

IMPACT OF MICROFINANCE CREDIT FACILITIES ON UTILIZATION CAPACITY OF SMALL AND MEDIUM ENTERPRISES IN SOUTHWESTERN NIGERIA

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Abstract

This study investigated the effect of microfinance banks contribution to the utilization capacity of SMEs' performance in Southwestern Nigeria. The study employed the descriptive survey design. Data on microfinance credit services and performance of SMEs were obtained through the administration of questionnaire. Multistage sampling technique was adopted in the selection of respondents totaling 354 out of 400 sample size from the population of 9,602,249 registered SMEs in Southwestern Nigeria. Simple random sampling technique was used to select 3 out of the 6 states in the zone while stratified sampling technique was used to select 4 local government areas from the 3 selected states based on senatorial district. Then, simple random technique was used to select 3 towns and communities from the 12 selected local government areas, consequently, simple random technique was used to select an average of 12 SME owner managers from 36 towns in Southwestern Nigeria. Data obtained were analysed using descriptive statistics and simple percentage. The results showed that credit facilities offered by microfinance banks to small and medium scale enterprises in Southwestern Nigeria include long term and short-term loans, ranging from bank overdraft (38.1%), term loans (40.7%) to assets/equipment financing (18.1%). The result revealed that 70% of the SMEs in Southwestern Nigeria had access to microfinance credit facilities. The study concluded that microfinance credit services were veritable tool for enhancing the performance of small and medium scale enterprises in Southwestern Nigeria.

Keywords: Credit facilities, utilization capacity, microfinance banks, SMEs

Introduction

The performance of SMEs in any economy is noble in the area of financial growth, business expansion, employment generation and social-economic development. However, measuring the rate of performance varies across countries, regions and territories as limiting factors which serve as impediment to business growth and performance also differ across countries. For instance, Ajayi and Adesina (2011) stated the challenges limiting the growth of SMEs in Nigeria as poor access to credit and financial services, low equity contribution from the business owners, poor infrastructural developments, low level of skillful labour, too many regulating bodies, unfriendly marketing atmosphere and lack of access to quality business information.

Performance of any organisation is usually determined by how the company is getting close to the achievement of the set goals and objectives (Komppula, 2014). Basically, it also depends on how the organisation can effectively use the scarce resources to achieve the expected short- and long-term goals (Mitchell, 2012). Hence, the progress of organisations or SMEs in particular can be easily described in the area of monetary growth which includes return on sales, earning per share, turnover, returns on investment (ROI) and returns on equity (ROE). Growth of a firm, according to Gormoma (2014), is the capacity of a company to attain and sustain equilibrium within its business location. The growth of an organisation can also be explained through its annual sales turnover, new product initiatives and level of market penetration. However, limited access to banking products and services has been a major constraint to SMEs when analysing financial performance in any business environment, especially in developing nations.

Access to banking products and services will enable SMEs to carry out its business effectively; get latest technologies that will enable them compete favourably within and outside their environments and contribute their quota to economic development. However, these financial services have not been adequately offered to this yelling business sector by the existing traditional banks. The establishment of Small and Medium Enterprises Agency of Nigeria (SMEDAN) in the year 2003 brought hope to the face of SMEs in the country as the body was created to harmonize the growth of this neglected business sector in Nigeria. To add to the development of SMEs, the National Credit Guarantee Scheme (NCGS) was reorganised in the same year to facilitate the access of SMEs to financial services seamlessly. Also, long before the establishment of SMEDAN and NCGS, the Nigeria banks through the Bankers Committee, in December, 1999 approved to save 10% of their annual profit before tax (PBT) for credit finance of SMEs. The initiative aimed at supporting the SME ventures, thus encouraging commercial activities, technology development at local level, growing local businesses, creating jobs and enhance SMEs performance.

