

## Chapter 3

# SME Micro–Financing and Business Growth in Rural Nigeria

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### ABSTRACT

*Despite the critical nature of SMEs to the prosperity of less developed countries, evidence has shown that small businesses in Nigeria have not made a significant contribution to the nation's economic growth and development due to finance-related issues. This chapter, identifies the social determinants of micro-finance loan accessibility; examines SME owner satisfaction with existing microfinance institutions loan requirements; investigates the relationship between microfinance and perceived business growth; and documents the challenges facing rural SME owners in accessing business loans in microfinance banks. By adopting non-probability sampling techniques, 262 identical questionnaires and 21 in-depth interviews were used to compile data from the study subjects. The data was quantitatively and qualitatively analyzed. The findings of this chapter informs the reader about the direction for further research into interventionist programmes for SMEs in Nigeria.*

### INTRODUCTION

Small and Medium Enterprises, (SMEs) are very critical to the development of any economy (Normah, 2007; Obokoh, 2008; Babajide, 2011). For instance, the economic boom experienced by some Asian countries (China for example) is not unconnected to the fact that SMEs have lifted hundreds of millions of people out of poverty and created tens of millions of new middle-class consumers (OECD, 2004). In India, the SMEs account for about 39% of manufacturing output and 33% of total exports (Gbandi & Amissah, 2012). In Tanzania, the SME sectors have also been found to employ more than 22% of the country's labour force (Kayanula & Quartey, 2000). Similarly in Nigeria, SMEs have been variously regarded as a seed of massive business concerns (Okhankhuele, 2017), as an engine of employment creation (Abor & Quartey, 2010; Aremu & Adeyemi, 2011) and as a source of economic growth and

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development (Mensah, 2004; Ariyo, 2005; Basil, 2005; Aruwa, 2006; Ojeka, 2011; Ashamu, 2014; Lawal, 2014). SMEs possess great potential for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries (CBN, 2011). It has also been found to be a catalyst for urban and rural area's growth (Hallberg, 2000; OECD, 2004; Williams, 2006; Fatoki & Asah, 2011). SMEs constitute about 97% of Nigeria's entire economy (Oyelarin-Oyeyinka 2010; Oke & Aluko, 2015), and it is supposed to serve as a base for creating innovation, employment, competition and economic vitality which in the long will alleviate poverty and propel economic growth and development (Ojeka, 2011).

However, evidence has shown that SMEs in Nigeria has not made a significant contribution to the nation's economic growth and development (CBN, 2005, 2008, 2011). The key issues affecting the SMEs in Nigeria can be grouped into four namely; unfriendly business environment, poor funding, low managerial skills and lack of access to technology (Aremu & Adeyemi, 2011; Gbandi & Amissah, 2012). Lack of access to modern technology and low managerial skills, which may be due to lack of funds to acquire relevant technology and hire skilled staff, can be checked if the SMEs are properly funded. Hence, it is not out of place to state that business finance is one of the most important factors determining the growth and continuity of SMEs in both developing and developed countries (Coleman, 2000). This is due to the fact that finance or more specifically, access to finance, allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Financing of SMEs in Nigeria is therefore very critical if they are to perform the growth and developmental roles in the nation's economy. However, poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment.

Despite the criticality of SMEs to the socio-economic prosperity of developing countries, the majority of the SMEs in Nigeria is still at a low level of development, especially in terms of the number of jobs, wealth and value creation (Okhankhuele, 2017). This is because 65% of the active populations, who are majorly entrepreneurs, remain unnerved by the formal financial institutions (NISER, 2004). These fallbacks led to the setting up of microfinance banks in the country. However, the microfinance institutions available in the country prior to 2005 were not able to adequately address the gap in terms of credit, savings and other financial services. As reported by the Central Bank of Nigeria (CBN), the share of microcredit as a percentage of total credit was 0.9%, while its contribution to GDP was a mere 0.2% (CBN, 2005). Also, the CBN in 2008 identified the unwillingness of conventional banks to support micro-enterprises, paucity of loanable funds, absence of support institutions in the sector, as well as weak institutional and managerial capacity of existing microfinance institutions among other reasons as the major reasons for the failure of past microfinance initiatives in the country (CBN, 2011).

Furthermore, despite the importance of SMEs in any economy and the presence of at least 750 micro-financing institutions duly licensed to operate in Nigeria (CBN, 2008), the high mortality rate among established SMEs is a matter of major concern in the country. For instance, the International Finance Corporation (IFC) reported in 2012 that only two out of every ten newly established businesses survive up to the fifth year in Nigeria. The report was corroborated by Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) that only fifteen percent of newly established businesses survive the first five years in Nigeria (Onugu, 2005; Ojeka, 2011; CBN, 2011). This is a pointer to the fact that there is a problem. The indispensable role of finance to the growth and survival of SMEs and the adoption of microfinance as the main source of financing SMEs in Nigeria, therefore, makes it imperative

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