

## Impact of Microfinance Institutions on Micro Small and Medium Scale Enterprises Survival: A Post Covid-19 Pandemic Lockdown Approach in Kwara State, Nigeria

Author's Details: AYODELE, O. O., OGUNDIPE, C. F.

<sup>1 & 2</sup> Department of Business Administration, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria

### Abstract:

*The study examined the impact of microfinance institutions on micro small and medium enterprise survival in Kwara State, Nigeria. The specific objectives are to determine the effect of collateral on micro small and medium enterprise survival and examine the effect of interest rate on micro small and medium enterprise survival. A descriptive survey research design was adopted for the study. The population of the study comprises MSMEs owners in Kwara State. The sample size was 400 Primary data was used for the study were gathered through structured questionnaire. Data gathered were analyzed using regression model. The result showed that collateral positively affect micro small and medium enterprise survival ( $t=6.760, p<0.05$ ); it further showed that interest rate security affects micro small and medium enterprise survival ( $t=6.492, p<0.05$ ). Thus, it concluded that microfinance institutions positively affect micro small and medium enterprise survival.*

**Keyword:** Collateral, Interest Rate, Microfinance Institution, MSMEs Survival

### 1. Introduction

One of the responses to the development in the developing countries like Nigeria is the encouragement of entrepreneurial development scheme. Nigeria had been taking more robust step by including entrepreneurial studies in the academic curriculum of Nigerian tertiary institutions. This is because such decision tends to arouse entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through employment and micro small and medium scale enterprises survival. Micro small scale enterprise is very crucial to the development of a country's economy, especially countries like Nigeria since entrepreneurship is so important to national development, poverty eradication and employment generation. Therefore, it can be said that entrepreneurship is the bed rock of nation's industrialization (Akinbola, Ogunnaike & Tijani, 2013).

In this regard, the occurrence of Covid 19 in March 2020 met businesses unaware particularly micro, small and medium scale businesses in Nigeria. Businesses were shut down for a very long period though some business who provide essential product and services like food were given opportunity to operate while others were shut down including the public sector. This affected so many businesses which gave rise to cost of goods and services drastically due to stoppage in transportation of goods from state to other. In view of this, this has led to many businesses folding up, some struggling to survive among the micro small and medium scale enterprise. Based on the challenges, most businesses depend on microfinance institution for resuscitation and survival. Even private workers who were lose their job in the process were left with microfinance institution to empower and establish new business so as to feed their family and that the requirement to obtain loan in commercial banks can rarely be met by them.

Consequently, microfinance was established to provide financial services to low-income earners of self-employed individuals' particularly micro small and medium enterprise owners. In this case, it is obvious that the commercial banks which ought to have been of financial assistance by providing soft loans have been failing in these areas. Repeatedly, the criteria put in place by commercial banks before they can access loans tend to be weighty thereby making loan inaccessible for the micro small and medium enterprise. Moreso, others who met the criteria may also be the delayed (Otero, 2000). Consequently, Mushimiyimana, (2008) asserted that micro small medium scale enterprise faces challenges in accessing loan to finance their business due to lack of collateral and high interest rate of most financial institutions. Entrepreneurs who obtain funds from such institutions spend most of their returns on investment in paying the cost of capital, leaving them with none or little savings for

reinvestment. As a result, majority of micro enterprises fail to grow into micro small and eventually medium enterprise.

### **1.2 Statement Problem**

Financing micro small medium scale enterprise is considered as a risky venture due to high transaction costs and low returns and going concern of the businesses by financial institution. Therefore, finance remains a significant resource for enhancing micro small medium scale enterprise performance, development and survival because investments are needed for new ideas to become marketable. The major setback has been inadequate funding which is the major cause of several micro small medium scale enterprise poor performance and closure. This is enough reason why government dwell on microfinance banks as major sources of capital provider for entrepreneurs (Obasan, 2001).

Nigeria as a nation is faced with peculiar developmental challenges because of mal-administration, corruption, infrastructural decay, insecurity of lives and properties and unstable economic policies by successive administrations (Fasua, 2006). Public and the private sectors of the economy need to be involved in the industrial development process of the country. It is on this basis that government begins to engage in privatization policy with the view of allowing the private sector to participate in the economic development of the nation. In view of this, one of the responses to the challenges of micro small and medium enterprise development in the developing countries like Nigeria is the encouragement of entrepreneurial development scheme (Alalade, Amusa & Adekunle, 2013).

