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THE IMPACT OF LOAN REPAYMENT OF MICROFINANCE BANK TO THE PERFORMANCE OF SMEs IN ADAMAWA STATE

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ABSTRACT

This research investigated the impact of Microfinance bank on the performance of selected small and medium enterprises, SMEs in Adamawa State. The study also determined how Microfinance banks activities were used in loan repayment, loan duration as well as collateral security required in obtaining a loan from a microfinance bank. The study made use of survey design and used both primary and secondary data. A simple random sampling technique was used to select the 346 sample size. The data were analyzed using descriptive statistical techniques. Four hypotheses formulated were developed around the theories of financial growth perking order theories. The scope of the study covers a period from 2010 to 2018. The major finding shows that a significant relationship exists between Microfinance bank and SMEs performance in Adamawa state. The result shows that loan repayment, loan duration and collateral security of Microfinance bank have a positive impact on SMEs performance in Adamawa state. The study recommends that the Microfinance banks and government should soften the borrowing condition and also to increase the capital base of Microfinance banks to service more entrepreneurs.

Keywords: MicroFinance Bank, Small and Medium Enterprise, Loan Repayment.

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1. Introduction

It is generally accepted that speedy and sustainable growth cannot be achieved without the financial empowerment of small and medium scale enterprises (SMEs). Developing the latent entrepreneur and capacity of this large segment of the society that will sufficiently stimulate a sustained economic growth and transformation of the economy. The positive multipliers effects will reflect throughout the economy. To effect these desires, various policies have been formulated by governments to improve small and medium scale enterprises activities and entrepreneurship performance in Nigeria. Small and medium enterprises in Nigeria creates employment opportunities and serve as a foundation for economic growth and development (See Emesowum & Mbanasor, 2013; Thomas & Olaniyiolowu, 2016).

It was believed that the inclusion of poor into the credit system will be an effective way of alleviating poverty and promote micro-entrepreneurship which could stimulate economic development, particularly among the poor people. It is on this pedestal of an economic principle that the latent capabilities of the less privileged could be utilised. It was with this belief that most developing countries took on MicroFinance system as an instrument for easing poverty (Mishra, 2016).

Microfinance Bank provides access to finance to the very poor to overcome poverty and plays a vital role even at the institutional level. Microfinance Bank creates institutions that systematically deliver financial services to the very poor, who have no access to the conventional banking system. The poor are mostly excluded from the financial service offered by the conventional banking system, so microfinance banks addressed this market failure (Becchetti *et al.* 2013).

The use of the Microfinance Banks to fill the gap of accessibility to the financial services by the poor is advocated by most developing countries. If the use of Microfinance Banks is sustained, it will tremendously improve the financial inclusion in the country particularly among the poor (Otero, 1999).

However, some schools of thought have no faith in the role the Microcredit will play in development. Because experiences in different countries differ in term of the success of the Microfinance system. It is on this note that this study aims to research and examine the impact of Microfinance banks on the performance of some selected SMEs in Adamawa State, Nigeria.

The remaining part of the paper will be as follows: The literature review is in section 2. In Section 3, is the methodology of the study. Section 4 will be a presentation, analysis of data and discussion. Section 5 is the conclusion and Section 6 is recommendations.

2. Literature Review

2.1 Conceptual Framework

Microfinance Banks (MFBs) are institutions established as a company licensed to carry on the business of providing Microfinance services such as collection and saving, loan provision, insurance money transfer services and other non-financial services that are needed by the poor. Mosley (2001) define Microfinance as financial service for poor and low-income clients, in

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practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "Microfinance Bank".

While Yunus (2003) describe Microfinance as an amazingly simple approach that has been proved to empower very poor people around the world to pull them out of poverty. It is the financial system that relies on the traditional skills and entrepreneurial instinct of the active poor people, mostly women using small loan (Usually less than the US $ 200), other financial services, and support from a local organization called (MFB) to start, establish or expand very small, self-supporting business. A key to Microfinance is the recycling of loan. As each loan is repaid usually within six months to a year, the money is recycled as another loan, thus multiplying the value of each loan is defeating global poverty and changing lives and communities.

In another contribution, Ojo (2007) defines microfinance as a small scale financial service that is provided to rural/informal small scale operators for farming, fishing, trading and building of houses and to engage in any other product and contribute activities. Microfinance as a field that focuses on providing a variety of financial services to the poor. Usually individual with very little income experience great difficulty in taking advantage of things like saving opportunities and insurance product. This because often low incomes earners lack collateral and credit. This makes it difficult for the poor to obtain a loan, invest and enjoys insurance protection. Microfinance eliminates this problem by providing micro-insurance, microloans and other financial services to low-income people.

