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IMPACT OF MICROFINANCE INSTITUTIONS ON SMALL AND MEDIUM ENTERPRISES (SMEs) GROWTH IN TARABA

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Abstract

This study investigates the impact of microfinance institutions on small and medium enterprises (SMES) growth in Taraba. The main objectives were to examine the impact of microloan, interest rate, loan duration and experience on SMEs growth in Tarabba State. The study employed survey research design and multiple regression analysis to analyze a survey of 174 randomly selected SMEs in Taraba State. The study found strong evidence that access to microfinance does enhance growth of SMEs in Taraba State. However, other SMEs characteristics such as loan duration and experience are found to have negatively impacted on enterprise growth, but not significant. The study recommends SMEs operators to utilize the benefits of MFBs to promoting their business and in the long run improve the economy performance; and that MFBs should increase the duration of their clients' loans, or spread the repayment over a longer period of time and in that way enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology.

Keywords: Microfinance, SMEs, Institutions, Growth, Taraba

1.1. Introduction

Microfinance Banks (MFBs) are companies licensed by the Central Bank of Nigeria (CBN) to carry on the business of providing financial services such as savings and deposits, loans, domestic funds transfer and non-financial services to microfinance clients, and these services are targeted to individuals and small businesses who lack access to conventional banking and related services and economically active poor, low-income households, the un-banked and underserved people, particularly vulnerable groups such as women, youths and the physically challenged, informal sector operators, micro-entrepreneurs, and subsistence farmers.

Microloan is the extension of financial services (small loans) to help borrowers who lack collateral, steady income, and a verifiable credit history (Babajide, 2012). It is designed to empower small and medium enterprises which in most communities are illiterate, and therefore unable to complete paperwork required to get conventional loans. In a study by Adamu and Tafida, (2016) found that micro loan and interest rate are significantly related to SMEs financing as well as their growth potential in Taraba state. This implies that microloan disbursement has contributed enormously in financing small and medium scale enterprises in Taraba state, despite the inherent hurdles.

Interest rate is the rate at which interest is paid by a borrower (SMEs operator) for the use of money that he/she borrows from a micro finance bank. Khawaja and Musleh, (2007) opined that increase in the interest rate depresses the borrowers and depositors. Therefore, lower interest rates encourage SMEs operators to obtain microcredit while higher interest becomes a major hurdle to SME financing. Microcredit helps SMEs to accomplish their vision by providing them with micro loans with low interest rate. Olewe, et.al (2013) found that high rate of interest rate and the need to provide collateral security before accessing microloans can weaken the performance of SMEs in Nigeria. Olewe using Pearson correlation coefficient and multiple regression found that financial services provided by microfinance banks have positive impact on SMEs growth in Nigeria. Also a study by Khawaja and Musleh, (2007) found that increase in the interest rate depresses the borrowers and depositors.

Loan duration measures how long it takes, in years, for a borrower to repay the amount of money borrowed based on his/her total cash flows. It is the duration of the loan until it is paid off. A study by Babajide, (2012) found a positive, but insignificant relationship between SMEs annual growth sales and duration of loan. It means that the duration of loan is too short for meaningful impact. However, if the duration of loan is increased the annual total growth sales will also increase. In a similar development, the study of Akpan & Nneji (2015) they found that duration of asset loan had a positive correlation with sales growth for both small and medium size enterprises for the period under consideration. The duration of the asset loan has a meaningful impact on the growth of SMEs.

Despite an observed increment in the number of registered MFB since 2005, there have been reports that indicate mixed reviews regarding their impact on SMEs within the areas they operate in (Oluyombo, 2010). Little is known about the impact of MFBs in Tarava State and the need to conduct an investigation impact of MFBs on SMEs Taraba State. The investigation will assist in attaining a status report on the level of effect or impact of the existing funding and other support strategies on the target recipients; (i.e. SMEs) as well as aid in driving policy assessment, redirection and formulation going forward, especially in this present economic climate.

It became necessary and pertinent to evaluate the effect so far microfinance banks in Taraba State had impacted to small and medium enterprises (SMEs) and whether the policy of the Central Bank of Nigeria is making the required impact on the nation economic development especially in Taraba State-Nigeria. This is to help discover new solutions and proffer better ways the existing system can be improved to serve the needs of SMEs. This study examines the impact of microfinance institutions on small and medium enterprises (SMEs) development in Taraba State.

1.2. Statement of the Problem

Most of the countries of the world started at micro level and attained economy development, for example America, China, Japan etc. their economies were predominantly operated by small scale firms including traditional industries and cottage firms, taking advantage of their labour supply, and utilizing their inadequate capital which metamorphosed to the present industrialized nation (Ogechukwu, 2013; Adamu & Tafida, 2016). To harness the untapped resources, especially in agriculture, natural and mineral resources that abound in Taraba state and Nigeria at large, concerted efforts have been made by governments at all levels to stimulate the SMEs to make impact in the progress and diversification of the nation's economy, to stop the incessant dependence on oil revenue. Thus, the recent industrial development drive in Nigeria has focused on sustainable development through small business development and have led to the introduction of microfinance banks (MFBs).

