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THE ROLE OF MICROFINANCE ON THE DEVELOPMENT OF SMALL SCALE MEDIUM ENTERPRISE

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Abstract:
This paper examines the role of micro finance on the development of Small Medium Scale Enterprise (SMEs). Micro finance plays a very important role in the current knowledge economy. It is vital for Small Medium Scale Enterprises to participate in the economy in other to compete and thrive in the future. Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. Data for this study was collected from both primary and secondary sources. The data from primary sources was collected by the use of questionnaire and interviews. The questionnaire data was analyzed vide the use of statistical technique of percentage calculation and secondary sources such as journals, newspapers; reports etc.It was discovered that there is high level of corruption and fraud in the Nigerian financial system. It is recommended that microfinance if properly managed, it will not only enhance credit advancement to bank customers, but also play a vital role in the development of small medium scale enterprise

Keywords: *Micro finance, Small, Medium, Enterprise, Development*

Introduction:

It is now widely believed that following government's acclaimed policies on rural development, rural investment will be given a boost via microfinance banking as all frustrations of our hardworking, devoted but under-privileged masses would come to an end. However, the idea behind microfinance banking is to encourage rural development through rural commitment in modern financial institutions within the rural environment. Thus, microfinance banking is supposed to be the machineries for financial and economic emancipation as its growth is connected with the community in which it serves. It is therefore not certain whether or not micro-finance banks actually impacts on small and medium scale businesses in the rural communities.

In the past, government has initiated series of micro programmes targeted at the poor with the overriding objective of making credit readily available to those who were traditionally denied access to credit. Such credits in the world over were used for the development of small and medium scale enterprise, which has been described as the springboard for sustainable development. In all emerging economies like Nigeria, the government has shown a great concern for the development of small and medium scale enterprise because of the underlying socio economic factors plaguing the nation. some of the reasons include: the past policies failed to generate efficient self-sustaining impetus needed to uplift the country to the 'take-off' stage of growth, the increased emphasis on self-reliant approach to the development and the recognition that dynamic and growing petty-business can contribute substantially to a wide range of developmental objectives. However, the full potential of the micro business in the development process have not been realized owing to numerous bottlenecks. In the light of this, the Central Bank of Nigeria (CBN) as part of its reform agenda, initiated Micro Finance Banks, a policy initiative aimed at bringing credit to the door step of the poor who do not have such access under the conventional financial system. The thrust of this project is to articulate the prospects of the micro finance banks towards boosting the performance thereby reducing the level of poverty and enhancing employment generation.

Problem Statement/Justification

- What are the problems hindering micro finance in providing credit facilities to small scale enterprises

- How is the lack of efficient and effective micro finance policies hampering small scale development in Nigeria
- How has failure of government policies affected micro finance in Nigeria
- Establishing a link between micro finance and small scale enterprises development in Nigeria

Objective(s) of the Study

- To ascertain the extent to which micro finance bank has been assisting in providing credit facilities to small scale industrialists
- To determine the efficiency of Micro finance on small scale industries in Nigeria
- To assess the performance of Micro finance in economic development
- To determine the cost of variability in small scale industrial financing by micro finance bank
- To identify the problems encountered by small scale business in obtaining credit facilities from Microfinance Bank.
- To examine the influence of microfinance bank credit subsidy, interest etc, on the level of credit demand by small scale businesses

Literature Review

Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. It is now common knowledge according to Egbe (2000) that the 1980s witnessed a rapid growth of commercial banking activities in many Nigerian rural communities where banking habits, culture, commitment and community development was poor if not non-existent. It is instructive to note that during this period, community funds among rural dwellers were hardly gathered for savings and loans in order to stimulate domestic investment. Suffice it to say that in rural communities, the rural business class hardly seeks formal institutional credits to improve their economic base. It would be observed that, despite the presumed developments in the Nigerian economy, the country is still largely being regarded as a developing country (Onyema, 2006). More so, its industrial growth is not quite impressive. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Traditionally, microfinance in Nigeria entails traditional informal practices such as local money lending, rotating credit and savings practices, credit from friends and relatives, government owned institutional arrangements, poverty reduction programmes etc (Lemo, 2006). The Central institutions in Nigeria are relatively new, as most of them never registered after 1981.

Before now, commercial banks traditionally lend to medium and large enterprises which are judged to be credit-worthy. They avoided doing business with the poor and their micro enterprises because the associated cost and risks are considered to be relatively high (Anyanwu, 2004). However, Barbara (1999), posit that the need for microfinance banking among rural dwellers has been on the increase, and as such, between 1989 and 1990, the Federal Government initiative aimed at actualizing this growing need expanded the rural banking scheme with the launching of Peoples Bank and Community Bank respectively. To make borrowing easy enough for rural communities, these banks do not require sophisticated collateral for borrowing. Also, interest on borrowed money was made as low as possible by the two banks to enable small-scale rural community industrialist and agriculturist to borrow with ease. Today, many rural communities in Nigeria have one or more of this microfinance bank, and they have had far more reaching implications for the entire socio-economic development of rural communities in Nigeria. It is worthwhile to note, according to Usang (2006), that many would recall how lack of funds often caused the collapse of small businesses and the extinction of ingenious ideas before they could be translated into reality.

Today there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christen et al., (1995)). What began as a grass-roots ―movement‖ motivated largely by a development paradigm is evolving into a global industry informed increasingly by a commercial/finance paradigm. The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of ―social investment‖ for the poor (Mutua, et al. (1996)). It must be emphasized too that the animating motivation behind the microfinance movement was poverty alleviation. Not only that, but microfinance offered the potential to alleviate poverty while paying for itself and perhaps even turning a profit——doing well by doing good.‖ This potential, perhaps more than anything, accounts for the emergence of microfinance onto the global stage.

Methodology

The data used in this study were obtained from primary and secondary sources. The data were collated from different sources such as journals, Newspapers, Annual statistical bulletin of the central bank of Nigeria, Deposit Money banks reports and Central bank of Nigeria website.

Stratified sampling technique was used to select 400 sample sizes. This was based on the sample size guideline that when the population is about 5000 or more, 400 sample size is adequate for the study (Leedy and Ormrod, 2005), Olatunji, 2010 and Usman, 2015).The data will be analyzed using analysis of variance (ANOVA)

Discussion of Findings

The findings of this study reveal that the prospects of the micro finance banks towards boosting the performance thereby reducing the level of poverty and enhancing employment generation.

The findings of this study further reveal that Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services.

The findings of the study also make borrowing easy enough for rural communities; these banks do not require sophisticated collateral for borrowing. Also, interest on borrowed money was made as low as possible by the two banks to enable small-scale rural community industrialist and agriculturist to borrow with ease

Conclusion

In conclusion, micro finance plays a vital role in the development of small medium scale enterprise by providing easy borrowing to enable small scale rural community industrialist and agriculturist to boost their performance there by reducing the level of poverty and enhancing employment generation

Recommendations

Based on the findings of this study, the following recommendation were made

i. The problems hindering micro finance in providing credit facilities to small scale enterprises will be determined
ii. The research will advance the efficiency and effectiveness of micro finance policies hampering small scale development in Nigeria
iii. The shortcomings and inadequacies of previous and current government policies towards Micro finance will be highlighted and the stakeholders advised accordingly
iv. It will guide government and policy makers to have an insight into the policies affecting micro finance in Nigeria
v. The research will also establish a link between micro finance and small scale enterprises development in Nigeria

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