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Microfinance Banks and its Impacts on Small and Medium Scale Enterprises in Nigeria

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ABSTRACT

In this study the attempt is made 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 assess the development of small and medium scale enterprises gearing the whole attention to the contribution of microfinance banks and to evaluate the aftermath of the strict borrowing condition of microfinance banks on the development of the small and medium scale enterprises. For this purpose, the study used representative random sampling and administered fifty (50) questionnaires out of which forty-one (41) were correctly filled and returned. For the analysis of data, the research used Chi-square tool to test the formulated hypotheses. After the careful analysis of data, the findings revealed that the 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 findings also revealed that the strict borrowing condition in place ordained by the bank is also a militating factor that prevent entrepreneurs from patronizing the service of the bank. The study recommended that government should intervene in the contemporary issues and lay hands in bestowing relief to those banks and in encouraging them in many ways, such like tax holidays and it's like to keep this sub-industry of small and medium scale enterprises alive for the good of all.

***Keywords*:** Microfinance, Enterprises, Borrowing Condition, Chi-square, Tax Holiday

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1. INTRODUCTION

Small and Medium scale Business is one of the widely practiced business in Nigeria but the main problem that the sector been facing for years is the constrained access to money and capital market. This is because project proposal is poorly prepared, financial documentation and inadequate collateral are not provided, as well as the inability of the promoters of SMEs to raise the required equity contribution. Also, high rate of enterprises mortality whereby the incidence of inadequate working capital, which constrains productive capacities of the SMEs as well as the absence of succession plan in the event of the date of the proprietor, lead in many cases to frequent early demise of SMEs. Moreover, the persistence of unstable macroeconomic environment, arising mainly from fiscal policy excess is often smothering many SMEs. Also, poor management practices and low entrepreneur skills are one of the major factors that hinder the development of SMEs in Nigeria; this is so because many SMEs do not keep proper record of transactions. This hinders effective control and planning. Moreover, lack of relevant educational background and through business exposure constrains their ability to seize business opportunities that may lead to growth and expansion.

The Nigerian financial system is a complex network that includes receipts and payment mechanisms and lending as well as borrowing funds. It consists of markets, market participants, instrumentalities and institutions that are meant to facilitate the transfer of resources from one unit to another (Suleiman, 2004). Such institutions include both the bank and non-bank financial institutions such as commercial banks, merchant banks, universal bank, community banks, discount houses, finance houses, microfinance banks, etc. all of which are regulated by the Central Bank of Nigeria, Federal Ministry of Finance and other regulatory agencies.

One of the ultimate tests of the country's success in its production sector is its role in the development of its small and medium scale business. This can be looked at from the basic productive sectors such as the agricultural sector, manufacturing as well as other services sectors (Iganiga, 2008).

The practice of microfinance in Nigeria is culturally rooted and pre-dates the modern banking era. The microfinance banks provide access to credit for rural and urban low-income earners. The small and medium business entrepreneurs in Nigeria rely heavily on the microfinance for funding (Bbajide, 2011). In order to enhance the flow of financial services to micro, small and medium businesses in the country, the Federal Government of Nigeria launched the new microfinance policy, regulatory and supervisory framework in December 2005.

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Over the time microfinance has come to include a broader range of services (credit, savings, insurance, etc.) and have come to realize that the poor and the very poor that lack access to traditional financial institutions require a variety of financial products. The role of Small and Medium Enterprises (SMEs) as a catalyst for economic growth and development has been well documented in the economics literature and recognized in most countries. For example, in many of the newly industrialized nations, more than 98% of all industrial enterprises belong to the SMEs sector and account for the bulk of the labor force. SMEs enjoy a competitive advantage over the large enterprises in serving dispersed local markets. Cognizant of this fact, programmers of assistance, especially in the areas of finance extension and advisory services as well as provision of infrastructure have been designed by the Nigerian government for the development of the SMEs.

This research work gave clear insights into the impact of microfinance banks on the development of small-scale enterprises. Hence this study was set to examine how microfinance banks help in developing the growth of small and medium scale Enterprises (SMEs) through loans offer to the businesses plus other means and how the micro financing contributed to the operational efficiency and effectiveness of government in boosting an economy. This section highlights the overall ground upon which this research will be build.