As part of efforts to expand financing opportunities, Bank of Industry (BOI) has been partnering with several state governments under a 50:50 counterpart funding scheme to support the financial activities of SMEs in Nigeria. Likewise, TraderMoni scheme was launched in 2019 by the federal government to support the artisans and market traders in Nigeria. The scheme was as Government Enterprise and Empowerment programme (GEEP), being executed by BOI for the growth of SMEs in the country. Despite all these efforts by the government to

develop SMEs, the impact of SMEs on GDP and export in Nigeria in 2017 were estimated to be 48 %, and 7.2% respectively, while China has SMEs contribution of 60%, and 70% in the same year (UNCTAD, 2018). Hence the need for alternative funding and raising of other financial services window that would enhance the Nigeria SMEs performance was paramount to the government and all stakeholders.

For the enhancement of SMEs financial capacity in the Nigeria, the Federal Government approved microfinance as the foremost financial window for SMEs growth and development. The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) was launched in 2005. The objective of launching this regulatory body was to address the challenges of poor access to financial services by small business operators in the country. It was also to support the feeble capability of SMEs and enhance the capital base of MFIs. The aim of this framework is to make banking products and services available to great number of industrious Nigerians, who have limited access to banking services and products. The MFB was established to enable SMEs secure credits and financial services on liberal terms. Hence, this research was to determine the operations and contributions of these microfinance credits and services to SMEs' performance in southwestern Nigeria.

Research Questions

To achieve the objectives of this study, the following questions were raised.

- i) What is the contribution of microfinance credit facilities to the utilization capacity of SMEs in Southwestern Nigeria?
- ii) What is the effect of microfinance services on the performance of SMEs in the study areas?

Objectives of the study

The general aim of this study was to assess the influence of microfinance credit services on the performance of SMEs in Southwestern, Nigeria. Precisely, the goals of the study are to,

- i) examine the contribution of microfinance credit facilities to the utilization capacity of SMEs in Southwestern Nigeria, and
- ii) ascertain the effect of microfinance services on SMEs performance in Southwestern Nigeria.

This study divided into five section, section one based on introductory, followed by literature review, methodology next results and last section focused on conclusion and recommendations

Literature Review

Effect of Microfinance on SMEs

Measuring the effect of MFBs on SMEs revenue and income can be viewed from family and business perspectives. For instance, Hulme and Mosley (1996), in their research work conducted in various countries on different microfinance programmes, concluded that the relationship between credit facilities obtained from MFBs and SMEs household and business income is positive. The researchers also stated that poverty has level, that the fairly poor people were able to utilize microfinance credits more effectively, grow household incomes than the vulnerable ones. In Bangladesh, three microfinance banks were evaluated by McKernan (2002) on credit products and learnt that obtaining credit facility from MFIs enhanced the profitability of family business and the same time grew their household income that might boasted future investments. Copestake (2001) predicted the outcome of credit programmes in city and rural areas of Zambia and also concluded that taken microloans increased the profitability of the enterprises and family incomes, most especially those that have accessed the facility more than twice.

Shaw (2000) in his research examined two MFIs in Southeastern Sri Lanka and discovered that SMEs that have access to microloans could earn more household incomes than poor that have no access to microcredits. Mosley (2001) in his own evaluation studied the effect MFBs loans on people living in city and countryside of Bolivia and discovered that the net impact of MFB credits on family income and revenue was positive. He also further concluded that the loan facilities have more impact on the richer borrowers than the poorer borrowers' income.

Microfinance on SMEs Expenditure

Another method of measuring the effect of MFBs on SMEs performance is house hold expenditures. For example, Pitt and Khandker (1996) measured the consequence of microcredits on selected customers of Grameen microfinance Bank in Bangladesh using household expenses on the area general consumption, training, medical and welfare. The research work carried out confirmed that the customers of microfinance institutions that

partaken in microcredit loans have great chance and opportunity for strong capital growth than those that were left out of the loan scheme. In another study, Khandker (2003) carried out research on the relationship between household consumption and microfinance credit facilities, hence the research revealed that microcredits effect on female customers were stronger than that of male counterparts. Moreover, the study noted that MFB loans has more positive effect on food expenses than non-food expenditure and that microfinance had a workable effect on poverty reduction, especially on those that participated on microcredit programs of MFBs

In another development, Pitt and Khandker (1998) found out that there were positive changes in the life pattern of the women that participated in the micro credit banks. They found out that any further loans granted to women by MFBs, would increase their annual expenses on family intake by eleven percent and credit granted to the men counterpart only increased their annual household expenses by eight percent.