Small and Medium Enterprises (SMEs) is key to the contribution of National GDP of every Nation, and it is a determining factor in the classification of Nation as developed or underdeveloped (Nyameh et al. 2019). SMEs in Nigeria have been classified to suffered low and slow growth over the years this is seen because of several challenges like economic and political instability, corruption, insecurity, high rate of poverty, poor infrastructures, etc. the challenges can be sum up to be business environment (Nyameh et al. 2019). Hence this study examines the impact of microfinance banks on SMEs in Taraba State.

There is comparatively little convincing evidence in the grand claims about the success impact of microfinance on small businesses because high cost of over 60% annual interest rate on microloans in developing nations means high returns to capital are needed to improve on tangible outcomes of such business income (Attefah et al. 2014). Access to capital is critical to the development of SMEs (Pei-Wen et al. 2016). Owners of small business prefer their savings and cooperative societies credit instead of MFBs and deposit banks loans because of non-accessibility, exorbitant collaterals, short duration of loan, size of the loan, repayment plan and high-interest rates. High interest requested by the microfinance banks has been observed to be the cause of default among the customers (Taiwo, Onasanya, Agwu, & Benson, 2016). To this end, what is the level of the current impact MFBs has on SMEs? Does the present level of microloan disbursed by MFBs have significant influence on SMEs development? What is the effect of interest rate MFBs charge on SMEs? Is the duration of loan by

MFBs have any meaningful impact on SMEs? This study attempt to answer these research questions by taking mixed research design.

1.3. Research Question

i) What is the level of microloan disbursed by MFBs on the growth of SMEs in Taraba State?

ii) What is the impact of interest rate MFBs charges on SMEs growth in Taraba State?

iii) What is the impact of loan duration by MFBs on SMEs growth in Taraba State?

1.4. Objectives of the Study

The main objective of this study is to examine the impact of Microfinance institutions on small and medium enterprises (SMEs) development in Taraba State, while the specific objectives are stated below:

i) To examine the effect of microloans disbursement on the growth of SMEs in Taraba State.

ii) To investigate the impact of the interest rate on the growth of SMEs in Taraba State.

iii) To examine the impact of loan duration and SMEs growth in Taraba State.

1.5. Hypotheses of the Study

To achieve the research objectives and answer the research questions, the following hypotheses stated in the null form will be put to empirical tests. Here are the three null hypotheses:

H_{01}: Microloan does not have significant impact on the growth of SMEs in Taraba State

H_{02}: Interest rate does not have significant impact on SMEs growth in Taraba State.

H_{03}: Loan duration does not have significant impact on SMEs growth in Taraba State.

1.6. Significance of the Study

The researcher hopes this study can contribute to the literature on impact of Micro-Finance Banks (MFBs) on Small and Medium Enterprises (MSEs) development in Taraba State. It has three major significances, and this are contribution to practice, contribution to research and contribution to knowledge.

1.6.1 Contribution to practice

This study will serve as a useful guide to policymakers, management practitioners, executive directors, corporate managers most especially in SMEs to understand how MFBs could impact positively in their business policies, leadership styles, recruitment and selection, innovation and pricing aid or enable, the relationship and the extent of its effect on the attainment of establishment by the SMEs. The study would also enable the SMEs to proactively respond to changes within the environment more effectively as well as enable them implement better business strategy for their operation and establishment.

1.6.2 Contribution to Research

Pervious research works have examined different perspective to the impact of Micro-finance bank on small and medium enterprises, but no close attention is given to Taraba State, hence this study attempts to sparked up research on the impact of microfinance banks on SMEs in Taraba, its impact and prospect in advancing the Taraba State economy.

1.6.3 Contribution to Knowledge

The pool of knowledge will be enhanced on the fact that lack of control system that moderate business environment has negatively affect the establishment of SMEs in Nigeria. Hence the need to create business environment friendly is imperative.

1.7. Scope of the Study

This study examines the impact of Micro-Finance Banks (MFBs) on Small and Medium Enterprises (SMEs) development in Tabara State from three (3) senatorial districts. MFBs will be selected (Jalingo, Jen and Takum) which have a total of 317 SMEs operators who have benefited from these three microfinance banks (MFBs). The MFBs which suggested that more than 50% of SMEs operators have access to microfinance owing to limited interest rate, unawareness on the part of some SMEs, using this parameter, the study developed sample frame for the SMEs. Therefore, for the purpose of this study, 317 SMEs operators constitute the population size for this study. The study covers a period of five years (2016-2020). The study will use multiple regression model since the study seeks to examines the impact of capital input on SMEs development. Multiple regression analysis is chosen because it is one of the most practical statistics models that helps to understanding relationship among the variables of interest, since the study investigates the impact of capital, interest rate and other factors which are germane to SMEs growth. However, theories such as institutional theory, and diffusion of innovation theory all as the core basis of this research.