Suberu, Ajala, Akande and Olure-Bank (2015) posited that the pandemic of corona virus or Covid-19 has caused serious damages to all spheres of human endeavours in Nigeria in particular. Covid-19 pandemic resulted to lockdown in the states capital across the country though several efforts have been made to address the challenge caused by Covid-19 but it is not deniable that there are many other disruptions caused by Covid-19 especially for public and private sectors where there are closures of business activities (Odinaka & Josephine, 2020). It has negatively affected global economy in general and Nigerian economy in particular because it hinders free flow of economic and business activities in the country. In the same vein, the pandemic has affected micro, small and medium enterprises as a result of the lockdown and shutdown of business transactions in the country. Thus this challenge has made many people to advocate for an alternative way of addressing it especially in providing supportive response for survival of micro, small and medium enterprises. Hence, it is paramount to have measures that will address the effects of Covid-19 (Amuda, 2020). Therefore, this study evaluated the impact of microfinance institution on Nigerian micro, small and medium enterprises in post pandemic period as a means and or strategy to revive micro enterprise sector in Nigeria and to empower more people with intension and passion to venture into micro small and medium enterprises particularly towards strengthening post-Covid-19 economy recovery with reference to Kwara State, Nigeria.

### **1.3 Objectives of the Study**

The specific objective of the study is to:

- i. Examine the effect of interest rate on micro small medium enterprises survival;
- ii. Determine the effect of collateral on micro small medium enterprises survival.

### **2. Literature Review**

Micro finance has evolved as an economic development techniques intended to benefit low income men and women. Similarly, it also refers to the provision of financial services to low income business owners, including the self-employed. Financial services generally include savings and credit, however, some micro finance institutions also provide payment services (Ehigiamusoe, 2005). Through commercial banks importantly consider collateral security before giving out loans for business purposes which is a required factor in obtaining loan as collateral serves as guarantee for recovering of loans given out by commercial banks in case of repayment default. However, average citizen in Nigeria cannot provide such collateral security which results to inability to access loans from

commercial banks. The inability to loans from financial institutions constitutes a great setback to entrepreneurial development in Nigeria (Parker, 2006).

Microfinance institution is becoming a crucial and dependable source for financing micro small medium scale enterprise In Nigeria. However, there are many source of raising capitals for business but not efficient due to bureaucracies in application, disbursement, collateral, high and exploitative interest rates needed for credit. The informal sources of finance available to micro small medium scale enterprise are personal savings, “isusu”, friends and relatives (Onuoha, 2012). The formal sources comprise mainly of cooperative and credit societies, Bank of Agriculture and Microfinance banks. However, financing new businesses and expanding the existing business activities become a great challenge to many entrepreneurs in Nigeria which has serious implications in the promotion of entrepreneurship development (Bharti & Shylendra, 2011).

Financial services include working capital loans; consumer credits savings products pension plans insurance schemes and money transfer facilities to meet micro small medium scale enterprise needs. In practice, microfinance is much more than the disbursement, management and collection of bits of loans. The broader view of microfinance is appropriately brought out by Alani and Sani (2014) when he stressed that microfinance refers to flexible process and structures by which financial services are delivered to owners of micro enterprises owners. It recognises the inability of the poor to provide tangible collateral securities and promotes collateral substitution. Disbursement and repayment are structured to suit the credit needs and cash flow patterns of small businesses (Aderibigbe, 2001).

In a narrower view, Kimotha (2005) opine that microfinance is the provision of very small loans (micro credit) to the micro small and medium scale enterprises and to engage them in new productive business activities or to grow/expand existing ones. Thus the narrower definition of microfinance equates it with micro credit. The current view of microfinance, however, includes a broader range of services mainly credit, savings opportunities, insurance and money transfer, which the poor who lack access to traditional formal financial institutions needed have to achieve meaningful improvement in their business activities. Primarily, microfinance seeks to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market for reason of their poverty that places limitation on them for proper utilization and complete repayment of borrowed amounts at a high commercial interest rate (Kpakol, 2005). To this end, this study looked at microfinance in the context of interest rate and collateral which are germane factors for accessing loan during post pandemic period.