Microfinance Services on SMEs Wealth Creation

Another way of measuring the effect of MFB on SME is wealth creation. Montgomery (1996) studied the effect of two microfinance intuitions in Bangladesh on SME wealth creation and found out that the impact of microcredit on household assets and investments were positive. Thought the study revealed a slight growth in the family assets of SMEs customers after borrowing from two microfinance banks, but there was significant increase in their production and trading assets. In the same manner, Mosley (2001) also concluded in his research work that the relationship between microfinance loan and assets level of SMEs was positive. The study points out the strong correlation between credit and income levels of SMEs operators, which also led to an exciting relationship between revenue and assets tumor. Coleman (1999) also studied the effect of a community bank on the welfare of people living in Northeast Thailand and found out that MFBs facility have little effect on SMEs well-being. The study concluded that the community financial institution had contributed greatly to women's wealth accumulations, most especially in the area of landed properties.

Microfinance on SMEs Educational Status

Many other researchers on the effect of MFBs on SMEs performance concentrated on educational advancement of the SMEs operators and their household. In South India, Hickson (2001) based his study on the impact of MFBs on children education by investigating the activities of two MFBs in the study area. The author showed that group lending to women had

significant impact of female child education than that of boys. Also, a study by Pitt and Khandker (1996) revealed that MFIs credit facilities also have great impact on number of children that enrolled for school yearly as their study revealed that credit received by women from Grameen Bank and Bangladesh Rural Development Board's (BRDB) Rural Development RD-12 programme, also increased the number of male children that are attending schools in the area of study.

Microfinance on SMEs Empowerment

The study conducted by Hashemi (2006) on Grameen Bank and the Bangladesh Rural Advancement Committee (two main MFBs in Bangladesh) revealed that microfinance bank had positive influence on womenfolk liberation. They confirmed that getting support from microfinance banks had assisted women in the area of mobility, economic security, purchasing power, contributing to household decision making, access to factor of productions, participating in public protest and political meetings. Hence women are becoming relevant in the society due microfinance empowerment programmes.

Microfinance is the arrangement of financial and non-financial banking products and services to the poor in the society without substantial guarantee or security (Littlefield ,2003). The MFIs allows its customers accessibility to loan facilities and banking products with the hope of improving the SMEs contribution to the economy advancement of the nation. This opportunity enables SMEs accessibility to microloans and banking services that are unavailable to them via orthodox banks. It is on records that MFIs was established to offer banking products and services in the like of business training, savings, credit and insurance products to SMEs (Karlan & Valdivia, 2009). However, the provision of these MFIs services depends on local situations and the apex bank's banking policy as regard to lending. Hence, empirical evidence has revealed that MFB products and services have added greatly to economic advancement of many nations in the world.

Methodology

This study was carried out in southwest geo-political zone of Nigeria, comprising Ekiti, Ondo, Osun, Oyo, Ogun and Lagos states. This section of the country consists mostly of Yoruba speaking people with multi different cultural background such as Ijebu, Yewa, Egba, Ijesha, Remo, Oyo, Egun, Ekiti, Ondo, Ikale, Igbomina among others and the estimated population of the people living in the southwest zone of Nigeria was about 27,581,992 (2006, National

Population Census). Survey research design was used for this study as it is one of the best options in collecting data for large population.

The population of this study comprised all the registered SMEs in southwest Nigeria totaling 9,602,249. The sample size of this research work was determined by adopting multi stage sampling technique. First, three out of the six states in the zone were selected by simple random sampling technique. Thereafter, four local government areas from the chosen three states were selected by means of stratified sampling technique. Then, simple random sampling technique was further used for the selection of towns and communities for this research.

The sample size for this study was determined based on the Taro Yamane formula for sample size determination for a finite population as expressed by Slovin (1992).

