THE ROLE OF MICROFINANCE LOAN IN
ESTABLISHMENT AND SUSTENANCE OF SMALL AND
MEDIUM SCALE ENTERPRISES (SMES): A CASE
STUDY OF UNIMAID MICROFINANCE BANK LTD.

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Abstract
This study made an assessment on the impact of microfinance loan in establishment and sustenance of small and medium scale enterprises (SMEs). For the accomplishment of the research objectives both primary and secondary source of data were used, the first primary source was the use of interview with which question were designed for UNIMAID microfinance bank’s credit officer with regards to identification of SMEs that were established from microfinance loan. The second method used in obtaining primary data was the use of questionnaires which were designed and distributed to the owners of SMEs. The data obtained was subsequently analyzed using simple percentage technique. The findings of the study revealed that from a sample of fifty (50) SMEs, seven (7) were established from microfinance loan offered to them. The researcher recommends that, there is a need for microfinance banks that operate in Borno State (Particularly UNIMAID microfinance bank ltd.) to strive more and more in extending loans to potentially cooperate customer for them to meet with government (s) and community members’ expectation with regards to establishment of adequate SMEs in the state. It is concluded that microfinance banks play a moderately meaningful role in establishment and sustenance of SMEs.

KEY WORDS: Microfinance, Loan, Small and Medium Scale Enterprises (SMEs)

Introduction
Microfinance loan has been identified by many researchers as the most effective tool that provide access for poor and low income people to the institution finance which enable them to source fund for startup of small business that would have increase their standard of living and become self – reliant.

Government(s) at various levels launched and commissioned microfinance banks in Nigeria in order to institutionally provide financial access to the poor people particularly in the local communities, but the effort of the governments are at times being interrupted by many obstacles and hindrances. It was recently discovered that, improper utilization of fund by owners of SMEs and non – compliance with principle contain in the microfinance scheme by the microfinance banks, contributed immensely to the slow operation of microfinance banks in Nigeria. The other major factor is that of non-repayment of loan being granted to the owners of SMEs, which become an obstacle that has persistently been disturbing the
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government rural transformational effort and obstructs the survival of many microfinance banks in Nigeria. Therefore, the main objective of this research is to access the impact of microfinance loan in establishment and sustenance of small and medium scale Enterprises (SMEs) in Borno state of Nigeria with a particular reference to Maiduguri metropolis.

However, other specific objectives are:
- To identified registered SMEs in Borno State.
- To ascertain those that have been established from microfinance loan.
- To access the adequacy of such loan in the establishment of the SMEs.
- To determine how such loans are sustained

Literature Review

Microfinance loan had long been recognized as one of the essential tools that promote Small and Medium Scale Enterprises (SMEs). Large percentages of the Nigerian populace are engaged in an informal business operations and agricultural production (Muktar, 2009). Presently, Nigerian government(s) at both federal and state levels tries to identify ways of attaining a sustainable economic growth and development. As to this, various policies have been instituted overtime by the federal government to improve rural enterprises production capabilities (Olitan, 2006).

Microfinance refers to the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low income population on a sustainable basis (mukrar, 2009).

Role of Microfinance Loan in Establishment of SMEs

Microfinance loan gives access to the potential and existing entrepreneurs to an institutional finance. Therefore, the role of microfinance loan could not be over emphasized. It includes the following among others:

Provision of access to institutional finance

Microfinance banks have disbursed more than N800 million micro credit to over 13000 farmers across the country (i.e. Nigeria) to empower and encourage them to startup new agricultural production (Ketu, 2009).

Employment generation

The creation of employment in rural areas by microfinance loan covers the following areas; blacksmithing, dying, food selling, port making, carpentry, bricklaying, basket weaving, leather work and drumming (Muktar, 2009).

It facilitates poverty alleviation

Employment and income generation are important aspects of poverty alleviation’s efforts of Nigerian government. The operation of government poverty alleviation program has been accelerated by microfinance loans been offered to small business owners, in doing that promising entrepreneurs are supported and new ones emerged (Odoko, 2008).