### **2.1 Interest Rate and Collateral**

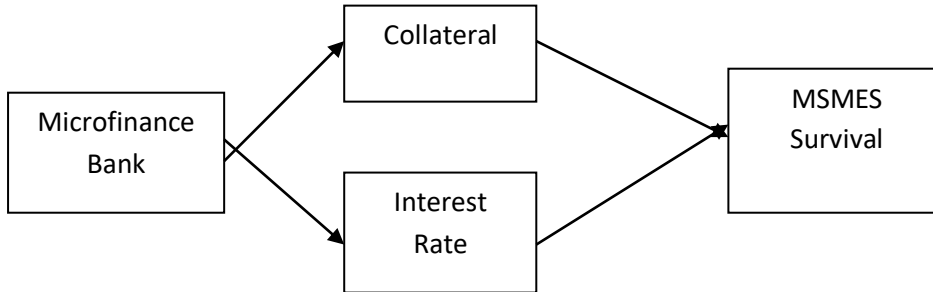
Interest rate is the reward for the bank for lending individuals money. Therefore, the higher the interest rate, the higher the bank ‘reward’ for lending money to the business owners. Conversely, when a bank lends bank money via a deposit in a current/savings account or fixed deposit, then the lender should expect to earn a ‘reward’ in the form of interest. Feigenberg, Field and Pande (2010) asserted that Microfinance institutions grant loans backed by social collateral to poor entrepreneurs whose incomes derive mostly from informal economic activities. As a consequence, Microfinance institutions are often committed to depend on soft information to assess borrowers’ creditworthiness.

### **2.2 Micro, Small and Medium Scale Enterprises**

The benchmark of micro, small and medium enterprises varies across countries. Eze, Woremegbe and Kolawole (2016) opine that in defining micro, small and medium enterprises, reference is usually made to some quantifiable measures such as number of paid employees, capital investment, the annual turnover (sales), asset value, profit margin and market share or a combination of two or more of these measures. So many criteria have been considered across nations and agencies in categorizing organizations as micro, small, medium scale enterprises. Ebitu, Basil and Ufot (2016) define micro enterprises as those having 1-10 employees and small scale enterprises as those having 11-50 employees. In view of this, micro, small and medium enterprises are economic units whose number of employees or turnover falls below certain limits. The definition of micro, small and medium enterprises, change over time and depend to a large extent and on a country’s level of development. To this end, most of the businesses found under this category rarely register their business due to the

perceived low capital input and income generation, micro enterprise are becoming more popular increasingly as most don't find small space to carry out their daily business without any stress. In view of this, different type of business comes under micro enterprise which some sell perishable goods and physical goods. Contrary to this, the business under question also needs enough capital for survival and expansion particularly after the lockdown when most business owners recorded losses and most stock goods got spoilt in the shop since there is government policies on Covid 19 pandemic which restricted them from carrying out their daily work.

### 2.3 Conceptual Framework



Source: Author's Conceptualisation (2020)

The study framework established the relationship between microfinance institution and micro, small and medium scale enterprise survival. However, the study was seen from the context of interest rate and collateral which are the determinants to obtain loans in the financial institution in Nigeria. In view of this, the considerable and fairly charges of this variable tends to influence or attract micro, small and medium scale enterprise owners to patronise microfinance institution for fund to finance their business after the pandemic set back they faced globally.

### 2.4 Theoretical Framework

Schumpeter's (1934) theory will underpin this study. Schumpeter's (1934) theory of innovative profits highlighted the role of entrepreneurship and the seeking out of opportunities for innovative value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro-active by the enterprise leadership and innovation which aims at nurturing opportunities through intellectual capital of entrepreneur to exploit the potential profit and development (Swedberg, 2000). Schumpeterian growth theory goes beyond economist theory by differentiating explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It deduces that technological progress comes from innovations carried out by firms driven by the pursuit of profit, and that it encompasses what Schumpeter called "creative destruction". That is, each innovation is aimed at generating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934). In view of this, this theory is most suitable to understudy the relationship between microfinance institutions and micro small and medium scale enterprises survival.