2.1 Literature Review

2.2 Concept of Microfinance Banks (MFBs)

Micro finance refers to a collection of financial services, including credit, advance, money, and insurance cover, accessible by poverty-stricken industrialists and small commercial proprietors who have no security and would not otherwise meet the requirements for an average bank loan (Aladejebi, 2019). In the same vein Al-Shami et al., (2014) viewed micro finance as institutions that give small amount of loans and other services related to finance such as credit, savings, insurance, and fund transfers. These definitions are too broad as insurance cover are not the primary role of MFBs, but rather MFBs are expected to insure their total deposit liabilities to Nigeria Deposit Insurance Corporation (NDIC) as a measures of safety for financial system to protect depositors. Therefore, as mentioned by Zulu, Hashim and Darwina (2016) there is no one overall acceptable standard definition. of MFIs, this suggest that definitions of MFIs should be based on the types of financial services they provided to their clients. However, given the uniqueness of MFIs (in terms of their ownerships, resources, and management styles for instance), any definition based on just financial services is believed to be inappropriate to describe and measure satisfactorily the true nature of MFIs in Nigeria (Zulu, Hashim and Darwina, 2016).

Olanike and Adebola (2014) defined microfinance as small loans or microloan offered to poor people or those individuals who have very low income or are self-employed.

The (CBN, 2005) states that Microfinance is about providing financial services to the poor, who mainly constitute the 65% excluded from access to financial services of conventional banks. This is reaffirmed by Babajide (2011), the practice of microfinance is rooted in Nigerian culture. Long before Central Bank of Nigeria started the issue of microfinance banking, the informal Self-help Groups (SHGs) or Rotating Savings and Credit Association (ROSCAs) have been providing credit to the rural and urban low-income earners including SMEs. Finally, this study defines micro finance as anti-poverty scheme designed and licensed to improve the well-being of the poor through better access to loan and savings.

2.3 Concept of Small and Medium Enterprises (SMEs)

According to SMEDAN and CBN (2013), an SME is defined in terms of employment i.e., as one with between 10 and 300 employees. Currently small and medium sized enterprises are defined by their size. In the European Union, SMEs are defined as small or medium sized if it has not more than 250 employees and not more than 50 million Euros turnover respectively, a balance sheet total of less than 43 million Euro and if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise (Khan, 2020).

The Small and Medium Industries Equity Investment Scheme (SMIEIS, as cited in Khan, 2020) in Nigeria, defines small and medium enterprises (SMEs) as "enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300". The benefits of SMEs cannot be overemphasized they include contributions to the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost. It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, Socially, and geographically diverse sectors of the economy provide opportunities for developing and adapting appropriate technological approaches and offer an excellent breeding ground for entrepreneurial and managerial talent.

2.4 The Role of Micro Finance Banks (MFIs) in SMEs Development

Though, small in size, Small and Medium Enterprises (SMEs) play an important role in Nigeria economy. They outnumber large firms considerably, employ vast numbers of people and are generally entrepreneurial in nature, helping to shape innovation. This study looks at some of the roles SMEs play in Nigeria economy.

2.4.1 Deposit Mobilization and Promotion of Saving

One of the requirements of micro finance clients is a safe place to keep their savings so that they can build up large sums of money to meet several needs- payment for shops, tools, accommodation, school fees, medical expenses, marriages, burials, etc. These needs are met by the savings mobilization activities of the MFBs. Most Micro Enterprises find it difficult to leave their shops and business premises for banking transactions. The convenience of this role is that the staff of the MFIs go to the customers at their houses, shops, etc. for daily collection of deposits and loan repayments. The microfinance banks usually pay interest on the amount saved. This role has helped to promote a healthy banking culture among the hitherto marginalized groups.

2.4.2 Credit Extension to Customers:

Credit delivery is perhaps one of the most important roles of microfinance banks, as the loans extended are the main source of funds used to expand existing businesses and, in some cases, to start new ones. The credit delivery system in the microfinance banks exclusively focus on the poorest of the poor, organize borrowers into small homogenous groups, and give loans to meet diverse development needs of the poor without emphasis on tangible collaterals. Many microfinance banks have a number of loans such as small business loans, small entrepreneur lending, loans for hardcore poor, partnership build up programmes, etc. Governments also encourage co-operatives to partner with the microfinance banks to raise bulk loans for on-lending to the beneficiaries.

2.4.3 Employment Generation:

Microfinance Banks also contribute immensely to job creation in the rural areas through the provision of skills acquisition and adult literacy programmes. It has therefore been acknowledged that the rural setting is an arena of many industries and self-employed micro-enterprises, which could be empowered to contribute significantly to the national economy. In some cases, the MFBs may pass on new skills and production techniques to a micro enterprise under a profit-sharing agreement at the end of the production period. Most startup financing are aimed at job creation.

