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Role of Micro Finance Banks in Promoting Small and Medium Scale Enterprises in the Federal Capital Territory, Abuja, Nigeria

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ABSTRACT
The practice of microfinance banks is not new. It has been in existence from time immemorial providing the needed finances through informal microfinance approaches such as self-help groups, credit associations, accumulating credit, savings association and direct borrowing from friends and relations and community banks. In modern times, the major function of MFBs globally is that they engage in simple operations for their activities by giving of small loans and collections of small savings; and removal of collateral security as a condition for loan advances. In developing countries, MFBs are deposits mobilization, finance schemes or loans of up to $3,000, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises. SMEs are considered the backbone of economic growth in all countries of the world. They play an important role in Nigeria's economic growth, as they constitute 97.2% of companies in Nigeria and also contribute to national development by positively influencing the distribution of income in both functional and nominal terms. The study seeks to examine the extent MFBs have been able to finance the SMEs in Nigeria's FCT, Abuja. The theory that guided the research is elite theory while data were sought from secondary sources. It was discovered that MFBs operators in the FCT have inadequate experienced credit staff. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFIs in Nigeria and indeed FCT are on their first jobs. Inadequate experienced staff limits expansion and institutional performance. Another finding is repayment problems. Loan delinquency is a major threat to institutional sustainability. It is one of the limitations that afflicts Microfinance Banks. Delinquency demoralizes the staff and deprives beneficiaries of valuable services. Delinquency is a symptom of poor leadership. It is hereby recommended that there should be a policy that will help the Microfinance Banks have a focused professional management as well as experienced credit staff, diverse and professional board that will have the policy at heart. There is also the need to have an impartial; quick and simple approval and disbursement procedures that will support innovation and ensure the achievement of financial self-sufficiency. Economic environment should be made conducive; government should improve the present state of infrastructure.

Keywords: *Microfinance Bank, Small & Medium Enterprises, Development, Economic Environment*

INTRODUCTION

Small and medium enterprises (SMEs) are considered the backbone of economic growth in all countries of the world (Sollenberb & Anderson, 2012). They play an important role in Nigeria's economic growth, as they constitute 97.2% of companies in Nigeria SMEDAN (2007) and also contribute to national development by positively influencing the distribution of income in both functional and nominal terms (Vincent, 2017).

The Small and Medium Enterprises have been plagued with a plethora of issues threatening their viability and existence as a going concern. Most among these issues is that of access to capital. The federal government in a bid to proffer solution to the capital question implemented a number of initiatives like the Mandatory Credit Guideline in respect of SMEs (1970), Small Scale Industries Credit Guarantee Scheme (1971), Agricultural Credit Guarantee Scheme (1973), Nigeria Agriculture and Cooperative Bank (1973), Rural Banking Scheme (1977), The World Bank Assisted SME 1 (1985)/World Bank Assisted SME 2 (1990), Second Tier Security Market/SEC (1985) Microfinance Banks (2005) and so on.

The Microfinance Policy in Nigeria emanated from the need to erect a potent framework that addresses the financial and capacity deficit plaguing the Small and Medium Enterprises in the country. Microfinance Banks, essentially are meant to cater for the financial needs of the economically active poor and the Small and Medium Enterprises for the objective of achieving growth of the economy. Despite the Microfinance initiative, the financing of Small and Medium Enterprises is fraught with setbacks and constraints owing to the high risk of non-performing loans from the enterprises as succinctly captured by Obokoh, Monday & Ojiako (2016) in their 'Microfinance Banks and Small and Medium Sized Enterprises Access to Finance'. Microfinance Banks are a creature of the Central Bank of Nigeria 'for the purpose of provision of financial services to the poor and Micro, Small and Medium Scale Enterprises (SMEs) who are traditionally not served by the conventional financial institutions (Central Bank of Nigeria, 2005).

According to Duru & Ogbe (2013), Microfinance Banks are majorly responsible for assisting SMEs, the poor and households who have no access to formalized financial institutions in accessing funds (capital) for the growth of their businesses. The loans of MFBs are mostly for self-employed individuals, household-based vendors who operate small retail shops, street vending, artisan, manufacture and service provision, so that they can be able to grow their businesses in order to reduce unemployment and contribute to the growth of the economy (Central Bank of Nigeria, 2006).

Ofoegbu et al, (2013) describe microfinance banks as any financial services that are flexible in structure and processes which are delivered to small scale enterprise as well as low-income earners and the poor on a sustainable basis. In Nigeria, microfinance bank therefore is seen as a poverty reduction strategy that is carried out in providing credit and other financial services to the economically active and low-income households and their businesses (Acha, 2012).