2.2 The Evolution of Microfinance Bank in Nigeria

The history of MFBs in Nigeria can be traced back to December 1990, when Community bank was commissioned. It was later renamed as Microfinance Bank in December 2008 when all the licensed community banks that met Central Bank of Nigeria's (CBN) guideline were converted to operate as Microfinance bank. The conversion was targeted at improving the small and medium scale enterprises (SMEs) which will serve as a tool for economic development.

The CBN recently introduced the microfinance policy, regulatory and supervisory framework for Nigeria to empower the vulnerable and poor people by increasing their access to the factor of production, primarily capital. To achieve the goals of this phase of its banking reform agenda the CBN act to recapitalized the former community bank to come under two different categories of Microfinance Bank, they are MFB licensed to operate as a unit within local government 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 N1 billion naira respectively. Therefore based on the above regulation made by the CBN, hundreds of former community bank have been turned to Microfinance Bank in Nigeria.

Access to finance is only key to the revenue growth and SMEs' performance globally, Nigeria inclusive. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs performance. Olowe, Moradeyo & Babalola (2013) suggested that lack of access to financial institution hindered the ability for enterprises in Nigeria to engage in new business ventures, inhibiting economic and revenue growth and affect the source and consequence of

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entrepreneurial activities. Idowo (2008) agrees that access to loans is one of the major problem facing SMEs revenue growth and performance in Nigeria.

Table 1: Classification Adopted by SMEDAN for National Policy on SMEs

Size category	Employment	Asset (N million) excluding land and building
Micro enterprises	Less than 10	Less than 5
Small enterprise	10-49	5 less than 50
Medium enterprise	50-199	50 less than 500

Source: SMEDAN, (2018)

2.3 Theoretical Framework

According to Mishra (2016), it is expected, that the effectiveness of Micro-Finance system in altering the status of the "excluded" into the "included" ones essentially depends on so many factors. Mishra (2016) went further to ask the following questions First he asked, did the disorganized class of the "excluded" have a capable and kind agent who will arrange them into a group and has to bring out the latent capabilities to turn them into productive/entrepreneurial endeavours? Secondly, he asked, do the individuals in the group have team spirit or they continued with their narrow-minded view and predatory instincts unmodified and unbridled? Thirdly, he asked, do the other group loyalties (such as those based on cultural principle, etc.) cut or did not cut across the group solidarity on account of micro-credit based principle? He asked finally, do the institutional structure let the feedbacks to hook up with the micro-credit based subsystem to develop relations with other subsystems? Mishra (2016) concluded that most of these could be not under the control of either the benevolent agent or the members of the "excluded" class. Further, he said it is always difficult to change a "class in itself" to a "class for itself"; it is difficult to instil class consciousness and recognition of class interest.

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3. Methodology

3.1 Research Design

Survey method was adopted for this study to reduce personal bias by not relying on one response or method from only one sector. The study was designed to combine primary data with secondary data from bank records. As well structure questionnaire was administered to owners of small and medium enterprises. Cross-sectional survey design is justified on the ground that we should adopt one-time observation involving the ultimate variables necessary for the study. All these were done to get the information concerning the impact of microfinance bank on the performance of SMEs in Adamawa State.

3.2 Population of the Study

This research has identified the groups to be studied, these are, the three selected microfinance banks in Adamawa State namely Girei Microfinance bank, Standard microfinance bank in Jimeta and Umma microfinance bank in Yola South. The population of the study consist of all active customers of the 3 selected microfinance banks as shown in Table 1, which is 3421

Table 2: Population for the Study

S/N	Institutions	No. of customers
1.	Girei micro finance bank, girei	589
2.	Standard microfinance bank, Jimeta.	1767
3.	Ummah microfinance bank, yola	1065
Total		**3421**

Source: Micro Finance Banks 2019

3.3 Sample Selection and Data analysis techniques

The study used random sampling to select 350 respondents and served them with questionnaires. However, 309 of the respondents returned the questionnaires in a usable form. The study used simple descriptive analysis techniques to present the data collected.

4. Results And Discussion

The data collected from the 309 respondents were analysed and presented for discussion in this section. Table 3 shows the age distribution of the respondents.