2.4.4 Promotion of Entrepreneurship:

The aim of microfinance is not only to extend credits to beneficiaries but to promote entrepreneurship and boost rural financial markets that will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them (Ibrahim, 2013). The MFBs also facilitate economic development by providing ancillary capacity building to micro-enterprises in areas such as record keeping and small business management; collection of money or proceeds of banking instruments on behalf of their customers through correspondent banks; provision of payment services such as salary, gratuity and pension for the staff of micro-enterprises and various tiers of government; provision of loan disbursement services for the delivery of credit programme of government agencies, groups and individuals for poverty alleviation on non-recourse basis; provision of ancillary banking services to their customers such as domestic remittance of funds and safe custody; and investment of surplus microfinance funds in suitable instruments including placing funds with correspondent banks and in treasury bills, among others. Other roles played by microfinance banks include reorientation of the rural populace on sound financial practices, as well as issues such as partnering with other institutions to provide insurance services to clients, reproductive healthcare, girl child education and the granting of scholarship to children of clients up to secondary and university education (Ehgiamusoe, 2011). All these areas have a direct positive link with entrepreneurial capabilities of the rural people.

2.4. Theoretical Framework

This section examines theories related to SMEs and its association with MFBs. The theories discussed in this section explain, predict, and illustrate an understanding of the phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical leaping assumptions. The theories introduce, describes, and explains why the research problem under study exists. Therefore, it is difficult to rely on one theory such as pecking order theory, institutional theory, diffusion of innovation theory and contingency theory.

2.4.1 Pecking order theory

The pecking order theory arises from the concept of asymmetric information. Asymmetric information is known as information failure, occurs when one party possess more (better) information than another part, which causes an imbalance in transaction power. The pecking order theory states that managers display the preference of sources to fund investment opportunities: first, though the company's retained earnings, followed by debt, and choosing equity financing as a last resort. The theory was made popular by Myers and Nicolas (1984), it states that managers follow a hierarchy when considering sources of financing.

When it is necessary to take funds from outside, firms prefer debt to equity because of lower information costs associated with debt issues. Equity is scarcely used (Shyam-sunder & Myers, 1999). If there are three sources of funding available to firms: retained earnings, debts, and equity. Retained earnings have no adverse selection problem. Equity is subject to serious adverse selection problems, while debt has only a minor adverse selection problem (Aladejebi, 2019; Frank & Goyal, 2002). Pecking order theory proposes that cost associated with the funding of institutions will increase with asymmetric information.

However, pecking order theory is useful to SMEs as it allows them to think through the effect of microloan on their business growth. This theory showcases the relevance of interest rate or interest rate as SMEs are more careful in selecting financing options and placing lower value on high interest rate that yields lower profits. In the same vein, SMEs are concerned with the capital structure of their business and as such the theory relates to the annual growth rate i.e., the dependent variable of this study.

2.4.2 Resource Based View theory

The starting point of resource-based view theory was date back to the era of (Penrose, 1959) who suggested that resource possessed, deployed, and used effectively would give more results than other industrial structure employed. Wernerfelt (1984) viewed firm from the viewpoint of critical resource, coined "resource base view". Prahalad and Hamel (1990) highlighted the term "core competency" and the focus attention was on a range of critical resource, calling it the firm capability and it was referred to as competitive advantage. Other scholar described it as distinctive competency, while the strategic aspect in resources and competency usage (Papp & Luftman, 1995). The resource-based view theory an extension of the theory of the growth of the firm (Barney, 1991; Grant, 1991). This theory described the sustainable competitive advantage of the firm resource performance of the firm (Danjuma et al. 2021).

The resource-based view theory had identified opportunities based on uniqueness of resource that would lead to competitive advantages (Grewal, et al. 2011). Besides business owners on their growth path, a resource-based view is indeed important to consider. The assessment of all resources allows the enterprises to achieve their business objectives efficiently. Selecting an appropriate growth strategy enables managers to achieve growth adversity or minimise changes in direction and growth difficulties. Resource based view theory, maintaining that the dynamic capabilities theory has asserted that managerial writers required a framework necessary to explain the ways enterprise‟s culture of openness and innovation develops into timely, rapidly or attributes flexibility in dynamic marketplaces (Kiiru, 2015).

Resource based view theory of the firm drawbacks are mostly centered on an organization-specific basis, hence it is not generally applicable (Davis & Bendickson, 2020; Rezaee, et al. 2019). The resource-based view theory focused was on central issues involving capabilities or firms‟ performance which has a long stand relevance within the sphere of strategic management (Darcy, Hill, McCabe & McGovern, 2014; Danjuma et al., 2021; Easterby-Smith et al., 2009). Resource based view theory (RBVT) like Porter's model of competitive forces cannot contribute for the enterprises competitive advantage effectively in rapidly dynamic marketplaces. In similar vein, the theory did not fully address when to encourage extra valuable resource or how to renew the existing stocks of valuable, rare, imperfectly imitable, and inadequately sustainable resources that would be revitalized in untenable environmental circumstance (Danjuma et al.2021). According to Priem and Butler (2001) the theory has been criticized widely for being vague and has deficiencies regarding operational validity.