2. LITERATURE REVIEW

The literature review provided a review of past studies on; the business model for microfinance institutions and empirical review of the effect of various microfinance services i.e. financing, provisions of financial literacy, and developments of management skills among SMEs in facilitation of market network among SMEs. This section also discussed the interrelationship between the study variables in the conceptual framework.

2. 1. Concept of SMEs

According to Ranjami (2012), SMEs and entrepreneurship are now recognized worldwide as key source of economic growth and development. Kolawole (2013) contends that small and medium scale enterprises play a very important role in developing economies. This view appears to be supported by Chijah and Forchu (2010) when they argue that the promotion of micro enterprises in developing countries is justified in their abilities to faster economic growth, alleviate poverty and generate employment. According to the Nigeria's national Council on Industry; 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.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) 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 also offer an excellent breeding ground for entrepreneurial and managerial talent.

Kolawole (2013) suggests five essential and inter-related gaps in small enterprise performance comparing stylized enterprises in developing and industrialized economies. These five "gaps" needs to be addressed in order to improve prospects for high-impact small enterprise development in developing economies: Role of entrepreneurship. In many developing countries, "necessity entrepreneurship" prevails, versus greater levels of "opportunity entrepreneurship" in industrialized countries, which tend to be led by higher skilled and bettercapitalized entrepreneurs. Firm growth and upgrading. In many developing countries, only a small proportion of micro and small firms grow beyond a certain threshold, due mainly to lack of specific management and/or marketing skills.

The lack of trust in society is another impediment, limiting many small firms to what their families and immediate communities can control or supervise. The result is a lack of more specialist and sophisticated medium-sized companies, often called the 'missing middle.'

Technological capabilities. Small enterprises in developing countries mostly focus on low-tech routine operations and use mature technologies as blue prints. On average, compared to their industrialized economy counterparts they are less capable of creating knowledge, applying new technologies and rarely performing R&D, often due to the lack of human capital, business competencies and skills.

Export competitiveness. In developing countries, the export share of small enterprises tends to be much lower than in industrialized countries, with a few remarkable exceptions in Asia such as China, Taiwan and increasingly, Vietnam. This situation reflects the technology gap, and in turn, results in small enterprises being excluded from international best practices and sources of knowledge.

2. 2. Empirical Framework

A plethora of literature on the growth SMEs exist. A review of these literature show that, in general, the failure in development of SMEs is as a result of a dearth of funding. This led to other problems like inadequate managerial skills, inability to update equipment and technology etc. For example, Yaron, Benjamin and Piperk (1997) discovered that limited access to loans led to stunted growth of SMEs. They discovered that many SMEs had limited capital, lacked relevant skills and used outdated technologies. Carpenter and Petersen (2002) opined that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. Access to credit enables the SMEs to cater to needs like expansion, purchase of equipment etc. They further discovered that most of the SMEs that sourced for funds from micro finance institutions had higher sales volume and profit. Makokha (2006) revealed that inadequacy of capital hindered the expansion of businesses. The study further found that larger loans enabled SMEs to expand to medium enterprises.

In Nigeria, Alege and Ogunrinola (2008) carried out a study to ascertain the impact of a UNDP-sponsored microcredit programmed on SME development. They found that variables such as pre-loan training and entrepreneur level of education impact significantly on SME development. Bekele and Zekele (2008) also investigated long term survival of SMEs financed by microfinance institution and decided that enterprise that did not participate in such schemes regularly is more likely to fail in comparison with businesses that participated regularly. In another study to examine the impact of microfinance on rural farmers in Malawi, Aguilar (2006) reported that farmers who borrow from microfinance institutions were no better off than those who did not borrow. In a similar fashion, Augsburg (2008) argued that there is the need for a plus component (training in financial management, marketing and managerial skills and market development) for microfinance to succeed. It has however been said that benefits of microfinance are not always realized and that many other factors including client characteristics, microfinance structure and functional arrangements may mediate the impact of microfinance. Thus, the effect of microfinance is context specific.

Kumar Mangalam (2010) studied on the role of microfinance in rural development; he argued that more than subsidies the poor need access to credit. Absence of formal employment make them non 'bankable'. This forces them to borrow from local money lenders at exorbitant interest rates. May innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. The researcher adopted a conceptual framework of a microfinance institution in India. They argued that microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmed. He also stated that Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements (Catania, 2011).