In 2004, the Central Bank of Nigeria asserts that the emergence of microfinance institution has been largely due to the inability of the formal financial institutions to provide financial services to both the rural and urban poor. In view of the need for financial inclusion, both the government and non-governmental agencies have, over the years, instigated strings of microfinance programmes and institutions as well as governmental agencies providing policy strategies needed to improve the productivity of micro, small and medium scale enterprises.

Although the creation of Microfinance Banks in Nigeria has reasonably impacted on the growth, expansion and success of Small and Medium Enterprises in Nigeria 'there is comparatively little convincing evidence on ground with respect to the success of MFBs services on financing small businesses because of high cost of making the loans available to businesses (Polizatto, 2017).

Another study by Rasika and Hewage (2019) investigate the impact of rural credit facilities of MFBs on poverty alleviation in Nigeria for the periods 2005 to 2012 in Anambra, Enugu, and Imo states of Nigeria. The study showed that deposits mobilized from rural communities by MFBs were siphoned out of the communities by way of fixed deposits with commercial banks usually located outside the communities thereby defeating the sole idea of financial intermediation within the communities.

According to the Central Bank of Nigeria 2018, Abuja has the highest number of microfinance banks in Nigeria due to the presence of high-profile people and businesses in the town and also being the administrative headquarters of Nigeria. This zone comprises a prevailing number of microfinance banks in Nigeria'. The most recent figures from SMEDAN (2021) indicate that the FCT has an estimated 485,055 MSMEs, consisting of 2,244 small, 446 medium, and 482,365 micro enterprises. Despite the sheer number of MFBs incorporated within FCT Abuja, which grew from about 5 in 2011 to 71 in 2021 (CBN, 2022), there still exist gaps in the eradication of poverty within its less economically viable communities (Oshagbemi, 2016)). It is also important to note that a majority of the 71 MFBs incorporated within Abuja are either out of service or have had their licenses revoked (Agwuegbo, 2021, CBN, 2021, & NDIC, 2021).

The foregoing assertion makes Abuja a veritable location to appraise provision of credit facilities by microfinance banks and the growth of small and medium enterprises in the FCT. The broad objective of this paper is to analyze the impact of MFBs on the Small and Medium Scale Enterprises in the FCT. The central research question is that; have the MFBs been able to achieve their objective of powering SMEs in the FCT.

METHODOLOGY

The methodology adopted for this study is the secondary method wrapped in historical-descriptive methodology. This involves a descriptive-analytical and narrative approach. Generally, historical research involves investigation, recording, analysis and interpretation of facts leading to the reconstruction of the past. Data was sourced from historical documents which helped in the critical analyses of the issue under investigation. At the same time throw more light not only on the theoretical aspect of the research problem, but on empirical evidences.

The historical method also involves interpretation of the records in such a way that conclusions reached amount to an interpretation or re-interpretation of the past events and consequently reconstruction of the role of MFBs in relation to SMEs. This data is however purely secondary in nature, which were largely gathered from government organizations and international agencies.

Secondary data collection involves intense library search and internet browsing. The implication for the study is that ample library search to collect and processed data was done. Data such as the role of SMEs in economic development in Nigeria, CBN's Annual reports on Microfinance and SMEs development in Nigeria and SMEDAN's report on credit to SMEs in Nigeria.

LITERATURE REVIEWAND THEORETICAL FRAMEWORK

Concept of Microfinance

Microfinance is defined as the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them raise their income levels and improve their standard of living (Obitayo, 2017). Microfinance is the act of providing a whole range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises. Microfinance is the practice of offering small and short-term loans to entrepreneurs who otherwise would not have access to capital to begin a small business or other income generating activities (Oyedokun, 2015).

Canadians International Development Agency (Myers & Brealey, 2015), defined microfinance as the provision of very small loans for the micro enterprise, agriculture, education and consumption purposes as well as insurance facilities and other financial product such as insurance services, housing and pension funds. Morotta (2015) defined microfinance as "successful opening of economic opportunities for the poor, increasing access to resources and contribution to their confidence and well-being".

The practice of microfinance banks is not new in Nigeria, it has been in existence providing the needed finances through informal microfinance approaches such as self-help groups, credit associations, accumulating credit, savings association and direct borrowing from friends and relations and community banks (Khatab, et al, 2015).