Microfinance Minimum Paid up Capital

Minimum paid up capital is a specified sum of money that microfinance bank to be established in Nigeria must possess before a banking license is issued to them for banking operations. Anyone who wants to establish a microfinance bank in Nigeria should take into account that they are of three types (Sodamola, 2016).

Unit Microfinance Bank: With paid up capital of N20 million but without branches or cash centers beside the main office.

State Microfinance Bank: with paid up capital of N100 million. To operate within some states or FCT
subject to written approval by CBN for each new branch or cash center to be opened.

National Microfinance Bank: With paid up capital of N2 billion. Can open all over the states or the FCT subject to written approval of the CBN for each new branch or cash center.

**Material and Methods**

The population of this study comprises many small and medium scale enterprises (SMEs). There are two thousand, one hundred and twenty two (2,122) SMEs that were registered with Corporate Affairs Commission (C.A.C) and operate within Borno State (C.A.C, 2011). This is in accordance with C.A.C business name register by considering five year range (i.e. from 2007 – 2011). Therefore a sample of fifty(50) SMEs was selected using simple random sampling. Both primary and secondary sources of data were used in research work.

The research was conducted and the questionnaires were distributed to the owners and operators of SMEs in order to determined how their business is being sustained after microfinance loan has been granted to them. UNIMAID Microfinance bank’s staff had been interviewed for the researcher to assess the role of microfinance loan in establishment of SMEs. The data obtained was subsequently analyzed using simple percentage technique.

**Results**

**Question 1: Did you source your starting capital from microfinance bank?**

**Table 1: Response on Microfinance loan as a source of Capital**

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Frequencies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>NO</td>
<td>43</td>
<td>86%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field work, 2016

Data from table 1 above shows the total number of fifty (50) respondents out of which seven respondents representing 14% of the sample sourced their starting capital from microfinance bank, while the remaining 43 respondents that represent 86% of the sample did source their starting capital from Microfinance bank elsewhere.

**Question 2: Do you consider microfinance banks operating in Borno to be sufficient in establishing needed SMEs in the state?**

**Table 2: Responses on adequacy or otherwise of microfinance loan in establishment of SMEs?**

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Frequencies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NO</td>
<td>50</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: field work, 2016

Data from the table (i.e. 2) above described that the entire respondents representing completely hundred percent of the sample were of the opinion that microfinance banks operating in Borno are insufficient in the establishment of needed SMEs in the State. While, none of the respondents had the opinion in the support of Micro bank sufficiency in the establishment of needed SMEs.

**Question 3: In your opinion how much loan will you need to start up a new business?**

**Table 3: Assessment of loan needed in the startup of new Business**

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Frequencies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below N 500,000</td>
<td>26</td>
<td>52%</td>
</tr>
<tr>
<td>Above N 500,000</td>
<td>11</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Field work, 2016
Data from the above table shows that, fifty (50) responses were obtained out of which twenty six (26) who represented 52% of the sample were of the view that the capital needed for the startup of a new business supposed to be below the sum of five hundred thousand naira ($500,000). On the other hand, thirteen (13) respondents who represented 26% of the sample were of the opinion that for a new business to be established, the sum of Five Hundred thousand naira ($500,000) would have been enough. While the remaining eleven (11) respondents who represented 22% of the samples were of the view that an amount of money above the sum of ($500,000) would have been enough in starting a new business.

Discussion

Micro Finance Loan as a Source of Capital

Analysis of the results obtained by the researcher begins with table 1, the major findings of this table shows the contributions of Microfinance loan in establishment of SMEs. The result of the data obtained shows that 14% of the respondents sourced their starting Capital from Microfinance Bank other respondents with 86% sourced their initial capital from other sources rather than microfinance loan. Relevantly related literature had been reviewed by the researcher with regards to the contribution of microfinance loan in establishment of SMEs. It was revealed in the literature that Microfinance loan plays a vital role in establishment of SMEs.

