



**MICROFINANCE BANK SERVICES AND EMPLOYMENT GENERATION OF  
SMALL AND MEDIUM SCALE ENTERPRISES IN NORTH-CENTRAL  
NIGERIA**

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**Abstract**

*One of the important roles of Small and Medium Enterprises (SMEs) play in Nigeria's economy is employment creation. But with the persistent increase in the rate of unemployment in the country, one begins to marvel whether the prevailing numbers of SMEs are insufficient or poorly managed to address the challenge. It is in the light of this that this study examined microfinance bank services and employment generation of small and medium scale enterprises in north-central Nigeria. Data was elicited from 370 respondents who were carefully chosen using a 4-stage sampling technique. Data was collected through a well-structured questionnaire. Data analyses were carried out by employing ordinary least square regression. Variables that suggestively give details of the employment generation of small and medium enterprises among the respondents were gender of SME owners ( $p < 0.05$ ), microfinance banking services ( $p < 0.05$ ), electronic banking services ( $p < 0.1$ ), banking supervision ( $p < 0.05$ ) and group formation ( $p < 0.05$ ). It could be inferred from the study that both the Microfinance Banks (MFBs) financial and non-financial service are vital instruments for improved levels of SMEs employment generation. Policies that will improve the availability of financial and non-financial services of microfinance banks, particularly those related to the provision of microfinance and electronic banking services, supervision/monitoring and group formation should be put in place in order to enhance the level of employment generation of SMEs in the region. Attempt should also be made to improve the quality of banking supervision rendered by microfinance banks so as to exert positive influence on SMEs employment generation.*

**Keywords:** *Microfinance Bank, Employment generation, Small and Medium Scale Enterprises, North-Central Nigeria, Ordinary Least Square Regression*

**INTRODUCTION**

Despite government efforts aimed at combating the menace of unemployment in the country, it still soared high, escalating from 6.4% in the first quarter of the year 2005 to



18.8% in the fourth quarter of the year 2017 and 33.3% in the first quarter of 2022 (NBS 2013; NBS 2022). The nation's populace living in life-threatening poverty was 40.1% in 2019 (NBS 2020). Besides, the Human Development Index (HDI) in Nigeria stood at 0.527, holding her 2015 position and ranking 152 out of 188 countries – this is less than the world weighted average of 0.7 (UNDP, 2016). The Global Entrepreneurship and Development Institute (GEDI) in 2018 ranked Nigeria 101 in the world ranking category and 8 in the regional grouping, with a total score of 19.7%. Consequently, this has an authoritative consequence on the level of entrepreneurship growth in the country.

Small–Medium Enterprises (SMEs) are a proper tool for economic growth and development as their establishment and eventual take off always generate enthusiasm for economists, politicians, unemployed youths and customers alike. A number of factors responsible for their establishment includes but not limited to necessity, innovation and opportunity (Aparicio et al., 2016; Visser, 2017; Fairlie & Fossen, 2018 and Adeosun & Shittu, 2021). Necessity-driven business persons can be a outcome of unemployment or just the motivation for survival. Opportunity-oriented entrepreneurship is usually around a business idea to fill a want or gap, while innovation-driven is to advance on a process, market, service, or product or service (Gonzalez-Perna et al., 2015). Other SMEs have been a consequence of political brokered chances or genuine love and desire for businesses and to generate employment opportunities. Opportunity quest and discovery, and opportunity utilization are crucial components of the entrepreneurial process (Kusa, 2019). Chances vary among individuals over time. The need to explore chance by an entrepreneur depends on his inborn skills, training and keenness of the environment.

Overpowering the challenge to move from idea generation to actual execution in a tough environment like Nigeria is an enormous task (Anyebe, 2017). On the global ease of business execution report, Nigeria has always performed badly, ranking 146 in 2019 and 131 in 2020 (World Bank, 2020) with only negligible progress in recent years. The experience in the world novelty index (114 in 2019) (Cornell University, INSEAD and WIPO, 2019) is also in the same way. Business persons who initiate start-ups are met with a number of trials including registration, licensing, start-up capital, stiff rivalry, winning consumer love and distorted information. While many informal SMEs proliferate that destabilize registered SMEs as they operate at a lower cost due to tax avoidance and other levies (Aribaba et al., 2019).