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n= sample size; N = population size; e = desired margin of error

Therefore,

$$n = \frac{9,602,249 N}{1 + 9,602,249 (.05)^2} = 399.98 = 400$$

Table 3.1 Number of registered SMEs in Southwestern Nigeria

State	Number of SMEs
Ekiti State	964,179
Lagos State	3,224,324
Ogun	1,165,847
Ondo	1,026,772
Osun	1,356,173
Oyo state	1,864,954
Total	9,602,249

Source: Small and Medium Enterprises Development Agency of Nigeria (2023)

This study used primary data. This was achieved by making use of structured questionnaire that contained relevant questions with standardisation of answers for analysis. The first section

comprised general information on the business type. The study also measured of performance of SMEs and microfinance service indicators. Information concerning the financial performance of SMEs for previous five years (2015-2019) were also collected. The choice of 2015 as a base year, because it was preceding year in which the full adoption of IFRS for SMEs in Nigeria took place while 2019 covers five years summary of financial records. The respondents to the questionnaire were the owners of the SMEs. Data collection was done with the help of six research assistants, who were trained for period of three days in order to minimize error in the administration of the questionnaire and ensure that the main aim of the enquiry was achieved. Descriptive statistics such as frequency counts, percentage distribution as well as mean and standard deviation were conducted. Statistical package for Social Sciences (SPSS) version 21 was employed for data analysis.

Results and Discussion

Table 1: Socio-demographic characteristics

	Classification	Frequency	Percentage
Age of firm	less than 2 years	114	32.2
	2-4 years	120	33.9
	5-8 years	36	10.2
	8-10 years	27	7.6
	more than 10 years	57	16.1
	Total	354	100.0
Employment status	Owner	175	49.4
	Partner	115	32.5
	Line manager	50	14.1
	Director	5	1.4
	Other staff	9	2.5
	Total	354	100.0
SME's Legal Registration	Sole proprietorship	211	59.6
	Partnership	88	24.9
	Limited company	55	15.5
	Total	354	100.0
Number of employees	Below 5	204	57.6
	6-10	87	24.6
	11-20	31	8.8
	21-50	23	6.5
	Over 50	9	2.5
	Total	354	100.0

Source: Field Survey, 2022

As presented in Table 1, the highest percentage (33.9%) of the firms was between 2-4 years of existence, followed by below age of 2 years which accounted for 32.2%. However, 10.2%,

7.6% and 16.1% have been in existence for 5-8years, 8-10years and more than 10 years respectively. This implied that more than two thirds of the SMEs were young in age and this could be attributed to the encouragement received from governments at all level on self-reliance and refresher entrepreneurial orientation campaign in Nigeria, most especially in the area of farming. Though, it could be said that the proportion of SMEs above age of five years were mere 33.9% of the entire sample size, the fact that sizable number (120) of the firms were more than five years of age, shows that the survival rate of SMEs business in Southwestern Nigeria has improved, when compared to SMEDAN report (2012) which stated that only 15% of Nigeria SMEs live beyond the fifth year anniversary. Hence, with right managements and conducive business environments, the SMEs in the study area will grow.

The Table 1 further shows that 49.4% of the respondents were business owners, followed by 32.5% that were partners (wives and husband) and 14.1% respondents as line managers. This implied that most of the respondents in this study were the business owners and they all involved in SMEs business activities and decision making.

The Table 1 also presents information about ownership structure or legal registration status of the selected SMEs in Southwest. The distribution of the respondents by legal registration status shows that 59.6% are one-man businesses, 24% registered as partnership and 15.5% as limited liability companies. The fact that the highest number of the respondents (211) were sole proprietorship and family businesses, confirmed the concept of social recognition and self-esteem among Nigerians, which contributed to the ownership structure observed. In this type of the world, most people are skeptical in engaging in joint businesses.

In term of number of employments, SMEs with less than 5 workers are regarded as micro enterprises, those with 5 and not more than 50 workers are small scale enterprises and SMEs with workers above 50 are classified as medium enterprises. The Table 1 further shows that the majority (57.6%) surveyed were micro enterprises with employees below 5 in number. The proportion of small-scale businesses were 39.9% while medium scale enterprises in the survey were 2.5%. This further confirmed the employment challenges facing the country as most of the SMEs surveyed were operating at micro and small-scale level and they lack the capacity to employ large number of workers.

