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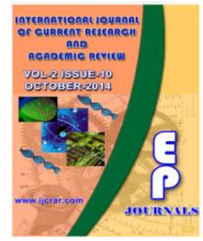

Microfinance Institution As Tool for Promoting Small Business Enterprises and Employment Generations In Lagos, Nigeria

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A B S T R A C T

Small business enterprises represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. The Micro busines entrepreneurs lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Micforinance institutions are expected to provide micr credits to promote the SBEs for growth and employment generation from their roles there as their primary responsibilities. However, microfinance bank only services marginal entrepreneurs in the State. The paper recommended that financial institution need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development.

Introduction

Small Business Enterprises (SBEs) world-wide, have been acknowledged to contribute enormously to the growth and development of a nation's economy (Kadiri, 2012; Oyedijo, et al., 2012; Aremu, 2011; Gushibet, 2011; Asmelah, 2002). In conjunction with the medium enterprises, Small Business Enterprises are known to employ over 60% of Nigeria's workforce in both formal and informal sectors (Kadiri, 2012). In addition, Kadiri (2012) pointed out that about 70% and 80% of daily necessities in Nigeria come from the combination of Small business and medium enterprises.

According to Aremu (2011), the development of many countries is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry. There is no doubt that small business enterprises exist in most economic environment. This is because SBEs serves as a catalyst for employment generation, national growth, and poverty reduction.

Asmelash (2002) adds that countries that have made economic breakthroughs in the last two decades demonstrate beyond doubt that the development of entrepreneurship has been the sine qua non of economic growth and development. He cited the work of Schell, (1996) who noted that in developed countries such as the USA, where big corporations are dominant, SBEs still play enormous role in the country's economy. Also, according to the report of the Indian working group on science and technology for Small- and medium-scale enterprises, SBEs occupy an important and strategic place in economic growth and equitable development in all countries. Constituting as high as 90% of enterprises in most countries worldwide, SBEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports (Onuorah, 2009). SBEs are known to generate vast employment opportunities as they create more jobs per unit of capital employed than big businesses (Tijani, et al., 2012; Maijama'a, 2004; Lawal, 2002). They (SBEs) account for about 87% and 72.6% of the workforce in the United States of America (USA) and Germany respectively (Kadiri, 2012). Sanda, et al. (2006) comparing large and small firms ability to create employment observed that small firms are relatively better at creation of employment opportunities. Therefore, promotion of such enterprises in developing economies like Nigeria is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development, employment and a host of other positive, economic uplifting factors (Aremu, 2004).

Small Business Enterprises (SBEs) transformation is all about seeking to bring about improvement in the living condition of the farmer, the artisan, the tenant and the landless within the simple and rustic economies of the country-sides and urban slums. The basis for employment generation and enterprepreneurship development in the country, therefore, is to enhance the improvement of the living condition of the people (Mustapha, 2009). There is a general believes that desire employment generation in this country can be achieved through development of small and medium scale enterprises (Awosika 1997, Schmitz 1995). Gunu (2004) and Aremu (2010) posited that Small Scale Enterprises provide income, savings, and employment generation. However, the major consensus in extant literature on SBEs in developing countries including Nigeria reveals that SBEs have performed below the nation's expectations. The key long attributed factor is inadequate access to finance (Kadiri, 2012; Aremu, 2011; Onuorah, 2009; ; Lawson, 2007; Anyanwu, 2003). Inyang and Ukpang (2000) in their studies on small and medium enterprises development found that the problem of lack of access to credit is a real one. Levy (1993) confirmed the problem of access to credit in most developing countries. SBEs lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy (Jegede et al., 2011). Kadiri (2008), Wahab and Ijaiya, (2006), Cookey, (2001), Ihyembe, (2000), Olaide, (1999) and Levy,(1993) all support this position. Consequently, they depended on families, friends and other informal sources of funds to finance their businesses.

The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the rural areas is vital, being the repository of the predominantly poor in society and in particular the SBEs. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspirations various policies have been instituted over time by the Federal Government to improve rural enterprise production capabilities. (Olaitan 2006). That led to led to the emergence of microfinance banks which aimed at extending credits to Small business enterprises and encouraging enterprenuership. No wonder Adeyemi and Badmus (2001), and Schmitz (1982) argued that adequate financing of small and medium scale enterprises will reduce the unemployment level in Nigeria. Currently, there are two forms of micro finance banks in operations in Nigeria: Microfinance Banks (MFBs) licensed to operate as a unit, and Micro-Finance Banks licensed to operate in a state (MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs).