Despite its vagueness and shortcomings, the resource-based theory is useful in portraying the incentive opportunities for investors. The relevance of this theory to the present study lies in MFBs providing economic incentives to SMEs in forms of loan and savings etc.

2.5. Empirical Review of Related Literature

Adamu and Tafida, (2016) investigates effects of microfinance banks on SMEs in Taraba State and the study used Stratified random sampling technique and structured questionnaire to collect data from the 317 SMEs that formed the sample size of the research population. Multiple regression of the statistical package for social science (SPSS) version 20 was utilized to analyze the data. It was found that micro loan and interest rate are significantly related to SMEs financing as well as their growth potential in Taraba state. It was also found that microfinance has been contributing enormously to financing of small and medium scale enterprises in Taraba state and despite the inherent hurdles. The study observed that access to microloans have remarkably improved over the years, as many SMEs operators receive credit facilities with fairly and affordable interest rates thus encouraging them and boosting their operations. The study also recommended more offered should include: the need to review the current requirement to access microloans from MFIs; close monitoring and regulating the financial and non-financial activities of microfinance institutions; the need for governments and microfinance institutions to embark on campaigns, especially in rural areas to sensitize the people about availability and accessibility of credit facilities.

In line with the above findings, Olewe et al., (2013) in their study on the impact of microfinance on SMEs growth in Nigeria, using Pearson correlation coefficient and multiple regression found that financial services provided by microfinance banks have positive impact on SMEs growth in Nigeria. The findings also showed that frequent loan repayment, high interest rate and collateral security can impede the progress of SMEs in Nigeria.

Furthermore, Onafowokan (2011) on the impact of informal microfinance on rural enterprises, used cross tabulation, Pearson product moment correlation, Chi-square test and independent sample t-test to confirm that members who had access to loan have experienced improvement in their businesses considerably through growth in their business amenities, diversifying of business line and employing of additional personnel more than those who do not receive credit. In the same line of argument, Danjuma et al. (2021) stated that accessibility to funding enables the underprivileged people and small enterprises to surmount their liquidity challenge and embark on some instruments which include the development of modern farming requirements, thus leading to improvement in agricultural production.

Akinadewo (2020) examined the nexus between microfinance banks and the growth of micro, small and medium enterprises in Nigeria. Research design method through a self-administered questionnaire to respondents was adopted for the study. The respondents comprise the microfinance banks' management and staff and micro, small and medium business entrepreneurs, in Lagos State. The targeted population of the study was 250 with 223 validly responded. The study tested two hypotheses using logit regression analysis. The findings showed a significant positive relationship exists between microfinance banks, proxied by Small Scale Financial Services (SSFS); Financial Sustainability (FST); Absence of Assets-based Collateral (AAC); and Advisory Services (ADS) and the growth of micro, small and medium enterprises in Nigeria. The study then recommended among others, the need for government to put in place, a strong and more effective team comprises of all stakeholders, to ensure that the microfinance banks do not derail from their primary responsibility of sustaining funding for the MSMEs.

Khan (2020) attempted to find the impact of Microfinance banks on the development of Small and Medium Enterprises (SMEs) with specific reference to Damaturu the capital of Yobe State of Nigeria. The main objective of the study was to evaluate the aftermath of the strict borrowing condition of microfinance banks on the development of the small and medium scale enterprises. The study used representative random sampling and administered fifty (50) questionnaires out of which forty-one (41) were correctly filled and returned, the research used Chi-square tool to test the formulated hypotheses. The study revealed that the microfinance bank is in good position to enhance the development of SMEs in the study area even though little entrepreneurs patronize due to the interest rate attached to the fund. The study further revealed that the strict borrowing condition in place ordained by the microfinance bank is also a militating factor that prevent entrepreneurs from patronizing the service of the microfinance bank. The study recommended that government should intervene in the contemporary issues and lay hands in bestowing relief to those microfinance banks and in encouraging them in many ways, such like tax holidays.

3.1 Methodology

3.2. Research Design

The study adopted a survey research design strategy to enhance the authenticity of the data of the study, which are primary survey based data i.e. information were filled by the small business operators. The study aimed to test hypotheses developed in section 1.5 and measure precisely variables of the study and gain useful insights. Data collected through administration of questionnaire coded and entered into excel these includes year, gender, experience, education and type of SMEs, before the main variables (small and medium enterprise growth rate, microloan, interest rate and duration of loan) were entered. The first part which contain information about gender, experience education, business type was on the bolograph of the business owner. The second part of the information was on the business such as sales growth rate, loan, duration of loan and interest rate.

Since the study examines the impact of MFBs on SMEs development in Taraba State, individual characteristics (microloan, interest rate and annual sales rate) were collected for different SMEs for a period of five (5) years from 2016-2020. Multiple regression was used to develop and estimated variables of interest, then the study conduct diagnostics tests to ensure that all of the assumptions of the OLS are met. The study made us of Krejcie and Morgan’s formula and a sample size of 174 is was determined, out of a population of 317 SMEs in Taraba State. The sample size of 174 is a good representation of the population, to enable the generalization of the findings based on sectors characteristics one can draw valid conclusion on hypotheses developed in chapter.