Table 2: Contribution of microfinance credit facilities to the utilization capacity of SMEs in Southwest, Nigeria

Statement	Parameter	Frequency	Percentage
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Indicate the number of times you have obtained credit facility from microfinance institution for the past 5 years	Once	89	36.2
	Twice	56	22.6
	Thrice	80	32.5
	Four times	4	1.4
	Five times	18	7.3
	Total	247	100.0
The loan obtained led to growth of my business	Not Agree	65	26.3
	Partially	52	21.5
	Agree	78	42.9
	Strongly agree	22	9.3
	Total	247	100.0
Able to generate enough cash flow to liquidate the loan within the tenor of facility	Not agree	34	13.8
	Partially Agree	45	18.2
	Agree	153	62.0
	Strongly Agree	15	6.0
	Total	247	100.0
Forced to pay the loan before the expiring date due to high default charges	Not agree	29	11.7
	Partially Agree	85	34.4
	Agree	121	49.0
	Strongly Agree	12	4.9
	Total	247	100.0

Source: Field Survey, 2022

Contribution of Microfinance Credit Facilities to the Utilization Capacity of SMEs in Southwestern Nigeria

This section examined the utilization capacity of the facilities granted to SMEs in the southwestern region and its effect on their business performance. The utilization capacity was based on the 247 SMEs that have taken credit facilities for the past five years. Table 2 shows that 36.2% of the respondents have obtained credit facilities from microfinance institution for at least once in the past 5 years, 22.6% have obtained twice while others (41.2%) have obtained credit facilities from 3- 5 times in the same period. This confirmed SMEs have the opportunities of getting repeated credit facilities from MFBs for effective capital growth and current assets management. This percentage also revealed that those that have repeated access to credit facilities from MFBs had effectively utilized the initial loans granted to them.

In addition, while 26.3% of the respondents did not agree to the statement that the credit facilities obtained from MFBs led to the growth of their businesses, 21.5% partially agreed, 42.9% and 9.3% agreed and strongly agreed to the statement respectively. This implies that the loans obtained enhanced the trading capacity of the SME entrepreneurs in the study area.

Furthermore, 68% (i.e. addition of 62% agreed and 6% of those that were strongly agreed) reported that they were satisfied with MFB credit facilities because they were able to generate enough cash flow to liquidate the loan within the tenor of facility which further confirmed the effective utilization of the loans obtained and its multiplication effect on SMEs business activities.

However, 49% and 4.9% of the respondents agreed and strongly agreed to the statement that they were constrained to pay their loans facility before the expiring date due date in order to avoid high default charges. In this regard, the CBN needs to urgently have a downward review of default rate charges from MFBs order to further enhance the utilization capacity of credit facilities granted to SMEs in Nigeria.

Table 3: Effect of microfinance services on SMEs performance in the study areas

Capacity utilization of microfinance facilities	Parameter	Frequency	Percent
Are you aware of MFBs existence and the services rendered SMEs?	Yes	331	93.5
	No	23	6.5
	Total	354	100.0
Which of the following services have you enjoyed from MFIs?	business advice/training	187	52.8
	savings	133	37.6
	others	34	9.6
	Total	354	100.0
	Missing	336	94.9
If others, please list them	Loan	9	2.5
	Mentorship and legal backing	9	2.5
	Total	354	100.0
	very small extent	36	10.2
	small extent	121	34.2
Basic business skills	moderate	185	52.3
	large extent	7	2.0
	very large	5	1.4
	Total	354	100.0
	very small extent	27	7.6
Capital investment decisions	small extent	54	15.3
	moderate	268	75.7
	large extent	5	1.4
	Total	354	100.0
	very small extent	18	5.1
Business risk management	small extent	30	8.5
	moderate	288	81.4
	large extent	14	4.0
	very large	4	1.1
	Total	354	100.0
Trainings has increased your SMEs income level, productivity and make SMEs becomes change agent in the society	very small extent	31	8.8
	small extent	14	4.0
	moderate	291	82.2
	large extent	18	5.1
	Total	354	100.0
Enhance the growth of workable community and social service skills such as financial literacy	small extent	43	12.1
	moderate	287	81.1