They are widely spread across the various states in the country. Therefore, the extent to which these micro finance banks have been serving their target audience, particularly SBEs towards employment generation in Lagos State remains an object of investigation. The objective of this is to examine the relevance of MFIs as a tool for promoting small business enterprises and means of generating employment in Lagos State, South Western Nigeria.

Literature Review

Microfinance is a term used to refer to different methods for giving poor people access to financial services (Jegede, et al., 2011). It is the provision of financial services adapted to the needs of low income people such as micro-entrepreneurs, especially the provision of small loans, acceptance of small savings deposits, and simple payments services needed by micro-entrepreneurs and other poor people (USAID, 2000). Irobi (2008) defined microfinance as the provision of financial services such credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small businesses. Microfinance is sectionally defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings.

Schreiner and Colombet (2001) averred that microfinance is "the attempt to improve access to small deposits and small loans for poor households neglected by banks. A person is therefore regarded poor if she/he lives below a certain level of consumption or level of income (Ogunrinola, 2011). The Olaitan and Akanji perspective on microfinance go in line with Schreiner's description of the concept. Schreiner (2001) also proposed a definition of microfinance as "uncollateralized loans to the poor and small-scale entrepreneurs". This implies that microfinance provides financial strength to the low income earners so as to enable them carry on economic activities that can earn them improved living standard. This is buttressed by the claims of the Central bank of Nigeria (2003) that the latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance to enable them engage in economic activities and be more self reliant, increase employment opportunities and create wealth. Microfinance is a key strategy in reaching the MDGs and in building global financial system that meets the needs of the poorest people, especially small scale entrepreneurs (yaqub, 2012).

Microfinance institutions are organizations whose activities consist wholly or in significant part, of the provision of financial services to micro entrepreneurs (Babajide, 2011). Microfinance institution also stimulates savings and asset accumulation. Empirical and anecdotal evaluation of many microfinance institutions reports conclusively, from the clients' perspective that learning to save and having a safe place to keep those savings are principal benefits of the microfinance institutions (Odejide, 1997). Thus, microfinance has demonstrated ability to build up capacity of people and communities; as well as make a significant and social development in developing countries.

In addition to financial intermediation, some microfinance institutions provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group intended to benefit low-income women and men. Part of the reasons is that low-income people face strong barriers (such as illiteracy, gender discrimination, and remoteness) in trying to gain access to formal financial institutions. Attah and Alegieumo (2005) state that the skills and confidence of low-income people have to be developed in addition to giving them access to credit provision. Therefore, the microfinance approach is not a minimalist approach offering only financial intermediation but an integrated approach offering both financial intermediation and the other services mentioned above.

Cull, Demirguc-Kunt and Morduch (2006) explain that microfinance institutions, exhibit lower transaction costs than the commercial banks. The study reveals that the lower cost was due to the following factors: First, the microfinance institutions know their clients better than commercial banks. The lender has had adequate information on the borrower through community and neighborhood ties or through previous credit transactions. This reduces their information costs compared to those of commercial banks. Second, administrative costs are lower for microfinance institutions than for commercial banks because microfinance institutions' employees are paid less, the establishment is less elaborate, and the paperwork simpler than for commercial banks. Third, the interest rates of microfinance institutions are not regulated and therefore can be adjusted fully to market forces. Non-price competition is thereby kept down to an optimum level. Fourth, microfinance institutions are not subject to the reserve requirements that are imposed on modern commercial banks.

Microfinance institutions (MFIs) provide an alternative means for poor people to access basic financial services in a way that seeks to help them to improve their lives. The term microfinance covers a range of financial services offered to poor people. Microcredit involves making small loans to people who do not have the necessary collateral to obtain credit from the formal banking sector. Microcredit is sometimes supported with training and advice to help micro-entrepreneurs to run successful businesses. Micro-savings are crucial to poor and low income families in order to meet both planned and unexpected needs that may arise. Micro insurance services can help to provide those living in poverty with a means of tackling costs that might otherwise result in their becoming destitute. Micro leasing is a facility in which the leasee is allowed to make periodic payment on an asset while he takes full possession of the asset. In essence, microfinance institutions are not only a financial intermediation, but also a development tool supporting rural economic development.

