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CHALLENGES FACED BY SMES IN ACCESSING FINANCE FROM MFBS IN MMC, BORNO STATE, NIGERIA

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ABSTRACT

This study assessed the role of Micro finance Banks in making credit accessible to SME's in Maiduguri Metropolitan Council (MMC), Borno Sate, Nigeria. The objective of the study was to examine the challenges faced by SMEs in accessing finance from MFBs in MMC. Third determine the extent microcredit loan assist in employment creation, business expansion, sales volume and capital structure of the SMEs in MMC. Data were obtained from three hundred and fifty-six (356) Small and Medium Entrepreneurs located in MMS, selected through a multi-stage and random sampling process. The research objective was analyzed using descriptive statistics (frequency and percentage) while inferential statistics (Pearson Product Moment Correlation Coefficient) was used to test hypothesis. The results of the study revealed a significant effect of challenge(s) faced by MSEs in accessing finance from MFBs on business growth in MMC. High rate of interest, tedious procedure, delay in disbursement, embarrassment by bank staff and lack of due process were the challenges faced by SMEs in accessing finance from MFBs in MMC. The Researcher recommended that Borno State Government should regulate and monitor the activities of MFBs to redress the identified weaknesses.

Key Words: ***Challenges, Small and Medium Entrepreneurs, Micro-Finance Banks.***

1.1 INTRODUCTION

Small and medium enterprises (SMEs) play crucial role in employment creation and income generation in many developing economies. This role is particularly critical in the national efforts to eradicate poverty. SMEs also serve as breeding ground for emerging entrepreneurs as well as forming the backbone of the indigenous private sector. Some scholars believe that entrepreneurship has a critical role in the achievement of the United

Nations blueprint on Millennium Development Goals (Shkolnikov and Sullivan, 2010; Alvarez and Barney, 2014). Thus, the need for apt development of the sector cannot be overemphasized, as it has the ability to stimulate ingenious entrepreneurship, create jobs, mobilize raw materials and semi-processed products as inputs for large-scale enterprises besides its contribution to the gross domestic products (GDPs) of many countries (Udechukwu, 2003). SMEs are less capital intensive and have the flexibility to respond quickly to fluctuating demands of the market due to their size and innovativeness (Obokoh, 2011, p. 338). In addition, SMEs sector also serves as incubator for new ideas and testing ground for new technologies (Oyefuga 2008).

In spite of the contribution of SMEs to the national development for developing economies like Nigeria, finance became the major stumbling block to SMEs in the country. Because is considered the most important determinants of small business success. Microfinance is an important source for businesses growth. There are number of microfinance windows in Nigeria since the onset of economic reforms in mid-1980 aimed to support SMEs development, extending credit to MSEs, filling the gap left by commercial banks. Microfinance is an important tool to promote business development. Development of small business is subjects to access and received adequate finance and lucrative markets. Furthermore, microfinance improves business working capital. In Nigeria, many of the small business enterprises have limited working capital; one of the functions of microfinance institutions to meltdown problem of working capital that small business face (World Bank, 2001). More than 10,000 firms in 80 countries, SMEs worldwide on average named financing constraints as the second most severe obstacle to their growth, while large firms on average placed finance only fourth (WBES, 2004).

In 2005, the CBN commenced the process of reforms in the community banking sector. The latter resulted in the licensing of microfinance banks (MFBs), to replace community banks, with the goal of making MFBs more effective in granting credit to SMEs in order to develop this sector. Thus, private sector operators were statutorily empowered by the provisions of section 33 subsection (1) (b) of the CBN Act 7 of 2007 to operate MFBs in place of the community banks in Nigeria (CBN, 2008). The CBN objective for the reform process that ushered the MFBs was to make it vehicles for social- economic growth and rural transformation through the provision of credit to SMEs. The intent was to reduce the burden of high interest rates and other financial charges hitherto charged by banks under normal bank lending, as well as to provide financial, advisory, technical and managerial supports to SMEs. The significant role expected of MFBs made the CBN to adopt it as the main source of funding for SMEs in Nigeria, especially those in the manufacturing sector. Manufacturing SMEs have a long gestation period, thus, the need for more accessible and cheap sources of finance especially long-term at affordable interest rates is a necessity (Abereijo and Fayomi, 2007).

1.2 STATEMENT OF THE PROBLEM

In 2005, the Federal Government of Nigeria adopted microfinance as the main financing window for micro, small and medium enterprises. The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) was launched in 2005; the policy among other things, addresses the problem of lack of access to credit by small business operators who do not have access to regular bank credits. It is also meant to strengthen the weak capacity of such entrepreneurs, and raise the capital base of microfinance institutions. The core objective of the microfinance policy is to make financial services accessible to a large segment of the potentially productive Nigerian population, which have had little or no access to financial services and empower them to contribute to rural transformation. The microfinance arrangement makes it possible for SMEs to secure credit from Microfinance Banks (MFBs) and other Microfinance Institutions (MFIs) on more easy terms.