3.7 Model Specification

To have a clear understanding of this relationship, a more concisely way to illustrates this relation was to build on a simple Cobb-Douglas production function and assuming a representative firm i in an industry *j* and at time *t* operating in a perfectly competitive market produces output "Yij,t" at time “t”

by employing inputs such as factor productivity "A", Capital "K" and Labor "L" as represented in equation (1) below.

$$Y_{ij,t} = f\left(A_{ij,t}, K_{ij,t}^{\beta_1}, L_{ij,t}^{\beta_2}\right) \text{---}(1)$$

The study modified the above Cobb-Douglas production function to include other variables to suit the hypotheses developed in section 1.5, to match the diffusion and innovation theory, institutional theory, the variables are included in equation (2) as specified below.

$$y_{ij,t} = \alpha_i + \beta_1 ml_{ij,t} + \beta_2 lr_{ij,t} + \beta_3 dl_{ij,t} + \epsilon_{i1} \text{--------}(2)$$

The hypothesis is structured to ascertain the extent to which microfinance services can enhance the expansion capacity of SMEs in the study area.

Where $y_{ij,t}$ SMEs growth proxied by annual sales rate over the five years of the study. It is defined as Gr = $[(S_t/S_0)^{1/n} - 1]$ x 100 where S_t is the current sales level, S_o is the base year 2016, n is the number of years considered for study while Gr is the annual rate of growth (Babajide, 2012).

The key predictors of SMEs growth or expansion which MFBs provide are given as ML_1=Microloan, LR_2=Interest rate, and DL_4=Duration of loan.

The equation two above, the values of loan will be transformed into natural log to reduced level of skewness in the data and make it normal.

$$SMEsg_{ij,t} = \alpha_i + \beta_1 lnml_{ij,t} + \beta_2 lr_{ij,t} + \beta_3 dl_{ij,t} + \epsilon_{i1} \text{--------}(3)$$

Where:

SMEsg is the small medium enterprises annual growth rate. While other variables as defined above.

4.1 Data Presentation, Analysis, and Interpretation

4.2 Data cleaning and transformation

The primary data collected through administration of questionnaire were coded and entered into excel these includes year, gender, experience, education and type of SMEs, before the main variables (small and medium enterprise growth rate, microloan, interest rate and duration of loan) were entered. In order to provide accurate and consistent data, consolidation of different data presentation and elimination of duplicated information become necessary, the data cleaning was conducted to detect and remove errors and discrepancies from the dataset and it was more convenient and done in Microsoft Excel before importing the file into R-Studio. A total of 178 respondents participated in answering the administered questionnaire, however 156 questionnaires were return and another 6 were wrongly filled and leaving just about 150 correct filled questionnaire which were used for this analysis. The first option was to standardized the scores since the study used five Likert scales, the conversion was done into linear scale using the actual score minus lowest possible score divide by possible score range multiple by 100 for each questions, and the sum of all the item was added up to makeup the main variable, except for small and medium enterprise sales growth rate (SMEg) which is the dependent variable.

4.3 Data Analysis

This section consists of descriptive statistics, correlational analysis, multicollinearity, normality tests. This was done in order to understand the properties of the data and to use appropriate model.

4.3.1 Descriptive Statistics

Table 4.1 is the descriptive statistics generated from the primary data, using Microsoft excel 2016. The descriptive statistics comprises of the mean, median, mode standard deviation, kurtosis, skewness min, max and sum of the data. It shows all the variables, namely, dependent, independent variables for all the 150 sampled individual.

Table 4.1: Summary of Descriptive Statistics (N=150)

	EXP	*SMEG*	*ML*	*IR*	*DL*
Mean	2.00	319.25	40.57	14.08	44.87

Median	2.00	245.40	40.00	14.50	45.00
Mode	2.00	67.10	40.00	19.00	40.00
Std. Dev	0.49	326.29	7.63	7.27	7.96
Kurtosis	1.79	10.10	0.18	-1.34	-0.10
Skewness	0.00	2.61	0.45	-0.06	-0.25
Min	1.00	0.80	25.00	2.00	20.00
Max	3.00	2226.30	60.00	25.00	60.00
Sum	70.00	47887.50	6085.00	2112.00	6730.00

Source: Excel computation

The average amount of SMEs sales growth was 319.25m with a minimum and maximum sales of 0.80m and 2226.30m respectively by all the sampled SMEs for the years within the study period. This indicates that within the years there was no negative sales growth recorded and it implies a positive growth throughout the study period. The average year of experience for all the respondents sampled was 2 years with a minimum of one year and a maximum of three years. However, the data also shows that the average loan collected by SMEs in Taraba within the study period was 40.57m with a minimum and maximum loan amount of 25m and 60m respectively. Though, interest rate within the period was 14.08% on average and with a minimum and maximum of 2% and 25%. The descriptive statistics also demonstrated that on average loan duration was 44.87 months or about three years seven months, and with a minimum and maximum period of twenty and sixty months.