Classification of Microfinance in Nigeria

Currently microfinance banks are of two forms, as all licensed community banks in Nigeria that met CBN guidelines have been transformed to Microfinance Bank. The two forms of microfinance Banks (MFBs) are; (i) Microfinance Banks (MFBs) licensed to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks is N20 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state. (ii) Micro-Finance Banks licensed to operate in a state. These are MFBs licensed to operate in all parts of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid-up capital for this category of banks is N1 billion. About 600 Community Banks have migrated to Microfinance Banks by January 1st, 2008 and there are several others that have been licensed to operate (CBN, 2008).

Small Business Enterprises

Defining small business has always been very difficult and controversial. This is because the classification of businesses into large-scale or small-scale is a subjective and qualitative judgment (Gushibet, 2010). The term Small Businesses' (SBEs) covers a variety of firms (Hertz, 1982; Nguyen and Bellehumeur, 1983) and it is used loosely in most of the literature. According to Peterson, Albaum and Kozmetsky (1986), a small business is one which is independently owned and operated and which is not dominant in its field of operation. Researchers and other interested parties have used specific criteria to operationalize the small business, from the perspective of value added, value of assets, annual sales, and number of employees. Annual sales and number of employees are most often used to delimit the category.The problem of definition confronts all researchers as well as operators in the field.

Ekpenyong (1992) quoted by Gushibet (2010), tries to identify different features in classifying SMEs in various countries. In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees. In Britain, for instance, small-scale business is defined as that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees. In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees.

In Nigeria, there is no clear-cut definition that distinguishes a purely small scale enterprise from a medium-scale enterprise. The Central Bank of Nigeria, in its Monetary Policy Circular No. 22 of 1988, defined small-scale enterprises as having an annual turnover not exceeding 500,000 naira. In the 1990 budget, the federal government of Nigeria defined small-scale enterprises for purposes of commercial bank loans as those with an annual turnover of not exceeding 500,000 naira, and for Merchant Bank Loans, those enterprises with capital investments not exceeding 2 million naira (excluding cost of land) or a maximum of 5 million naira. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale industries at 10 million naira. Section 37b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with:

(a) An annual turnover of not more than 2 million naira;
(b) Net asset value of not more than1million naira.

Similarly, the National Council of Industries Nigeria refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000.00) only. Nevertheless, definitions of SMEs vary significantly, usually in line with the scale of the economy concerned, its degree of development and the economic structures that are present (Gushibet, 2010).

Many researchers have identified the reasons for the spread of Small business enterprises in Nigeria (Kadiri, 2012; Ajose, 2010; Onugu, 2005). Ojo (2004) identified some of the reasons for the upsurge of SBEs in Nigeria to include:

- The failure of past industrial policies hitherto anchored on large and capital intensive industries.
- The discovery that vibrant small business enterprises and medium enterprises can contribute to achieving many of the objectives of Nigeria's development plans.
- An increase in emphasis now placed on self-reliance as an approach to development.
- A world-wide acknowledgement of the successes recorded in economies such as Malaysia, Indonesia and India where small and medium enterprises development have been used to accelerate industrial transformation.
- The significance of small and medium enterprises in the Poverty Eradication Programme (PEP) of Nigeria's President Olusegun Obasanjo regime during the period 1999 to 2007 and even beyond.

Characteristics of SBEs in Nigeria

A major characteristic of Nigeria's SBEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SBEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of Nigeria's SBEs include the following among others.

1) Labour–intensive production processes
2) Concentration of management on the key man
3) Limited access to long term funds
4) High cost of funds as a result of high interest rates and bank charges
5) High mortality rate especially within their first two years
6) Over-dependence on imported raw materials and spare parts
7) Poor inter and intra-sectoral linkages - hence they hardly enjoy economies of scale benefits
8) Poor managerial skills due to their inability to pay for skilled labour
9) Poor product quality output
10) Absence of Research and Development
11) Little or no training and development for their staff
12) Poor documentations of policy, strategy, financials, plans, info, systems
13) Low entrepreneurial skills, inadequate educational or technical background

14) Lack of adequate financial record keeping
15) Poor Capital structure, i.e. low capitalisation
16) Poor management of financial resources and inability to distinguish between personal and business finance
17) High production costs due to inadequate infrastructure and wastages.
18) Use of rather out-dated and inefficient technology especially as it relates to processing, preservation and storage.
19) Lack of access to international market
20) Lack of succession plan
21) Poor access to vital information