Globally, SMEs are recognised for their most important role in supporting grassroots economic and impartial sustainable development (Wairimu & Mwilaria, 2017). Right to make use of finance and credit plays a important role in sustaining livings and developing



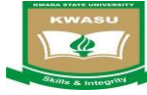
microenterprises. Inadequate access of such credit carry on to hinder this development. The formal financial institutes observe these enterprises as unsafe and unprofitable and are, therefore, timid to provide such credit to them (Sanya, & Polly, 2017). Succeeding Nigerian government across all levels have shown curiosity in financing SMEs by founding specialized banks, credit interventions and schemes to offer tailored funding for SMEs. One of such specialized bank is the Microfinance Banks (MFBs). The major role of MFBs is the delivery of financial intermediation. This is the transference of capital or credit from those who have it in surplus to those in deficit (Ekpete & Iwedi, 2017). MFBs play vital roles in the economic growth and development of any government because of their capabilities in poverty reduction (Adama, Duru, & Diyoke, 2017). It is from the foregoing that this study makes a humble attempt at examining the Microfinance bank services and small-medium enterprises employment generation in North-Central Nigeria.

## **LITERATURE REVIEW**

### **Theoretical Framework**

This theoretical underpinning of the study is the resource-based theory propounded by Thomas in 2003, which believes businesspersons have individual-specific means that facilitate the identification of new opportunities and the pull together of such means for the venture. By concentrating on resources, from opportunity identification to the ability to bring together these resources into a unit of industry (firm) and then to the production of heterogeneous outputs through the firm that are greater than the market, we help recognise issues that begin to address the unique realm of entrepreneurship.

This theory is applicable to this study because it plainly shows that the performance of an SME hinged on the financial assistance it receives from financial institution. Microfinance Institutions (MFIs) play a critical role in providing financial support to SMEs. Many business persons will be able to commence their businesses as a result of the financial assistance that the microfinance institutions will provide them. MFIs will also be engaged in other activities that will be directed towards assisting the SMEs to successfully run their businesses. Some of these activities will include but not limited to the managerial and advisory services that will regularly be offered in form of training and seminars. The SMEs will be trained on how to manage their businesses in proficient ways that can bring about the enterprises realizing their business intents of improving their performance. The MFIs also carry out market research to get vital information they can offer to the entrepreneurs on the best ways they can run their businesses successfully.

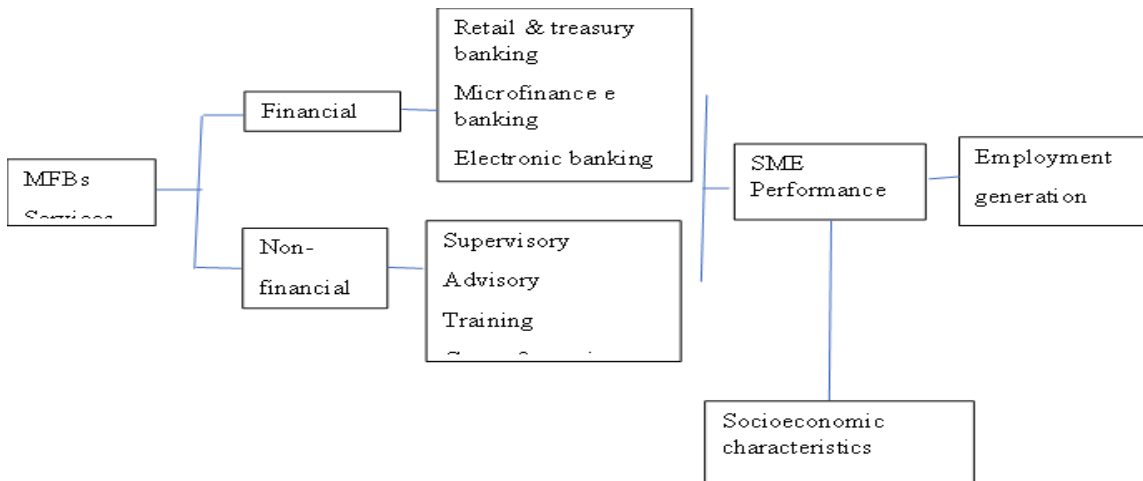


**Conceptual Framework**

The availability of financial services (such as retail and treasury, microfinance and electronic banking services) by microfinance banks to SMEs, as well as the provision of non-financial services (such as supervision and monitoring, advisory services, training and capacity building, and group formation) to SMEs. With these financial and non-financial services, SMEs should be able to acquire loans to expand their business stock, acquire fixed and current assets, increase on profitability, widen their savings deposits for purposes of capital accumulation, create employment opportunities. Socio-economic characteristics of SME owners such as age, gender, level of educational and household size are also controlled for as factors that have influence on SMEs performance.