### 3. Methodology

This research is carried out in Kwara State. The research design adopted for this study is descriptive survey research design. Data were collected through the circulation of carefully designed questionnaires to the various micro small and medium scale owners in Kwara State. The number of micro small and medium scale business owners in Kwara State is (717,909) according to Smedan 2013. Four hundred (400) respondents was sampled using Yamani (1967) sampling model. This is clearly calculated below:

$$N = \frac{N}{n}$$

$$1+N(e)^2$$

Where; n= Sample size to be tested  
N= Total population size  
e = Acceptable error term (0.05)

Therefore, the total sample size is calculated thus

$$N = \frac{717,909}{1+717,909(0.05)^2}$$

$$= 399.78 \text{ approximately } 400$$

For the purpose of this study, inferential statistic including the use of frequency table to analyze the demographic information. The data generated through questionnaire will be analyzed with the use of regression analysis for the stated objectives.

Therefore, the regression line is stated below:

$$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + U_i$$

$$Y = F'(X)$$

Y = Dependent variable (Micro Small Medium Enterprises Survival)  
X = Independent variable (Microfinance Institution)  
Y = F' (C, IR)

Where:  
CS = Collateral Security  
IR = Interest Rate  
B0= Intercept/ Constant  
Ui= Error Term

#### 4. Data Analysis and Interpretation

##### 4.1 Description of Respondent

This section discussed the data analysis and interpretation through the use of questionnaires administered, 400 questionnaires were administered in which 260 was filled and submitted for analysis.

**Table 1: Respondents Demographic Distribution**

Variables	Frequency	Percent
<b>Gender</b>		
Male	115	44.2
Female	145	55.8
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Business Type</b>		
Registered	71	27.3
Non-Registered	189	72.7
<b>Total</b>	<b>260</b>	<b>100.0</b>
<b>Previous Experience</b>		
1-5 years	158	60.8
6-10	56	21.5
11 Above	46	17.7
<b>Total</b>	<b>260</b>	<b>100.0</b>

Source: Field Survey, (2020)

Based on Gender, (115) 44.2% of the respondents are Male while (145) 55.8% of the respondents are Female which implies most of the respondents are Female thus male counterpart are venturing seriously venturing into micro small and medium scale business in recent time. From Table 1, it was

shown that (71) 27.3% of the respondents registered their business while (189) 72.7% of the respondents did not register their business thus implies that majority of the respondent did not register their business thus indicated that micro small and medium scale business enterprise perceive business registration to be non-essential due to the money and procedure involved. Finally, it was shown that (158) 60.8% of the respondents falls between 1-5 year of experience, (56) 21.5% of the respondent falls between 6-10 year of experience while (46)17.7% of the respondent falls above 11 year of experience thus implies that majority of the respondent falls between 1-5 year of experience thus indicated that micro small and medium scale business establishment is increasing drastically yearly due to unemployment rate in the country and the need to survive. From this demographic result, it has been deduced that the identified variable added pressure to relying on microfinance bank for their business source finance.

**4.2 Interpretation of Results**

**Table 2: Model Summary Table of Microfinance Bank on MSMEs Survival**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Change Statistics			Sig. Change
						R Change	Square Change	F Change	
1	.501 <sup>a</sup>	.261	.254		1.097	.261	24.573	.000	

Source: Author’s field survey 2020

*Microfinance has no positive impact on micro small and medium scale business survival in Kwara State.*

Microfinance in this context employed two variables as proxies for microfinance which are interest rate and collateral. However, the measures are subjected to linear regression. Table 2 revealed that the correlation co-efficient between micro small and medium scale business survival and the explanatory variable on microfinance showed a positive figure of 0.501, this indicates that there is a strong relationship between microfinance bank and micro small and medium scale business survival which implies that the explanatory variable has a positive effect on micro small and medium scale business survival. The co-efficient of multiple determinants ( $R^2$ ) with a co-efficient of 0.261 showed that the explanatory variable can explain 26.1% of the behaviour of micro small and medium scale business survival while the remaining 73.9% can be explained by the stochastic variable or other variables that were not put into consideration. The adjusted  $R^2$  further confirms the result of the  $R^2$  with a coefficient of 0.254, which shows 25.4% explanation of the behaviour of the micro small and medium scale business survival by the explanatory variables after adjustment while the remaining 74.6% is explained by the error term.