Effects of Microfinance on Small Business Enterprises and Employment Generation

Agriculture and microenterprises contributes immensely to job creation, and are of particular interest to all Microfinance Bank in rural areas (Jegede et al., 2011). Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. Onuorah (2009) pointed out that the promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot- making, leather works and drumming. Even though found in urban areas, these industries are more prominent in the rural areas. It has, therefore, been acknowledged that the rural setting is an arena of many industries, which could be developed to contribute significantly to the national economy, just as rural people are more frequently self-employed than urban people (Ketu, 2008).
Lawal, (2011) investigated strategic role of small and medium scale enterprises in local government in Lagos State using cntent analysis. Data for this study was generated from both primary and secondary sources through the use of self administered questionnaires and structured interview. The result of the analysis conducted sequel to the study shows that international SMEs contributed more than domestic SMEs in all dimension of strategic importance. In other words, SMEs with international presence are stronger and perform better than those without international presence therefore making the former to be more of strategic importance to development than the latter.

In a similar study carried out by Okpetu (2002) in which key success factor in SMEs were researched since success is a measure of effectiveness of the sector and the impact of the sector on the overall development of participating firms and by extension national economy at large. In that study, the researcher adopted a cross sectional survey of small and medium enterprises in Lagos. The findings of this study reveal that considerable percentage of Nigerian working population (that id 20-49 years) is increasing seeking for selfemployment. This age group constitutes responsible men who have attended higher institutions. The survey of these entrepreneurs also indicate that technology proper planning, financial survival of Nigerian small and medium enterprises.

Relating the study conducted by Lawal (2011) to the one conducted by Okpetu (2002) it therefore follows that SMEs irrespective of the nature of their business ideology, have contributed to development of Lagos State through creations large employment opportunities. Similarly, it can be observed from the studies that key success factors such as proper planning, good financial control, technology, sustainable improved employee productivity are germane to success of the organizations whether such SMEs are with international presence or only domesticated in Nigeria. However, the study conducted by Gushibet (2010) on SMEs in Lagos reveals that SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, instability of governments and frequent government policy changes. The supportive business environment for SMEs is still weak in Nigeria. The SME support programmes are poorly coordinated and lack the necessary coverage to reach all sectors of the small business community.

Many researchers believe there is a relationship between microcredit and microenterprises (Gushibet, 2010). The significance of finance in small and medium enterprises development is well established and generally accepted, successive governments over the years have implemented various financing arrangements at the micro level to assist small and medium entrepreneurs. Gushibet (2010), point out that micro-finance institutions (MFIs) are supposed to cater for small business enterprises with credit lending. However, project lending and risk capital for SMEs is virtually unavailable. The private equity and venture capital funds established in Nigeria are few and cater primarily to the needs of expansion of established business and privatized companies. This fact is coupled with the hijack by money bag of microfinance institutions responsibilities; it has been caught by bureaucracy of the Nigerian politics and economics. The minimum reserve of microfinance banks (N20 million) have adversely infected the performance of microfinance institutions in Lagos State. Other challenges include: high cost of incorporation of business ventures; taxes, approvals, rents, salaries etc the operators hardly have enough left to commence operations. microfinance institutions in Lagos State have also failed to capture their target market. Their outreach are very difficult to assess. For instance, some of them are located in the areas far from the poor people and the SBEs who really needed the funds. They are situated in GRAs and Central Business Districts like Ikeja, Lagos Island, Ikoyi, Victoria Island and some high class areas such as Lekki, some part Ajah, Falomo in V.I. all in Lagos State. Rather than responsbile to the residents that needed micro credit support and dependent on micro and small-scale farming and off-farm enterprises for their livelihood, micro finance institutions want to have salary accounts for government parastatal, or finance, petroleum, and marketing industries. In view of this, microfinance have performed below expectation in reaching and promoting SBEs in Lagos State.

Recommendations

Owing to this fact, the following recommendation can be of great help in revamping the status of our microfinance bank at large, thus;

1. Government through their monetary and economic policies should provide a suitable ground for the growth of microfinance bank
2. Seminar and lectures should be conducted in our rural areas on the functionality and the importance of the microfinance bank so that individual entrepreneurs can be able to harness their importance to their own development and that of the economic development of Nigeria

3. The different microfinance banks in the country should endevour to render good services to the people and be able to encourage the growth of entrepreneurs by their financial operation within the community.
4. The financial institution need to put more effort in financing SMEs, their role need to be felt by the SMEs in terms of growth and development.

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