However, for this transmission to continue and for microfinance banks to continue to be influential on SMEs’ performance sustainably as explained in the framework depend on the following assumptions:

- i. microfinance banks do not charge too high interest rate on loans granted to SMEs, considering their small nature and expected returns.
- ii. both the financial and non-financial services of MFBs are always inclusively available to SMEs.
- iii. the services are made sufficiently available to SMEs.
- iv. MFBs always operate by the principle of good corporate governance and their operations are always guided by this principle.



Authors’ construct, 2022



### **Empirical Review**

Okafor (2016) studied the effect of microfinance banks activities on the generation of employment in Nigeria. Twenty years of time series data spanning the period 1993 – 2012 were collated from Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). Multiple linear regression models were used for the test of the hypothesis, while stationary of the variables were checked using the Phillip-Perron unit root test. The result indicated that microfinance banks activities had a significant positive effect on employment generation in the study area during the period covered by the study. Strategising an upsurge in microfinance deposit by the setting aside of a devoted fund in the CBN for easy assessment by the microfinance banks; establishment of more microfinance banks in the rural and semi-urban areas; and that microfinance banks should continually be reminded that they are banks for the poor and should not always hold on to tangible securities before issuance of credit, were all recommended.

Alam and Azad (2021) analysed the impact of microfinance on the income and employment of women beneficiaries' microfinance institutions in Jigjig city of Ethiopia. Data for the study were collected from 146 active clients of the Somali and Ray Microfinance Institutes in Jigjiga, Somali Regional State (Ethiopia). Data analyses were carried out using descriptive statistics, paired t-test, and the Wilcoxon signed ranks test. Result of descriptive statistics indicated that average monthly income of beneficiaries before and after obtaining credit from microfinance institutes were  $5576.35 \pm 399.25$  ETB and  $12317.81 \pm 1965.91$  ETB., respectively. While result of paired sample test revealed a significant difference at .001. Wilcoxon signed ranks test revealed that microfinance loan positively influences income and employment generation level of women, with the effect on productive activities being higher, as it increases the income of women participants. The creation and application of legal and supervisory structures for microfinance institutions in Ethiopia is hereby recommended.

### **METHODOLOGY**

#### **Research Design**

The study adopted survey research design to enhance a comprehensive understanding of the active variables in the research work. Primary data were collected for this study. Questionnaire was administered in the process of data collection from selected respondents to achieve the objectives of the study. Survey method was used because of the nature of the study and the large number of respondents for the study in order to enhance reasonable coverage.



**Sampling Procedure**

The study population consist of SMEs owners (1,159,017) that are registered with microfinance banks in the North-Central geopolitical zone from whom data were elicited with the aid of questionnaire. A four stage sampling technique was used in the study. The first stage was the purposive selection of Kwara and Niger states from the states in the zone, as they have the highest (367,891) and second highest (252,584) concentration of SME, respectively in the zone. The next stage was the purposive selection of four and six local government areas from Kwara and Niger states, respectively, based on probability proportion to the number of local government areas in each of the states. The third stage was the purposive selection of twenty (20) communities/districts from each of the states, with the number of communities/districts selected from each local government proportionate to the number of communities/districts in each local government area. The last stage was the random and proportionate selection of the two hundred (200) SMEs from the selected communities/districts in each of the states using Yamane (2004) formular. The sum of three hundred and seventy (370) copies of questionnaire returned with the required information were used for the analysis out of 400 copies administered. The procedure is as indicated in Table 1 below.

Table 1: Sampling procedure for the selection of SMEs

<b>States</b>	<b>LGAs</b>	<b>Communities/ Districts</b>	<b>Number of copies questionnaire administered</b>	<b>Number of copies questionnaire retrieved with useful information</b>
<b>Kwara</b>	Offa	Offa, Balogun, Essa, Shawo Central and Ojomu Central	48	46
	Ilorin West	Adewole, Baboko, Ajikobi, Badari and Ogidi	55	52
	Ilorin South	Fufu, Akanbi, Balogun Fulani, Okaka and Oke Ogun	53	50
	Moro	Bode Saadu, Alara, Ajanaku, Arobadi and Baba Dudu	44	40
<b>Niger</b>	Suleja	Suleja, Bagama, Gauraka and Ikume	35	33
	Rafi	Rafai, Kagara and Guna	33	31