Sergio et al. (2010) constructed a theoretical framework that describes the social worth of a microfinance organization in terms of the depths, worth to users, cost to users, breadth, length, and scope of its output. They analyze evidence of depth of outreach for five microfinance organizations in Bolivar. Most of the poor households reached by the microfinance organizations were near the poverty line they were the richest of the poor. They observed that group lenders have more depth of outreach than individual lenders. The urban poorest were more likely to be borrowers, but rural borrowers were more likely to be among the poorest.

Annabel (2007) used a panel survey to assess the changing institutional form of microfinance institutions and its impact on the poor. She studied the transformation process, investigated it and put in its historical perspective. She stated that international institutions are pushing this process in the conviction that commercial institution s are much more efficient to provide financial services to the poor. The paper demonstrated by providing commercial small-scale financial services to the poor which has generated some unresolved ethical questions. Different impact studies and some recent events were put together and the study shows that it is far from clear how microfinance impacts poverty. The study concludes that microfinance faces some huge challenges to comply its promises and argues for a more balanced approach towards microfinance practices.

Zahra, (2008) provided an exploratory review of the impact that microfinance programs have on the rural developing world. He demonstrated the underlying assumption of most researchers that western definition of 'empowerment' should be used to determine the progress of development policies. He stated that western understanding of empowerment is also utilized to evaluate programs and assess their positive impact. Microfinance programs undoubtedly have the potential to decrease, or even eliminate, poverty in the developing world, but microfinance theory is being diluted by interference from international, neoliberal bodies.

Bentual, (2008) argued that poverty is a threat to peace and result in denial of all human rights. He stated that despite microfinance significant contribution to help the poor worldwide, the impact of microfinance in reducing poverty is always in question. To evaluate this prevailing issue; this study explores the linkages between microfinance and economic development and also examines the impact of microfinance on economic development. Drawing on empirical case study, this study examines how far microfinance plays important role in economic development.

Bentual, (2008) stated that the problem regarding its operation, based on his research findings, and concluded that microfinance can make meaningful contribution should the supervisory authorities look more seriously at the diversified needs of the poor people and target the extremely poor.

Quaye, D.N. Obeli (2011) studied the effect of micro finance institutions on the growth of small and medium scale enterprises (SMESs); a case study of selected SMEs in the Kumasi metropolis. The study examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, the contribution of MFIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profile of SMEs show that most SMEs are at their Micro stages since they employ less than six people and the sector is hugely dominated by the commerce sub-sector. The research also indicates that MFIs have had a positive effect on the growth of SMEs.

A study done by H. Madole, (2013) on the impact of microfinance credit on the performance of SMEs in Tanzania, shows that credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in term of: increased business profit, increased employees, increased sales turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Result also shows that collateral, age or experience of the SMEs owners, and, size of the firm influences the access of credit. The study concluded most of the small businesses depend on bank loan for business capital growth. Bank loan especially NMB loan plays a very crucial role to promote small business growth. Although some of the small businesses fail to repay bank loan due to various reasons such as grace period, moral hazard and high interest rate. In regard to the findings, however, it was recommended that MFIs should increase credit and enhances participation in SMEs financing, in order to sustain the growth and maximal contribution to economic growth and development of the nation.

Another study was done by Koech, (2011) conducted a study to find out the financial constraints that hinder growth of SMEs in Kenya. The researcher adapted the case study approach and targeted SMEs in Kamukunji District. The study used structured questioners as main tool for data collection. Data was analyzed and by explanatory factor analysis and descriptive analysis was the help of SPSS to obtain percentages and frequency distribution tables. The factor hindering growth of SMEs were identified as capital access, cost, capital market, collateral requirements, information access, capital management and cost of registration. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs easy access to loans.

Waithanji S. W. (2011) studied the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu County, Kenya. The study was done through the use of survey design. Out of the 2,061 SMEs licensed, the study randomly sampled 60 SME‟s. The study found that there is a direct relationship of access to credit and financial performance of the companies. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. There is need to provide an enabling environment for SME‟s to grow and thrive, therefore there is a need to develop strategies to enhance increased access to microfinance credit by SME‟s from commercial banks and microfinance institutions.