**Table 2: Coefficient Table of Microfinance Bank on MSMEs Survival**

Model		Unstandardized Coefficients		Standardized Coefficients	P-value	Sig.
		B	Std. Error	Beta		
	(Constant)	1.717	.255		6.745	.000
1	Interest Rate	.421	.062	.406	6.760	.000
	Collateral	.364	.056	.374	6.492	.000

Source: Author’s field survey 2020

The table 3 gives a summary of the regression result of the ordinal least square using SPSS 20.0 software. From the table it can be deduced that the value of constant parameter is given as 1.717 and interest rate and collateral are 0.421 and 0.364 respectively. The regression result above shows that micro small and medium scale business survival is constant at 1.717; this implies that if the explanatory variable is held constant, micro small and medium scale business survival will increase by 1.717%. The co-efficient of interest rate and collateral are given as are 0.421, and 0.364 respectively, this shows that the microfinance is positively related to micro small and medium scale business survival and therefore implies that an increase in interest rate and collateral will result in to 42.1% and 36.4% all at 0.05 level of significance increases on micro small and medium scale business survival. In view of this, considering the P-value, it as shown that both interest rate and collateral is significant thus implied that microfinance significantly affect micro small and medium scale business survival in Kwara State.

**Table 3: ANOVA Table of Microfinance Bank on MSMEs Survival**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	59.097	2	29.549	24.573	.000 <sup>b</sup>
Residual	309.041	257	1.202		
Total	368.138	259			

**Source:** Author’s field survey 2020

Considering the one way Anova values like F-value, it was found that the F-cal is greater than F tab (F-cal as 24.573 and F-tab 1.671). Therefore, the study Accept alternate hypothesis and reject otherwise. Hence microfinance has significant effect on micro small and medium scale business survival.

**4.3 Discussion of the Findings**

Regression analysis was carried out to determine the effect of microfinance institution on micro small and medium scale business survival. It is clearly visible from the research findings of the whole study that interest rate has positive effect on micro small and medium scale business survival and collateral has positive effect on micro small and medium scale business survival. Therefore, the tested hypotheses microfinance bank has a positive effect on micro small and medium scale business survival in Kwara State. The R2 which shows the fitness of the model reveal that microfinance institution is positively related to micro small and medium scale business survival by 26.1% implying that the model is a good fit. The tested hypothesis showed that microfinance bank and micro small and medium scale business survival is statistically significant at 0.05 level which implies that alternate hypothesis was be accepted, meaning that the effect of microfinance institution on micro small and medium scale business survival gives a reliable figure. The adjusted R2 which show a positive figure reveal that micro small and medium scale business survival will be increased by 25.4% after all adjustment has be made. This is consistent to the work of Alalade, Amusa and Adekunle (2013). This was however revealed from the opinion of micro small and medium scale businesses in Kwara State.

**5. Conclusion**

From the findings, it was shown that microfinance institution attribute measured have Positive and significant effect on micro small and medium scale business survival in Kwara State at 0.05 level of significance. The microfinance institution components including interest rate, collateral have strong positive significance on micro small and medium scale business survival in Kwara State.

**5.1 Recommendation**

Based on the findings, the following recommendations were made:

- i. To increase accessibility for microfinance loan or services the study recommends that the microfinance management should be involved in key decisions that have to do with micro

- small and medium scale business to generate new ideas and sensitize business owners on sourcing capitals for their business survival and expansion.
- ii. To comply effectively with the role of combating unemployment economically, there is need for microfinance institution to effectively mobilize unemployed individuals, train them on all that involves micro financing in sustaining economic welfare through micro small and medium scale business survival.
  - iii. Microfinance management should put in place collateral conditions and fair interest rate on loan as to attract more business owners to borrow and attract individuals who have intentions to venture into micro small and medium scale business enterprise particularly among unemployed graduates. this will effectively and efficiently create unemployment for those who are disengaged from their organisations during Covid 19 pandemic.