Rijau	Rijau, Dukku and Shambo	31	29
Mariga	Mariga, Bobi and Beka	32	29
Bida	Bida, Wadata, Landzun and Nassaratu	37	33
Lavun	Lavun, Dabban and Mambe	32	29

Source: Field Survey, 2019

**Source(s) of Data**

Primary data were collected with the aid structured questionnaire from some selected respondents to achieve the objective of the study. Survey method was used because of the nature of the study and the large number of respondents for the study in order to enhance reasonable coverage. Data collected includes respondents’ Bio data, financial services of MFBs, Non-financial services of MFBs and SMEs profitability.

**Method of Data Analyses**

**Ordinary Least Square Regression**

A statistical analysis was employed to measure the relationship between the regressand (dependent variable) and the independent variables (regressors). In this study, ordinary least square regression analysis was carried out to examine the effect of MFBs financial and non-financial services on the employment generation of SMEs in the study area, in line with Zhiri, (2017) and Yahaya, (2020). The model is specified as

$$EMP_i = f(AGE_i, GEN_i, EDU_i, HHZ_i, MBS_i, EBS_i, RTBS_i, SUP_i, ADV_i, TRN_i, GRM_i) \dots\dots\dots 1$$

Equation 1 can be expressed in structural form as

$$EMP_i = \beta_0 + \beta_1 AGE_i + \beta_2 GEN_i + \beta_3 EDU_i + \beta_4 HHZ_i + \beta_5 MBS_i + \beta_6 EBS_i + \beta_7 RTBS_i + \beta_8 SUP_i + \beta_9 ADV_i + \beta_{10} TRN_i + \beta_{11} GRM_i + \mu \dots\dots\dots 2$$

where:

- EMP<sub>i</sub> is the employment generated by the small and medium scale enterprises
- AGE = Age of the respondent in years
- GEN = Gender of the respondent (equal 1 if male and 0 if otherwise)
- EDU = Educational qualification of the respondent (No formal education =0, Primary =1, Secondary = 2, OND/NCE = 3, HND/Bachelor Degree=4, Postgraduate =5, Others = 6)
- HHZ = Household size in number (PCA score)



- MBS = Microfinance banking services (PCA score)
- EBS = Electronic banking services (PCA score)
- RTBS = Retail and treasury banking services (PCA score)
- SUP = Regular supervision and monitoring (PCA score)
- ADS = Advisory services (PCA score)
- TRN = Training and capacity building services (PCA score)
- GRM = Group formation (PCA score)
- $\mu_i$  = Disturbance term (i.e. unobservable factors of each SME)

**RESULTS AND DISCUSSION**

**Multicollinearity Test among the Variables Specified in the Model**

The result of Variance Inflation Factors (VIF) and Tolerance Level (TOL) was presented in Table 2 below, showing the degree of multi collinearity among the explanatory variables used for the analysis. The result reveals that the challenge of multicollinearity in the data set could be tolerated since it has not surpassed the verge level. This means that the VIF has not reached the 10th point mark, while the tolerance factor is above 0.1 point mark for all the explanatory variables in the model which implies that none of these explanatory variables is a linear combination of the other.

Table 2 Test for the Degree of Multi collinearity among the Explanatory Variables used in the Regression Analysis

Variables	VIF	TOL
AGE	1.46	0.686057
SEX	1.32	0.754984
EDUCATION	1.19	0.838201
HOUSEHOLD SIZE	1.1	0.908386
MICROFINANCE BANKING	1.09	0.914058
ELECTRONIC BANKING	1.06	0.946024
RETAIL & TREASURY BANKING	1.03	0.970511
SUPERVISION	1.03	0.970932
ADVISORY	1.03	0.97149
TRAINING	1.02	0.982513
GROUP FORMATION	1.01	0.994881
Mean VIF	1.12	

Source: Author’s Computation, 2019.



Effect of MFBs Financial and Non-Financial Services on SMEs Employment Generation  
 This sub-section presents the OLS regression model result of the effect of MFBs financial and non-financial services on SMEs employment generation in the study area. The dependent variable in this model is continuous, which is the employment generated by SMEs. The result as presented in Table 3 shows R-squared value of 0.664, which indicates that 66.4 percent of variations in SMEs employment generation were explained by MFBs financial and non-financial services, as well as SME owner’s characteristics. This implies that the explanatory power of the model is very high. Also, the reported F-statistic shows a value of 2999.06, with p-value of 0.000. This also implies that the F-statistic is highly significant, signifying that the overall model is significant and in good fit.