Several studies have been done on this area, Waithanji, S. W. (2014) did a research on the effect of microfinance on the performance of small and medium enterprises in Kiambu county and found that all SMEs borrow investment capital and they use it for the purpose in which they borrowed for, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions. Another study done by H. Madole, (2013) on the impact of microfinance credit on the performance of SMEs in Tanzania found that; the role of financial institutions toward SMEs success is a vital important.

2. 3. Theoretical Framework

Azende T. (2012), a well-functioning financial system is a key enabler of economic growth. SMEs are an important part of Nigeria's economic growth and development and bank lending is the primary source of external finance for SMEs. Therefore, it is important that the banking sector responds efficiently and effectively to the needs of SMEs. According to Ohanga (2005) there are a number of features of lending generally which potentially could affect the efficiency of the market for lending. Information Asymmetry is a situation where business owners or managers know more about the prospects for, and risks facing their business than do lenders. Where information asymmetries exist, bank lending theory predicts that lenders may respond by increasing lending margins to levels in excess of that which the inherent risks would require. Bank lending theory also suggests that banks may also cur-tail the extent of lending – credit rationing – even when SMEs would have been willing to pay a fair risk-adjusted cost of capital. The implication of raising interest rates and/or curtailing lending is that firms will not be able to finance as many projects as otherwise would have been the case. Information asymmetry is more acute in case of SMEs because their relative size makes them economically unattractive to banks since they are unable to accurately gauge the level of risk involved in lending to SMEs (Ohanga, 2005). Most of them had no access to their credit. This explains why SMEs in Nigeria represent about 90% of firms in the Nigerian industrial sector on numerical basis but regrettably contribute as low as one percent to GDP in contrast to countries like Indonesia, Thailand and India where SMEs contribute almost 40% to GDP (HPACI, 2002). The failure of most of the schemes and the need for a sustainable source of financing SMEs, therefore, necessitated the recent Central Bank of Nigeria (CBN) inspired Banker's Committee initiative which is aimed at committing the banking industry to the provision of finance and other ancillary support to the sub-sector via an equity participation scheme. SMEs are crucial catalysts for economic development (Aruwa, 2006). Banks provide a nation with a function of pooling scattered resources from surplus to deficit units so as to promote investment innovation, productivity and consequently growth and development. The banking industry in Nigeria dominates the financial system (Agusto, 2000).

Berger et al (2001) maintains that a well-functioning financial system contributes to investment and economic growth. Every enterprise at its onset, before standing firm on its feet, needs borrowing. The first place that they need to go and borrow at those times is the banks. According to elementary corporate finance theory, an in-vestment project should be undertaken whenever its net present value is positive. This assumes that the capital outlay is not exhaustive. Firms do any volume of investment, and so where the firms do not have adequate capital to embark on any level of investment, there is need for capital borrowing (Mainoma, 2005). This shows that even if an enterprise is strong and firmly rooted, it still does not stop borrowing, because it can embark on a very large-scale investment more than it currently does, if it can get the required capital. When funding becomes a major problem for such enterprises, nothing else works. This is because other problems which emerge later in an enterprise's lives that are being tackled as natural problems which come after its funding. This in turn hinders the growth and development of the economy. Njoku (2007) postulates that to forestall the imminent capital flight from the real sector. The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund in Nigeria, the formal financial institutions have to the banking sector, banks should begin to take second look at the industrial sector in terms of lending operations. He continues that banks should plough back a large proportion of the money available to them to the real sector of the economy as long-term loans at rates not exceeding 5%. This he said will encourage industrialists not only to remain in their present businesses but also to achieve their business expansion targets. Small and medium scale enterprises dominate the private sector of the Nigerian economy, but almost all of them are starved of funds (Mambula, 2002). The persistent lack of finance, for establishment and operation of SMEs occasioned by the inability or unwillingness of the deposit money banks to grant long term credit to operators of the real sector institutions have been organized to finance SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the Federal government's desire to promote SMEs as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. Venture capital financing supplements or takes the place of credit facilities that the conventional banks are unwilling to give.