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Table 3: Age of the Respondents

Age	Frequency	%	Cum. Valid %
18-30	128	41.4	41.4
31-40	144	46.6	88.0
41-50	36	11.7	99.7
Above 50	1	0.3	100.0
Total	309	100.0	

Source: Field Survey, 2019

Table 3 shows that a substantial number (88%)of the respondent are the youth of age 40 and below. This shows that the active able-bodied young men and women embrace the MicroFinance banks.

Table 4: Gender of the Respondents

Gender	Frequency	%	Cum. %
Male	193	62.5	62.5
Female	116	37.5	100.0
Total	**309**	**100.0**	

Source: Field Survey,2019

Table 4 shows that the majority (62.5%) of the respondents were male. This shows that owners of small and medium scale enterprises in Adamawa state were mostly male. This result does not come as a surprise considering the culture in this part of the country that women are mostly at home taking care of the domestic activities while a man works and provides for the family. However, this tradition is gradually changing as we now observe more women working more than ever before.

Table 5: Educational Qualification of the Respondents

Educational Qualification	Frequency	%	Cumulative %
No Formal Education	23	7.4	7.4
SSCE	46	14.8	22.3
ND/NCE	127	41.1	63.4
HND/BSc	72	23.3	86.7
MSc/MBA	29	9.4	96.1
Ph.D	12	3.9	100.0
Total	**309**	**100.0**	

Source: Field Survey, 2019.

Table 5 shows that over 90% of the respondents have acquired some formal education. However, only above 15% have post-graduate education. This is a pointer to the fact that the universities and other tertiary institutions in the country produce graduates every year, but there are no available jobs to absorb them. This shows that most of the young graduates are now embracing entrepreneurship and transacting with the MicroFinance Banks.

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Table 6: Correlation Analysis

Variable		Loan repayment.	SMEs performance
Loan repayment person correlation		1	0.470
	Sig. (2tailed)		0.000
	N	309	0.000
SMEs develop. person correlation		0.470	1
	Sign.(2 tailed)	0.000	
	N	309	309

Source: Authors' Computation

SMEs = Small and Medium Enterprises

N = Number of items

The result in Table 6 shows that, there is a moderate significant relationship between loan repayment of Microfinance Bank and small and medium scale enterprise performance and revenue growth. The Pearson correlation using 2 tailed at r= 470,0.01 significant level and 308 degree of freedom. This result implies that, the increase in loan repayment lead to increase in small and medium scale enterprises performance and revenue growth.

Table 7: Regression Summary of Loan Repayment and SMEs Performance

Variable	B-coefficient	t-value	Sign
Loan repayment	0.392	9.320	.000
(Constant)	1.603	13.356	.000
R^2	0.221		
Adjusted R^2	0.218		
Std. error of the estimate	65036		
Sign of F	.000		

Source: Authors' Computation

SMEs = Small and Medium Enterprises

R^2 = Regression coefficient

F = Freedom

Furthermore, Table 7 regressed the influence of SMEs performance on loan repayment. The significant of F is .000 and as such the null hypothesis no relationship can be rejected at 1%

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level. That SMEs performance is influenced by loan repayment. The corresponding t statistic for loan repayment of microfinance bank is 9.320 which have a significant level of. 000, therefore, the result shows that loan repayment of Microfinance Bank is the key expansion of SMEs development. Therefore, the research shows that 22.1% of the expansion of SMEs performance can be explained by the loan repayment of Microfinance bank while the remaining is explained by other factors.

5. Conclusion

The Microfinance Banks as a financial institution in the sub-sector of the Nigerian economy have played a very vital role in financing SMEs to thrive in a sustainable basis, also SMEs performance has been given a due consideration that will commensurate with the level of contribution they made in the economy. This research aimed to establish whether or not a relationship exists between Microfinance bank and SMEs performance in Adamawa State, Nigeria. The evidence from this study showed that there is a positive relationship between microfinance bank and SMEs performance, revenue growth, market size and business survival. Therefore microfinance banks have contributed significantly to the enhancement of SMEs in Adamawa State, Nigeria.

6. Recommendations

The study recommends that the microfinance banks should maintain the policy of easy accessibility of loans purposefully for SMEs performance. The microfinance bank should increase the duration of the loan to their customers, and the repayment period should be prolonged so that the active owners of SMEs will utilize the credit provided to them by microfinance Bank even better. The government should have to recapitalize the microfinance bank to enable them to support the SMEs performance adequately.

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