	large extent	24	6.8
	Total	354	100.0
Other skills.... (Please specify)	very small extent	18	5.1
	small extent	48	13.6
	moderate	273	77.1
	large extent	11	3.1
	Total	350	98.9
MFIs savings have contributed in fuelling growth of my Enterprise	very small extent	31	8.8
	small extent	87	24.6
	moderate	228	64.4
	large extent	8	2.3
	Total	354	100.0
MFIs savings have contributed in fuelling stability of my Enterprise	very small extent	13	3.7
	small extent	68	19.2
	moderate	262	74.0
	large extent	11	3.1
	Total	354	100.0
It has led to motivation for enhancement of earnings from the ongoing activities	very small extent	22	6.2
	small extent	44	12.4
	moderate	279	78.8
	large extent	9	2.5
	Total	354	100.0
The savings enable SME to make a greater contribution to household income	very small extent	22	6.2
	small extent	35	9.9
	moderate	286	80.8
	large extent	11	3.1
	Total	354	100.0
The overall influence of savings on the financial performance of the SMEs	very small extent	18	5.1
	small extent	48	13.6
	moderate	268	75.7
	large extent	20	5.6
	Total	354	100.0

Source: Field Survey, 2022

Effect of Microfinance Services on SMEs Performance

The study further investigated the effect of other MFBs services (which include training/advisory services and savings) on SMEs performance. Table 3 shows that nearly all SMEs (93.5%) strongly agreed to have knowledge of MFBs existence and their services to SMEs in southwestern Nigeria. The table shows that 52.8% of the respondents received business advisory/training services from the MFIs and this includes pre -loans training, cash flow management, book keeping, stock management, mentorship and business registration advice. 52.3% of the respondents agreed that training and business advices from MFBs have moderately impacted on their basic business development skills, Likewise, more than two-thirds (75.5%) responded that training received from microfinance banks have been helping them in area of taking investment decisions. While 81.4% moderately agreed to the fact that they were able to manage their business risks due to training and MFBs business advices,

82.2% testified that they were able to sustain their business incomes and productivities abstemiously.

In all, 81.1% claimed that MFBs training/advisory services has enhance their financial literacy, business knowledge and information. It therefore advised that MFBs should sustains their training and business advisory services, make it more regular for better growth SMEs in the southwestern Nigeria.

On the part of MFBs savings services, majority (64.4%) moderately agreed that MFIs savings have enhanced the development of their Enterprises. 74% of the respondents moderately agreed that MFIs savings have helped them to stabilize the financial strength of their Enterprises. 78.8% agreed to a moderate extent that MFBs savings products had motivated them in getting more revenues from their current business activities, still 80.8% agreed that the savings has moderately contributed to the growth of their family incomes.

Lastly, the total contribution of MFBs savings products to the recital of the SMEs was considered moderate at 75.5%. Hence, MFBs in Southern Nigeria need to create more awareness of their various savings products in order to grow the savings culture of the SMEs. This is attributed to the fact that the money accrued from the savings can be used to undertake multiple tasks and operations and therefore enhance the growth of the SME.

Conclusion

It was discovered that there was a significant contribution of microfinance credit facilities to the utilization capacity of SMEs in Southwest, Nigeria. This means that the loan obtained lead to growth of their businesses and majority of respondents said they were satisfied because they were able to generate enough cash flow to liquidate the loan within the tenor of facility. This invariably leads to an increased in the amount of capital available for production and expansion of the SMEs. Also, there was a significant influence of microfinance services on the performance of SMEs in southwest Nigeria. This is because most of SMEs performance has influenced by microfinance services especially access to loan, saving, training and consultancy services. This contributed to our knowledge by providing information on the MFIs services and the resultant effect it has on the performance of SMEs. Further studies need to focus on the contribution of listed deposit money banks on the performance of SMEs in Nigeria.

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