The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk. Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998). The Nigerian government's version of venture capital financing of SMEs -SMIEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and to promotion of small and medium-scale enterprises. The goal is to reduce interest rate burden and other financial service charges imposed under normal bank lending. According to Sanusi (2004), a breakdown of the SMIEIS fund investment by sectoral distribution shows that 68.82% went to the real sector while service-related investment ac-counted for 31.18%. This, he noted, is a sharp reversal from the initial trend recorded under the scheme. The Bankers Committee has allocated the investment of banks with respect to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related and micro-enterprises respectively. Analyzing the geographical spread of the SMIEIS fund, Sanusi (2004) reported that Lagos-based in-vestments have gulped 56.63% of the fund, and Abuja and 18 states received the balance 43.47%. The point is about the model of growth of SMEs and financing options available with respect to corporate governance.

Golis (1998) submit that venture capitalists do not seek enterprises on the start-up and survival stage but only in the stability and rapid growth stages did the venture capitalists appear which goes to show their fear because of the risk associated with the early stages. Yet the method of financing remains a critical success factor for SMEs. To be eligible for equity funding under the scheme, a prospective beneficiary shall :). Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filling of annual returns, including audited financial statements; ii).Comply with all applicable tax laws and regulations and render regular re-turns to the appropriate authorities (Bankers Committee Revised, 2005) Aruwa (2005) laments that, given the developmental stage of Nigeria's dominant SMEs; it is difficult for them to meet any of these requirements. Consequently, SMEs in Nigeria do not have the capacity to access funds from SMEEIS. With proper identification of risk exposure and then managing them, our Nigerian dominant SMEs will position themselves as good investment opportunities and become attractive for all available schemes to part with their funds to them. According to Ojo (1984), the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, and moneylenders. The study shows that almost all the funds came from personal savings (96.4%) with about 3% from the in-formal sector and 0.21% from the formal financial institutions. This trend is further established by a 1983-84 study by the Nigerian institute for Social and Economic Research (NISER). NISER findings show that about 73% respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions. This study, therefore, needs to investigate the impact of Microfinance on SME's in Damaturu, Yobe State of Nigeria. However, there are many studies have been conducted by various eminent researchers in Nigeria, but they didn't focus in Yobe State. Yobe State is one of the poorest states in Federal Republic of Nigeria after Adamawa. Therefore, it is required to examine the impact of Micro-finance on small and medium scale enterprises in Damaturu, Yobe State of Nigeria.

3. RESEARCH QUESTIONS

This study intends to find out the linkages between financing of microfinance banks and its impact on small and medium scale enterprises with respect to their growth. The following questions are therefore raised to be used in the course of the study.

I. What are the impacts of microfinance banks in financing small and medium scale enterprises?
II. How does the strict condition of microfinance banks affect the development of small and medium scale enterprises?

3. 1. Objectives of the Study

The main objective of this study is to examine the impact of microfinance banks in the growth and development of small and medium scale enterprises while the specific objectives are to:

I. Assess the development of small and medium scale enterprises with specific reference to the contribution of microfinance banks
II. Evaluate the aftermath of the strict borrowing condition of microfinance banks on the development of the small and medium scale enterprises

3. 2. Research Hypotheses

Ho_1: Micro financing does not have a significant effect on the growth of small and medium enterprises in Damaturu.

Ho_2: There is no significant relationship between the strict borrowing condition of Microfinance Banks and the development of small and medium scale enterprises in Damaturu.

4. METHODOLOGY / RESULT

This study has been administered in Damaturu the state capital of Yobe state of Nigeria. This is because the location is suitable for the researches of this nature due to the concentration of institutions, population of the targeted customers as well as the instruments to be used in the research. The town Damaturu lies in a plains region that is covered by savannah and that supports crop of millet, sorghum and peanuts. The town is commercially oriented with having a numberless sole trader and small-scale enterprises, most of which are situated at the mini market in the center of the town called "bayan Tasha". This study is based on focus group discussion and after interaction with the people, further, the conversation converted into the data which was supported by two-scale point. The targeted population of this study people that engage with microfinance banks' activities. They are customers, sole traders, staffs and management of the Micro Finance Damaturu Branch. This will give the researcher an ample opportunity of getting the required first-hand information. Data should be collected from the whole population in actual sense, but due to inadequate finances, time and research resources, sampling is inevitable.