In addition, it was observed that SMEg was skewed which exceeded 0.5 i.e. 2.61,

4.3.2 Correlational Analysis

On one hand, Pearson coefficients matrix is used to test the relationship between the independent variables and dependent variable. On the other hand, it is used to test relationship between the independent variables to each other (Ghbayen et al., 2016). Besides, the Pearson coefficients or correlation matrix is used to detect multicollinearity between independent variables. Table 4.2 recorded that out of the four independent variables three were positively correlated to SMEs sales growth rate at 5% significance level, however experience was negatively associated to SMEs sales growth rate though not significant.

Furthermore, the Pearson correlation matrix is used to check the multicollinearity problem between independent variables. It is suggested that multicollinearity is considered as a problem when the Pearson correlation results exceed 0.80 (Gujarati, 2003). From the result none of the coefficient exceeded the required point, therefore multicollinearity does not exists. However, additional test of VIF for multicollinearity was conducted to further verify this claim of no multicollinearity.

Table 4.2: Pearson Coefficients

	SMESG	*ML*	*IR*	*DL*	*EXP*
SMESG	1.000				
ML	0.214*	1.000			
IR	0.189*	0.040	1.000		
DL	0.070	0.344*	-0.030	1.000	
EXP	-0.240	0.336*	-0.170	-0.200	1.000

Source: computation in STATA 17

Interest rate is significantly correlated with SMEs sales growth rate which implies that higher interest rate is associated with higher small medium enterprise sales growth rate. This is unexpected because

There is no association between SMEs sales growth rate and loan duration. (dl). It was also observed that there is a negative correlation between interest rate and loan duration. The higher interest rate is correlated with lower loan duration.

4.3.3 Multicollinearity Test

To detect if really multicollinearity exists the variance inflation factor was used and the result indicates that there was no VIF above 5 and the total mean of all the variables in the study was just 1.27. It indicates the absence of multicollinearity. Therefore, no variable was dropped in the further analysis.

Table 4.3: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
DL	1.32	0.75754
ML	1.3	0.77103
EXP	1.27	0.78514
IR	1.17	0.85119
Mean VIF	1.27	

Source: computation in STATA 17

4.4 Regression of SMEs sales growth and economic growth

Table 4.4 represent the result obtained from regressing SMEs sales growth rate on microloan, interest rate, loan duration and experience. The coefficient of determination or the R-squared was found to be 0.85. Implying that 85% variation in SMEs growth is accounted for by microloan, interest rate, loan duration and experience. While the remaining 15% is due to factors that the model could not explained. The goodness of fit of the model was also supported by the significant F-statistic, which tests the joint null hypothesis that all the coefficients in the model excluding the intercept are zero. The p-value associated with the f-statistic is less than 5%, hence the study strongly rejects the null and concludes that the model as a whole is highly significant.

The intercept shows that when all variables are held constant sales will decrease at 59.59%. On the part of the coefficients of the individual variables the result shows that microloan (β 9.75; $p = 0.009$) has a positive expansion capacity on SMEs sales growth rate and statistically significant at 1% level of significance. It implies that an increase in loan amount will bring about 9.75% increase in growth of SMEs in Taraba State. The result also significant judging by the t-statistic which is greater than two. Interest rate was found to be positively associated with growth of SMEs in Taraba State and resulted to a significant relationship with SMEs growth rate for the period under consideration. Implying that the percentage of borrowing was fair and led to growth of SMEs within the study period.

On the loan duration or duration of loan, it had a negative but insignificant relationship with SMEs growth rate in Taraba State. Furthermore, experience or owner's education had a negative association, but insignificant relation with SMEs growth rate in Taraba State. It implies an increase education is not associated with SMEs growth. Entrepreneurs experience has a negative and insignificant relationship with SMEs growth.

Table 4.4 Multiple Regression

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	-59.592	206.127	-0.2891	0.7729
ML	9.749	3.72952	2.61409	0.0099
IR	8.282	3.57499	2.31658	0.0219
DL	-1.067	3.61873	-0.2949	0.7685
Exp	-49.644	51.3914	-0.966	0.3357
R^2	0.854			
F-stats	3.353	p-value = 0.011		

Source: computation in STATA 17

4.6.1 Hypotheses Testing and Result Discussion

Three hypotheses were set in chapter one in order to achieve the objectives and answer the research questions. This section tests the null hypotheses using the coefficients of the independent variables through their respective p-values to determine the validity of the null hypothesis.

H_{01}: Microloan does not have significant impact on the growth of SMEs in Taraba State

Microloan had a positive and significant association with SMEs growth rate in Taraba State at 1% level of significance. This is contrary to the first predicted null hypothesis. Hence the study rejects the null hypothesis and concludes that microloan loan has a significant impact on the growth of small and medium enterprises in Taraba State. Also the result predicted an increase in loan brought about 9.75% increase in SMEs growth within the study period.

H_{02}: Interest rate does not have significant impact on SMEs growth in Taraba State.