This study, then, raises the question of how well has MFBs played their role of providing finance and social intermediation for SMEs in Maiduguri Metropolitan Council and to what extent have they filled the credit gap in making credit accessible to SMEs? What innovative services have these MFBs introduced to aid the development of SMEs in the study area? In view of these, this study seeks to assess the extent to which MFBs have played its expected role of filling the credit constraint gap of SMEs towards their development in the study area. The study will also examine the various services rendered to SMEs by MFBs; ascertain the process and procedures SMEs follow to access finance provided by MFBs and explore the challenges SMEs face, if any in accessing MFBs finance.

1.3 OBJECTIVES OF THE STUDY

To examine the challenges faced by SMEs in accessing finance from MFBs in MMC.

1.4 RESEARCH HYPOTHESES

$H0_1$: There is no significant relationship between challenge(s) faced by MSEs in accessing finance from MFBs SMEs and business growth

1.5 SIGNIFICANCE OF THE STUDY

The study would be useful to Government and stakeholders in terms of policy formulation as regards to financing SMEs for employment generation and economic growth. It will also explore SMEs to know the various ways of credit accessibility with ease so boost the business and become large scale business enterprise. The findings of this study would also mitigates and unveil the hidden challenges face by many SMEs as regards to financing. Finally, the study will be of vital importance to researchers and will serve as reference materials to students.

1.6 SCOPE OF THE STUDY

The study was limited to the role played by microfinance Bank in credit accessibility to SMEs in Maiduguri Metropolitan Council.

2.1 REVIEW OF RELATED LITERATURE

2.2 Empirical review

2.2.1 Challenges of Nigerian SMEs on Credit Access

SMEs in Nigeria have the most difficulty in accessing finance. Large, well-capitalized companies rarely have any problem, while micro businesses are increasingly being catered to by the plethora of microfinance institutions operating in the country (Kangero, 2004).

The cost of finance is also an issue. Large, successful corporations are able to access finance at relatively low rates. Micro businesses, however, are charged very high rates of interest, but the loans tend to be relatively short-term. Therefore, the actual amount of interest being paid is acceptable when seen in the context of the overall transaction.

SMEs require longer-term funding. However, because of the inherent risks perceived by banks, their cost of finance is generally quite expensive. The challenge then is how to assist the "missing middle" in accessing finance. It is important to appreciate the banker's point of view. Bankers are in business, like anyone else, to make profits for their shareholders. But they also have a duty to their depositors and thus are quite naturally averse to taking undue risks. Whilst a bank's job is to assist in financial intermediation, it is not obliged to lend to anyone that it does not wish to do business with.

Ideally, small business customers should have well-established systems for gathering information and forecasting and would find no difficulty in keeping their bankers informed of their current financial position and prospects (Johnson, 2001). However, the vast majority of small enterprises are unable or unwilling to provide such information and, therefore, a bank is obliged to deal with them as it finds them. At this point it is worth reminding would-be borrowers that they have considerable choices when choosing their commercial banks. In the Nigerian market, there are 17 to choose from. It is probably fair to say that the transnational banks concentrate on the high end of the corporate market. This may change as opportunities in this segment diminish and banks are forced to look elsewhere for opportunities. For example, the recent acquisition of National Bank of Commerce Bank by Stanbic may well see the combined bank targeting the SME market as a means of increasing revenues.

Khandker, (2005) observes microfinance supports mainly informal activities that often have a low return **and** low market dem**and**. It may therefore be hypothesized that the aggregate **poverty** impact of **microfinance** is modest or even nonexistent. If true, the **poverty** impact of **microfinance** observed at the participant level represents either income redistribution or short-run income generation from the **microfinance** intervention. Khander's article examines the effects of **microfinance** on **poverty** reduction at both the participant **and** the aggregate levels using panel data from Bangladesh. The results suggest that access to **microfinance** contributes to **poverty** reduction, especially for female participants **and** to overall **poverty** reduction at the village level. **Microfinance** thus helps not only poor participants but also the local economy.

Hulme and Mosley, (1996) conducted various studies on different microfinance programmes in numerous countries and found strong evidence of the positive relationship between access to a credit and the borrower's level of income. The authors indicated that the middle and upper poor received more benefits from income-generating credit initiatives than the poorest.

