading</td>
</tr>
<tr>
<td>Secondary school</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Tertiary</td>
<td>Servicing</td>
</tr>
</tbody>
</table>

SECTION B

Please tick the appropriate box in the following tables using the scales provided below:
Strongly Agree (SA) = 5 points
Agree (A) = 4 points
Undecided (UD) = 3 points
Disagree (DA) = 2 points
Strongly Disagree (SD) = 1 point

**TABLE 1:** Microfinance loan had impacted positively in the following areas:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Questionnaire Item</th>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>DA</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase in profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Increase in number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Technological advancement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Expansion in size of operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 2:** Constraints in obtaining loans from microfinance banks include the following:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Questionnaire Item</th>
<th>SA</th>
<th>A</th>
<th>UD</th>
<th>DA</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High interest rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Short duration period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Strict qualification requirement for granting loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Insufficient amount granted as loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Late approval</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>