Therefore, a sample was taken out of the population by using a representative random sampling technique where each member of the population is having an equal chance of being selected and administered fifty (50) questionnaires out of which forty-one (41) were correctly filled and returned to determine the responses of the customers, sole traders, staffs and management of the Micro Finance bank. Reliability of the instrument is the degree of consistency in which an instrument measures the attributes it is designed to measure while validity is used to measure the validity of the instruments. Therefore, both t-test and f-test will be used. The data used for the study were processed using descriptive and inferential analysis and simple percentages. The descriptive analysis involves the use of mean, median, and standard deviation of the data so collected. The inferential statistics involve the use of Chi-Square. The chi-square formula is stated as

$$X^2 = \sum \frac{(Fo - Fe)^2}{Fe}$$

where: X^2 = calculated value of chi-square

$\sum$ = summation

Fo = Observed frequency

Fe = Expected frequency

Df = Degree of freedom (c-1) (r-1) or (column-1) (row-1).

These analyses are suitable to the research work because they are time efficient in terms of output, very simple to analyze the mind adequacy of statistics generated.

4. DATA ANALYSIS

4. 1. Testing Hypothesis One

Table 1. Testing Hypothesis One.

Resp.	**Q6**	**Q7**	**Q10**	**Q12**	**Q14**	**TOTAL**
YES	29	17	27	33	35	141
NO	12	24	14	8	6	64
Total	41	41	41	41	41	205

Source Author' Calculations, (2018).

4. 1. 1. Computation of Degree of Freedom and Expected Frequency

Degree of freedom (df) = (r-1) (c-1)

where: r = Number of observations in a row
c = Number of observations in a column
(2-1) (5-1) = 4
df = 4

Computation of expected frequency

$$E(Yes) = \frac{41x141}{205} = 28.2$$

$$E(No) = \frac{41x64}{205} = 12.8$$

Calculation of the chi-square
where: O = the observed frequency
E is the expected frequency

Table 2.

O	**E**	**O-E**	**(O-E)^2**	$\frac{(O-E)^2}{E}$
29	28.2	0.8	0.64	0.02
17	28.2	-11.2	125.44	4.45
27	28.2	-1.2	1.44	0.05
33	28.2	4.8	23.04	0.82
35	28.2	6.8	46.24	16.40
12	12.8	-0.8	0.64	0.05
24	12.8	11.2	125.44	9.8
14	12.8	1.2	1.44	0.11
8	12.8	-4.8	23.04	1.80
6	12.8	-6.8	46.24	3.61
Calculated Chi – Square $\frac{(O-E)^2}{E}$				35.11

Source Author' Calculations, (2018)

The table value of chi square at 5% significance level at 4 degrees of freedom is; X^2 = 32.15. This compares to the calculated value of chi square which is 35.11. The calculated value is greater than the tabulated value.

4. 1. 2. Decision

The decision rule is that if the value computed is greater than the looked-up (or table) value of chi squared, we reject the null hypothesis. In the case of one hypothesis, the calculated value (35.11) is greater than the looked-up value (32.15). Hence, the null hypothesis is rejected. Therefore, it is concluded that Micro financing does have a significant effect on the growth of small and medium scale enterprises in Damaturu.

4. 2. Test of Hypothesis Two

Ho_2: There is no significant relationship between the strict borrowing condition of Microfinance Banks and the development of small and medium scale enterprises in Damaturu. Question 8, 9, 11, 13 and 15 will be used to test hypothesis two (H_2). The questions are;

8. Is the condition of financing, friendly?
9. Do you suggest that Microfinance should increase the rate at which it provides credit?
11. Do you face problems in sourcing loans from Microfinance bank?
13. Do you recommend Microfinance bank to others?
15. Do you find the service of Microfinance more favorable compared to other commercial banks?

Table 3. Testing Hypothesis Two.

Resp.	Q8	Q9	Q11	Q13	Q15	TOTAL
YES	23	7	25	24	32	111
NO	18	34	16	17	9	94
Total	41	41	41	41	41	205

Source Author (2018)

4. 2. 1. Computation of Degree of Freedom and Expected Frequency

Degree of freedom (df) = (r-1) (c-1)

where: r = Number of observations in a row
c = Number of observations in a column
(2-1) (5-1) = 4
df = 4

Computation of expected frequency

$$E(Yes) = \frac{41x111}{205} = 22.2$$

$$E(No) = \frac{41x94}{205} = 18.8$$

Calculation of the chi-square
where: O = the observed frequency
E is the expected frequency

Table 4.