In comparison of reviewed literature and the result obtained from table 1, it will be concluded that micro loan has a moderate role being played in establishment of SMEs since out of the sample of fifty respondents, seven sourced their starting up capital from Microfinance loan granted to them.

Adequacy or Otherwise of Microfinance Loan in Establishment of SMEs

It was reviewed in the literature that minimum paid up capital of unit and state microfinance banks had been risen by the CBN from N 20,000,000.00 and N 1 billion to N 100 million and N 2 billion respectively. But it was also revealed from the data obtained in table 2 that all the respondents of this study were of the opinion that loans offered by microfinance banks were not sufficient in establishment of needed SMEs.

The conclusion from the above analysis is that, in spite of the increase in minimum paid up capital of microfinance banks, the volume of loan offered by the banks is still insufficient in the establishment of needed SMEs in the State.

Assessment of Loan needed in the Startup of New Business

Responses obtained from Unimaid Microfinance ltd shows that maximum amount that is being extended as a loan to the clients by UNIMAID Microfinance bank is N 500,000, while responses from table 3 shows that 52% of the total respondents of this research work had the opinion that the needed capital for them to start up a new businesses supposed to be less than the sum of five hundred thousand naira (N 500,000).

The conclusion from the above analysis is that, due to current economic situation of the country and considering the major percentage obtained from the responses, it is concluded that the minimum amount of loan extends by UNIMAID Microfinance bank is extremely adequate in establishment of new businesses.

Analysis of Response Obtained from an Interview with UNIMAID Microfinance Bank Credit Officer
Data presented show the responses obtained in an interview with the credit officer of UNIMAID Microfinance Bank Ltd. It is very obvious from the data obtained that the bank offers loans services to its various clients from which ten (10) customers are the owners of SMEs. This describes how UNIMAID Microfinance bank contributes to the establishment and promotion of SMEs.

Data were obtained about the minimum and maximum amount of money that the bank extends as a loan to its corporate customers (i.e. the owners of SMEs). The results obtained show that the minimum amount of loan extends by the bank is N 20,000.00 while the maximum amount of loan extends by the bank is N 500,000.00.

In comparison of this minimum amount of loan extends by UNIMAID Microfinance bank as a loan to its customers and the result obtained from table 3, it will be concluded that the maximum amount of money extends by UNIMAID Microfinance bank as a loan to its customers is adequate since 52% of the respondents of this study were of the opinion that starting up a new business does not require a huge amount of money but rather even a small amount of less than N 500,000 could be enough.

Other response obtained from the bank shows that the customers of the bank recollect loan after the settlement. This indicates that the customers of the bank had more sustenance with regards to the operation of their SMEs since they could recollect more loans after settlements.

Another response obtained from the bank shows how the bank monitor the activities of its customers after loans have been granted to them and subsequently the bank realizes that the customers mostly use the money for trading.

The conclusion from the analysis of the data obtained is that, UNIMAID Microfinance bank’s staff try to ensure the sustenance of the businesses owned by its customers since they do monitor the activities of their customers after the loans have been offered and they eventually find out that the customers mostly use the loan for the operation of SMEs. This indicates that, most of their customers use the money for the purpose for which it has been granted to them (i.e. trading).

**Conclusion**

The results obtained from this study show that microfinance loan plays a moderate role in the establishment of SMEs.

UNIMAID Microfinance bank limited as my case study has ten (10) corporate customers (i.e. owners of SMEs) which indicate how the bank contributes to the establishment and promotion of SMEs in Borno State. The major problem with microfinance loan in Borno state is insufficiency of the microfinance banks in the state. The best way by which microfinance loan plays an effective role in the sustenance of SMEs is through the efforts of the owners of SMEs in using the loans offered to them properly and accordingly.

It can be concluded that, microfinance loan plays a moderately meaningful role in the establishment and sustenance of SMEs, since from a sample of fifty (50) SMEs seven (7) were established from microfinance loans.

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