McKernan, (2002) evaluated three significant microcredit programmes in Bangladesh and discovered that the profit for self-employed activities of households could be increased by programme participation. These programmes were also examined at the village-level.

Craig and Hardee (2004) found that increased bank concentration in local markets in the United States, led to declines in credit limits and in the amount of actual credit granted to small businesses. Ely and Robinson, (2001); Cole et al, (2004); Berger and Udell (2002) have also shown in their studies that the emergence of mega banks lead to contraction of credit to SMEs.

2.3 THEORETICAL FRAMEWORK

2.3.1 Financial Growth Theory

Berger and Udell (1998) propose a financial growth theory for small businesses where the financial needs and financing options change as the business grows, becomes more experienced and less informationally opaque. They further suggest that firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

3.1 MATERIALS AND METHODS

The multiple-method strategy was adopted for this study so as to reduce the possibility of personal bias by not depending on only one method or response from only one firm or sector. Adopting this approach enhances the authenticity of the study. The study was designed to combine primary survey-based data with secondary information from bank records. Both qualitative and quantitative data were used in a variety of ways, including a detailed overview of survey results in terms of a general profile and Maiduguri micro and small firms. A well-structured questionnaire was administered to operators and semi - structured interviews were conducted with Senior Bank Officials to document the practice and process of micro financing in Maiduguri Metropolitan Council. The interview sessions contained questions directed to senior officials of the bank in mostly face-to-face interview to document the process, practice and mode of operations of micro financing in Maiduguri Metropolitan Council.

Table 3.1 Sampling Frame

Wards	No. of SMEs Operator per ward	Proportional Sample size per ward
A_1-Bolori I	1460	23
A_2-Bolori II	2404	38
B-Bulabulin	2603	41
C-Fezzan	2541	40
D-Gamboru	1926	31
E-Gwange	2557	41
F-Hausari	1317	21
GLamisla/Jabarmari	2006	32
H-Limanti	2301	36
I-Mafoni	1546	24
J-Maisandari	2189	35
K-Shehuri-North/South	2021	32
Total	**24871**	**394**

Source: NBS, (2016)

Purposive sampling technique and Yamane (1967), proportionate sampling formula were used below for drawing a justifiable sample of 394 out of the total population of 24,871, as presented below;

$$n = \frac{N}{1+N(e)^2}$$

Where;

n = Required Sample Size

N= Population of SMEs

e= Level of significance (5%)

Therefore, the sample size of this study is n= 394

Table 3.2: Challenges Face by SMEs in Accessing Finance from MFBs in MMC

S/N	Statement	SA	A	UD	DA	SDA
1.	High rate of interest is one of the challenges SMEs face in accessing finance from MFBs in MMC.	**136(38.2%)**	112(31.5%)	24(6.7%)	52(14.6%)	32(8.9%)
2.	Tedious procedure is one of the challenges SMEs face in accessing finance from MFBs in MMC.	112(31.5%)	**186(52.2%)**	20(5.6)	24(6.7%)	14(3.9%)
3.	Delay in disbursement is one of the challenges SMEs face in accessing finance from MFBs in MMC.	**140(39.3%)**	130(36.5%)	54(15.2%)	20(5.6%)	12(3.4%)
4.	Embarrassment by staff is one of the challenges SMEs face in accessing finance from MFBs in MMC.	**100(28.1%)**	94(26.4%)	44(12.4%)	54(15.2%)	64(18.0%)
5.	Lack of due process is one of the challenges SMEs face in accessing finance from MFBs in MMC.	**140(38.2%)**	136(38.2%)	36(10.1%)	34(9.6%)	10(2.8%)

Source: Field Survey, 2018

Table 3.2 shows the challenges faced by SMEs in accessing finance from MFBs in MMC. Item one above show that, (38.2%) and (31.5%) of the respondents strongly agreed and agreed respectively with the statement, 6.7% were undecided, while 14.6% and 9.0% disagreed and strongly disagreed with the statement respectively. One can conclude that high rate of interest is one of the challenges SMEs faced in accessing finance from MFBs in MMC. From Statement two above, 31.5% strongly agreed, 52.2% agreed, while 5.6% was undecided. Furthermore, 6.7% disagreed and 3.9% strongly disagreed with the research statement respectively. One can infer that tedious procedure is another challenge SMEs faced in accessing finance from MFBs in MMC. Item three above shows that, (39.3%) and (36.5%) of the respondents strongly agreed and agreed respectively with the statement, 15.2% were undecided, while 5.6% and 3.4% disagreed and strongly disagreed with the statement respectively. This shows that delay in disbursement is another challenge SMEs face in accessing finance from MFBs in MMC.