**Table 3: OLS Regression Result for Employment Generation**

Variables	Coefficient	Robust Std. Err.	t	p-value
AGE	-0.00683	0.017142	-0.4	0.69
GENDER	0.355628	0.173135	2.05**	0.041
EDUCATION	-0.03305	0.086643	-0.38	0.703
HOUSEHOLD SIZE	-0.02306	0.018344	-1.26	0.21
MICROFINANCE	0.036944	0.017933	2.06**	0.04
<b>BANKING</b>				
ELECTRONIC BANKING	0.022742	0.013403	1.7*	0.091
RETAIL & TREASURY	0.007774	0.010762	0.72	0.471
<b>BANKING</b>				
SUPERVISION	-0.04295	0.020781	-2.07**	0.039
ADVISORY	-0.02994	0.018827	-1.59	0.113
TRAINING	0.102383	0.122455	0.84	0.404
GROUP FORMATION	1.301836	0.580402	2.24**	0.026
Constant	0.19098	0.49025	0.39	0.697
R-squared	0.664			
F-statistic	2999.06			0.000
N	370			

Significant at \*\* at 5%, \* 10%

Result as shown in Table 3 revealed that five (5) out of eleven (11) variables viz: gender of SME owners, MFBs financial services such as microfinance and electronic banking services and their non-financial services such as banking supervision and group formation were significant at various levels. This is evident from their p-values being less than 0.1 level of significance. This means that gender and these MFBs financial and non-financial services were the only significant variables affecting SMEs employment generation. Other SME owner characteristics and MFBs financial services such as retail and treasury banking



services, as well as MFBs non-financial services such as advisory and training services were not significant. This is shown by their respective p-values being greater than 0.1. This means that owner's characteristics such as age, education and household size and MFBs financial services such as retail and treasury banking services, as well as MFBs non-financial services such as advisory and training services do not influence SMEs employment generation.

The coefficients of gender, microfinance banking, electronic banking and group formation were positive. But contrary to expectation, the coefficient of supervision was negative. This indicates that gender, MFBs microfinance banking and electronic banking financial services, as well as group formation have positive effect on SMEs employment generation while MFBs supervision has negative effect on SMEs employment generation. The positive and significant (0.05) coefficient of gender (0.3556278) implies that being male SME owners, on the average, have higher SMEs employment generation potential than their female counterparts by approximately 0.35 points. This is in line with Yahaya (2020). The positive and significant (0.05) coefficient of MFBs microfinance banking service (0.0369437) denotes that one-unit increase in the microfinance banking services of MFBs used by SMEs will lead to increase in SMEs employment generation by approximately 0.04 units. This is in tandem with Yahaya (2020). The positive and significant (0.1) coefficient of MFBs electronic banking services (0.0227418) denotes that a unit increase of electronic banking services of MFBs used by SMEs will lead to increase in SMEs employment generation by approximately 0.02 units. This result is in consonance with Yahaya (2020). The positive and significant (0.1) coefficient of MFBs group formation (1.301836) implies that a unit increase in the number of group formed by MFBs for SMEs will lead to increase in SMEs employment generation by approximately 1.3 units. On the other hand, the significant (0.05) but negative coefficient of MFBs banking supervision (0.0429477) denotes that one-unit increase in the level of MFBs supervision and monitoring for SMEs will lead to a decline in SMEs employment generation by approximately 0.04 units. This result is in agreement with Yahaya (2020).

## **CONCLUSION AND RECOMMENDATIONS**

The conclusion drawn from the findings was that financial services, non-financial services as well as owner's characteristics were the drivers of SME employment generation in the study area. Attempt to improve the service delivery of such, as the microfinance banking services, electronic banking services, provision of necessary supervision and group formation to SMEs will go a long way in bringing an improvement to the level of SMEs employment generation.



From the findings, it was revealed that both financial and non-financial MFBs services affect SMEs employment generating potential. It is therefore recommended that policies that will bring about improved delivery of both financial and non-financial services of microfinance banks, particularly, those related to the provision of microfinance banking services, electronic banking services, supervision/ monitoring and group formation should be put in place in order to further enhance the level of employment generation of SMEs in the region.

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