## References

- i Aderibigbe, J. O. (2001). *The role of the financial sector in poverty reduction. Central Bank of Nigeria Economic and Financial Review*, 39(4).
- ii Akinbola, O. A., Ogunnaike, O. O., & Tijani, A. A. (2013). *Micro financing and entrepreneurial development in Nigeria; the mediating role of marketing. Arabian Journal of Business and Management Review*, 1(6), 7-19
- iii Alalade, Y. S., Amusa, B. O., & Adekunle O. A. (2013). *Microfinance bank as a catalyst for entrepreneurship development in Nigeria: evidence from Ogun State. International Journal of Business and Social Science*. 4(12). 286-303.
- iv Alani, G. O. & Sani, J. (2014). *Research centre for management and social studies effects of Microfinance Banks on the Rural Dwellers in Kogi State, Nigeria. International Journal of Public Administration and Management Research*, 2(2), 66-79.
- v Amuda, Y. J. (2020) *Impact of coronavirus on small and medium enterprises (SMEs): towards post-covid-19 economic recovery in Nigeria. Academy of Strategic Management Journal*, 19(6), 1-11.
- vi Bharti, N., & Shylendra, H. (2011). *Microfinance and sustainable micro entrepreneurship development. Institute of Rural Management, Anand, Gurajat*.
- vii Ebitu, E. T., Basil G., & Ufot J. A. (2016). *An appraisal of nigeria's micro, small and medium enterprises growth, challenges and prospects. International Journal of Small Business and Entrepreneurship Research*, 4(4), 1-15.
- viii Ehigiamusoe, G. (2005). *Tested institutional practices for effective microfinance services delivery: Seminar in microfinance policy, regulatory and supervisory framework for Nigeria*.
- ix Eze, B. U., Worimegbe, P. M., & Kolawole, O. O. (2016). *The causal relationship between short-term finance and micro, small and medium scale enterprises survival in Nigeria. Crawford Journal of business and social sciences*, 6(2).
- x Fasua, K. O. (2006). *Entrepreneurship Theory, Strategy and Practice. Abuja, Bee Printing & Publishing Company Lagos, Akolaz Ventures*
- xi Feigenberg, B., Field, E. M., & Pande, R. (2010). *Building social capital through microfinance. HKS Faculty Research Working Paper Series. RWP 01-019, John F. Kennedy school of Government, Harvard University*.
- xii Kimotho M. (2005). *National microfinance policy framework and expected impact on the microfinance market in Nigeria. Proceedings of Seminar on Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. Organized by Central Bank of Nigeria, Abuja, (February 2005)*.
- xiii Kpakol, M. (2005). *The role of microfinance in poverty eradication. Proceedings of Seminar on Microfinance Policy, Regulatory and Supervisory Framework for Nigeria*.



- xiv *Mushimiyimana, A. (2008). Analysis of access to MFIs loans by women entrepreneurs and impact on their business. University of Nairobi.*
- xv *Obasan, K.A (2001): Small Business Management: An Entrepreneurship Approach, Lagos: Higher Education Books Publisher.*
- xvi *Odinaka, A. & Josephine, O. (2020). SMEs closures seen after covid-19 pandemic. Retrieved May 28, 2020, from <https://businessday.ng/entrepreneur/article/smes-closures-seen-after-covid-19-pandemic/>*
- xvii *Onuoha, B. (2012). The environments of the manufacturing sector in Nigeria: Strategies towards vision 2020, International Business and Management, 5(1), 67-74.*
- xviii *Otero, M. (2000), Bringing Development Back into Microfinance. ACCION*
- xix *Parker, S. C. (2006). The economics of Entrepreneurship, London, Edward Edgar Publishing.*
- xx *Schumpeter, J. A. (1934). The Theory of Economic Development, Harvard University Press, Cambridge.*
- xxi *Small and Medium Enterprises Development Agency of Nigeria (2013). National policy on micro, small and medium enterprises. Abuja: Federal Republic of Nigeria. January.*
- xxii *Suberu, O. J., Ajala, O. A., Akande, M. O., & Olure-Bank, A. (2015). Diversification of the Nigerian economy towards a sustainable growth and economic development. International journal of Economics, finance and Management sciences, 3(2), 107-114.*
- xxiii *Swedberg, R. (2000). The social science view of entrepreneurship: Introduction and practical application. Oxford LJ. Press, 1-38*
- xxiv *Yamane, T. (1967). Elementary Sampling Theory. Englewood Cliffs: Printice hall.*