The multiple regression result also indicated that interest rate is significant and has a positive impact on SMEs growth in Taraba State as indicated by a p-values less than 5%. This implies that increase in interest rate does not lower growth in SMEs enterprises in Taraba State. Therefore, the null hypothesis was rejected and the study concluded that interest rate has significant impact on SMEs growth in Taraba State.

H_{03}: Loan duration does not have significant impact on SMEs growth in Taraba State.

However, further examination of the result shows that loan duration has a negative and insignificant impact on SMEs growth in Taraba State. This has demonstrated that the repayment period of MFBs in Taraba State is not favourable and does not impact positively to the growth of SMEs. Hence, the study failed to reject the null hypothesis of loan duration does not have significant impact on SMEs growth in Taraba State.

4.6.1 Discussion of the Findings

This study has provided sufficient statistical evidence which suggests that microloan can affect SMEs growth positively and significantly. This finding is consistent with previous research of Adamu and Tafida (2016), Olewe et al (2013) and Onafowokan (2011). However, this result is inconsistent with findings of Babajide (2012) who found a positive and insignificant relationship between loan assets and SMEs growth in Nigeria. This inconsistency in the result of Babajide could be attributed to the methodology used which was mixed research design.

In addition, a positive and significant relationship exists between interest rate and SMEs growth in Taraba State. This has demonstrated that it is not just the loan that matters in SMEs growth but also the interest rate which largely determines the amount of money left in the hands of operators of SMEs for expansion of businesses. This finding agrees with the resource based theory which advocate that availability of resources deployed into business will bring about economic growth in the society.

Concerning loan duration and experience were found to be negatively associated to SMEs growth in Taraba State within the study period. However, the relationship was also found to be not significant.

5.1 Summary, Conclusion and Recommendations

5.2 Summary

This dissertation was carried out in order to ascertain impact of microfinance institutions on small and medium enterprises (SMES) growth in Taraba. In order to present a solid basis for this dissertation, theoretical and empirical literature related to this study were reviewed. Furthermore, hypotheses were generated in order to be able to fully determine the level of contributions. The data collected were analyzed using multi-regression analysis. The results revealed positive major findings as regards the contributions of MFBs to SMEs in Taraba State. According to the findings of this study, the growth and performance of the SMEs depends largely on the activities of MFBs operating in Taraba State. Loan and interest rate were found to have a positive impact on SMEs, while loan duration had a negative and insignificant relationship with SMEs growth rate. The study thus confirmed the positive impact of MFBs towards promoting SMEs growth.

5.3 Conclusion

The small and medium enterprises in Taraba State require access to finance for their businesses to grow. Though, the SMEs contributes significantly to the Taraba State economy, the SMEs has so far not been given due recognition commensurate with level of the contribution observed. The results from this study show that financial services obtained from MFBs have highly benefited SMEs in Taraba State. Therefore, MFBs contributes significantly to enhanced growth of SMEs by making finances available which narrows the resource gap for small businesses. Based on findings from this study, the use of MFBs has potentials for enhancing the growth of small businesses in two ways- narrowing the resource gap and affordable interest rate– financial services. This suggests that government policies aimed at promoting the growth of SMEs would also address the development and economic growth in Taraba State.

5.4 Recommendations

To ensure that MFBs contribute meaningfully to the growth of SMEs in Taraba State, the following recommendations are hereby proffered.

i) SME operators should utilize the benefits of MFBs to promoting their business outfits so that the economy as a whole is improved in performance

ii) The study recommends that MFBs should increase the duration of their clients' loans, or spread the repayment over a longer period of time, or increase the moratorium. This will enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology.

iii) In order to encourage expansionary measure for SMEs, MFBs can categorize their loans services into low and high interest loans. The conventional loans to clients can be maintained as high interest loans, while loans for capital assets acquisition should be low interest loans. To achieve this, the Microfinance Banks should be recapitalized to enable the banks to adequately support SMEs growth expansion.

iv) MFBs should offer SMEs skills training as capacity building service that would have the most impact on the growth of SMEs. Quality assessment training will open doors for good business practices and offered capacity building service that are impactful on the growth of SMEs.

5.5 Limitation of the study

Nigeria is a large country with 36 states, positioning this research study within a particular state and generalization of the result will not be realistic measure, therefore this study is limited to Taraba State. It is quite expensive and time consuming to conduct such a research outside Taraba State especially using survey research design. It may not be financially or logistically viable to conduct a research study to include all the other states in the country. This limits the location of the study to Taraba State, which is believed present a fair representation of results due to its diverse economy, culture and other elements derived from a population emanating from virtually all the states of the Federation. Another limitation that originated was due to the entire costs incurred being absorbed solely by the researcher. This set a limit to the research area. Lastly, the study should have use a survey panel data approach in order to show business type that were interview as classified by the MFBs and exposed which of these business type is significant to economic growth in Taraba State.

5.6 Suggestions for further study

Future research studies should include effects of business type on individual SMEs growth using panel data model. Future researches should include more states and also include more variables such as technology training received, business location, and enterprise age for a robust result.

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