From statement four above, 15.2% strongly agreed, 26.4% agreed, while 12.4% was undecided. Furthermore, 28.1% disagreed and 18.0% strongly disagreed with the research statement. Embarrassment by staff is one of the challenges SMEs face in accessing finance from MFBs in MMC. Item five above shows that, (39.3%) and (32.6%) of the respondents strongly agreed and agreed with the statement respectively, 23.0% were undecided, while 20.8% and 9.0% disagreed and strongly disagreed with the statement. One can conclude that Lack of due process is one of the challenges SMEs face in accessing finance from MFBs in MMC.

Table 3.3 Result of Pearson Product Moment Correlation on Relationship between Challenge(s) Faced by MSEs in Accessing Finance from MFBs and Business Growth

Variable	N	$\bar{X}$	SD	DF		P-Value
Challenge(S) Faced by MSEs	356	24.2797	1.96697	353	0 .700**	0.001
Business Growth	356	21.7257	2.39797			

Source: Field Survey, 2018

The result in table 3.3 indicates a significant relationship between challenge(s) faced by MSEs in accessing finance from MFBs SMEs and business growth. This is because the probability value (P = 0.001) is less than alpha (α = 0.05) level of significance at a correlation index r = (0.700), sample size (n= 356), degree of freedom (353), mean (24.2797, 21.7257) and standard deviation (1.96697, 2.39797) respectively. Hence, the null hypothesis which states that there is no significant relationship between challenge(s) faced by MSEs in accessing finance from MFBs and business growth is hereby rejected at 0.05 level of significant. Meaning there was a significant relationship challenge(s) faced by MSEs in accessing finance from MFBs and business in MMC.

3.2 DISCUSSION OF FINDINGS

The first finding revealed a significant effect of challenge(s) faced by MSEs in accessing finance from MFBs on business growth in MMC. This finding is in line with a study conducted by McKernan (2002), investigated the challenges faced by SMEs Bangladesh. The design of his study was a non-equivalent control group experiment involving two treatment and two control groups. Her sample was one hundred and eighty-six SMEs drawn by a non-proportionate random sampling technique. In each ward she randomly drew and assigned treatment to the control group. The study showed that school location had a significant influence on SMEs'.

The second finding revealed that high rate of interest, tedious procedure, delay in disbursement, embarrassment by bank staff and lack of due process were the challenges faced by SMEs in accessing finance from MFBs in MMC. This finding supports a study conducted by Shaw (2000), research results on the challenges faced by SMEs in accessing finance from MFBs in Sri Lanka. The design of the study was survey in which they sampled 234 out of the total population of 1,240 SMEs. The study showed that high rate of interest, tedious procedure, delay in disbursement, embarrassment by bank staff and lack of due process were the challenges faced by SMEs in accessing finance from MFBs in Sri Lanka.

3.3 CONCLUSION

The findings of this research revealed that micro-financing as practiced in Nigeria microfinance banks do not enhance growth and expansion capacity of micro and small enterprise in Nigeria. The growth of SMEs is not just dependent on accessing bank loan but accessing the right size of loan at the right time.

Entrepreneurs in the small and medium sector of the economy in Nigeria require access to finance for their business to grow. Although, the MSE sector contributes significantly to the national economy, the sector has so far not been given due recognition commensurate with level of the contribution. Although financial issues are important to all firms, results from this study show that both financial and non-financial services obtained from MFBs have highly benefited SMEs. Therefore MFBs contributes significantly to enhanced entrepreneurial environment by making the business environment more conducive and narrows the resource gap for small businesses.

The study concluded that the use of MFBs has potentials for enhancing the performance of small businesses in two ways- regular participation in micro financing and offering of non-financial services. This suggests that government policies aimed at promoting the performance of SMEs should also address the financial and non-financial activities of the MFBS.

3.4 RECOMMENDATIONS

To ensure that MFBs contribute meaningfully to the growth and development of SMEs in Nigeria, the following recommendations are hereby proffered.

i. Government should regulate and monitor the activities of MFBs to redress the identified weaknesses.
ii. Government should also ensure active operation of the SME Credit Guarantee Scheme to improve credit providers' exposure to longer term debt issued by small firm managers, in such areas as business plan development, feasibility studies, project monitoring and analysis, book keeping and accounting,

performance evaluation etc. This could be organized before entry into business or early in the business when it is having access to finance. This is essential in order to facilitate the qualification of the business for credits to leverage its equity capital as going-on concern.

iii. Government should provide a congenial environment for the operation of venture capital and business angels financing (business entrepreneurial monitoring) so as to enable them to provide risky start-up capital for small business.

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