O	E	O-E	$(O\text{-}E)^2$	$\frac{(O-E)^2}{E}$
23	22.2	0.8	0.64	0.02
7	22.2	-15.2	231.04	10.41
25	22.2	2.8	7.84	0.35
24	22.2	1.8	3.34	0.15
32	22.2	9.8	96.04	4.33
18	18.8	-0.8	0.64	0.03
34	18.8	15.2	231.04	12.29
16	18.8	-2.8	7.84	0.42
17	18.8	-1.8	3.34	0.18
9	18.8	-9.8	96.04	5.11
$\text{Calculated Chi} - \text{Square } \frac{(O-E)^2}{E}$				33.29

Source Author's Calculations, (2018)

The table value of chi square at 5% significance level at 4 degrees of freedom is; X^2 = 29.98. This compares to the calculated value of chi square which is 33.29. The calculated value is greater than the tabulated value.

4. 2. 2. Decision

The decision rule is that if the value computed is greater than the looked-up (or table) value of chi squared, we reject the null hypothesis. In the case of hypothesis two, the calculated value (32.39) is greater than the looked-up value (29.98). Hence, the null hypothesis is rejected. Therefore, it is concluded that there is a significant relationship between the severity borrowing conditions of Microfinance Banks and the development of small-scale enterprises in Damaturu.

5. RESULTS AND DISCUSSION OF FINDINGS

Based on the analysis carried out in the first hypothesis testing, the alternate hypothesis was accepted thus, the conclusion drawn was that Micro financing do have a significant effect on small and medium enterprises in Damaturu.

The result reveal that many people have knowledge about the existence of microfinance banks but most of the small scale enterprises do not raise fund from microfinance banks in

Damaturu, this may be due to the substantial interest rate attached to the credit and because of the fact that the religious faith of most of the inhabitant of the town is Islam and it is well known that the doctrine of Islam has prohibit interest on borrowing thus, it is unlawful even though the condition of the financing has been proved to be friendly from the responses generated in the questionnaire administered. The findings also show that Microfinance banks truly help in financing and development of the small-scale enterprises.

Base on the analysis it was found out that out of the responses generated from question 9, 8, 11, 13 and 15 in an attempt to test the second hypothesis show that most of the sole proprietors in Damaturu did not support the proposal on the increment of the interest rate and that most of the small scale enterprises face a lot of problems in raising fund from the microfinance bank, this may be due to the strict rules and severe routines embedded in the process of obtaining the loan after all it has been found out that most of the respondents do not find the service of microfinance banks more favorable compared than that of commercial banks.

Hence it is concluded that there is a significant relationship between the severe borrowing condition of Microfinance Banks and the development of small-scale enterprises in Damaturu. The strict borrowing condition is a drawback on the side of the small-scale enterprises which discourage them in sourcing finance from the microfinance banks.

6. CONCLUSION AND SUGGESTIONS

The analysis of the data carried out show that there is awareness of microfinance bank program/funding and a good number of sole proprietors in Damaturu source fund from the bank. Therefore, this study concludes that microfinance banks promote the growth and development of small-scale enterprises.

The study also concludes that the strict borrowing condition of the bank has a significant effect on the development of SME's as it discourages them to apply for the loan, instead they keep raising funds from insignificant source. It is added that thus tactics and properties should address the most important factors of development in focal sub-sectors.

This study recommends that government should adopt and execute such policy for the betterment of SMEs such as; procurement, ensure the availability of raw materials and imported machines on concessional basis. Apart from this, it is also important to provide a good training such as marketing, sales, communication, etc. so that SMEs may work efficiently in the market. The government is also recommended to set up toil design institute and testing centers for raw material and produced goods/services institute as earlier recommended by Ojo (2006).

The study also suggests that the enterprises supported by Microfinance institutions ought to be allied up with a larger financing window like the Small and Medium Enterprises Equity Investment Scheme fund and planned allied for extension and expansion fund after survival. The businesspersons may well also be allied up with other profitable groups who will service the businesspersons through the microfinance banks based on public investment.

Also, greater emphasis should be given in the non-financial facilities on condition that by the Microfinance banks such as skill related training, businessperson training, pre-loan training, group membership so that traditional Microfinance banks may use it and enhance their competence and sustainability path.

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