The term microfinance is the provision of financial services to the poor or low-income earners who normally do not have access to formal financial assistance from banks due to lack of collateral, unstable job and no credit history (Ekhator, 2016). According to Agu and Basil (2013), microfinance provides services such as accepting savings, giving loans or insurance, and transfer of money to less endowed individuals. Also, microfinance provides services such as education and professional training on how to invest and how to use loans to increase profitability. Thus, microfinance provides both financial and non-financial services to individuals in the low-income category, and provide managerial services on how to make use of the funds.

The World Bank categorizes microfinance institutions as those institutions which “consist of agents and organizations engaged in relatively small financial transactions using specialized, character-based methodologies to serve low-income households, micro enterprises, small farmers and others who lack access to the formal financial system”. Ofoegbu, Akambi and Joseph (2013) describe microfinance banks as any financial services that are flexible in structure and processes which are delivered to small scale enterprise as well as low-income earners and the poor on a sustainable basis.

Concept of Microfinance Bank

Microfinance banking could be categorized mainly into two sources namely: informal sources of microfinance and formal sources of microfinance. While it could be very easy to trace the origin of the formal sources of microfinance in Nigeria, the origin of the informal sources of Microfinance is only traceable to the practices among ethnic nationalities without any known precise date (Abayomi, 2016). Microfinance banks are the basic instrument through which the whole concept of microfinance is executed. According to the basis of microfinance, it is a term, which is related to promoting the habit of savings. At the same time, the concept also aims at providing loans and insurance and other traditional services to the poor people to support their business, which can also be termed as a micro business. The prime aim of these banks is to provide institutional financial services to those people who are denied from all these because of their poverty.

However, Microfinance Bank is any company licensed by the Central Bank of Nigeria to carry on the business of providing microfinance services such that are needed by the economically active poor, micro, small and medium enterprises to conduct or expand their businesses as defined in the guideline for MFBs in Nigeria. This is to create vibrant micro-financing that provide the necessary stimulants for national growth and economic development. In view of this inherent weak institutional capacity, weak capital base and existence of huge unserved market among others.

Concept of Small and Medium Scale Enterprises

Nwokoye (1998) defines Small and Medium-Scale business as "any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400,000). The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750, 000, and paid employment of up to fifty (50) persons. SMEs exist in the form of sole proprietorship and partnership, though some could be registered as limited liability companies and characterized by: simple management structure, informal employer/employee relationship, labour intensive operation, simple technology, fusion of ownership and management and limited access to capital. The seven major sources of funding available to SMEs in Nigeria include: personal resources, family and friends, partners or business associates, informal financial markets, banks, specialized funding facilities e.g. NERFUND and specialized financial institutions e.g. NBCI, BOI, NIDB etc.

Their role in economic development includes: technological/industrial development, employment generation, technology acquisition, capacity building, promotion of economic growth, increased standard of living, industrial dispersal or spread, servicing of large-scale industries, export promotion, structural transformation of rural areas, flexibility and low take-off requirements (Nwaogazi, 2010).

SMEDAN in their National Survey of 2017 dichotomized and gave a conceptual clarification of Small and Medium Enterprises as follows:

a. Small Enterprises are those enterprises whose total assets (excluding land and building) are above Ten Million Naira, but not exceeding One Hundred Million Naira with a total workforce of above ten, but not exceeding forty-nine employees.
b. Medium Enterprises are those enterprises with total assets (excluding land and building) above Fifty Million Naira, but not exceeding One Billion Naira with a total workforce of between 50 and 199 employees.

Small and medium-sized enterprises are defined differently around the world. The country a company operates in provides the specifics on the defined size of an SME. The sizing or categorization of a company as an SME, depending on the country, can be based on a number of characteristics. The traits include annual sales, number of employees, the amount of assets owned by the company, market capitalization, or any combination of these features.

Theoretical Framework

The theoretical framework adopted for this paper is the elite theory. The elite theory is based on the conception that the society is divided into classes. According to the two Italian sociologists that the theory has its origin in their works, Vilfredo Pareto (1848-1923) and Gaetano Mosca (1858-1941), their frame of analysis is to explain the nature of power relations in every society. They both agreed that every society is divided into two classes, the class that hold power and the class that do not. In all societies, two classes of people appear – a class that rule and the class that is ruled. The first class, always the less numerous, performs all political functions, monopolise power, and enjoys the advantages that power brings. Whereas the second, the more numerous classes are directed and controlled by the first, in a manner that is now more or less legal, more or less legal, more or less arbitrary and violent.

The theoretical view held by many social scientists like Robert Michels, C. Wright Mills, Floyd Hunter, G. William Domhoff, James Burnham, Robert D. Putnam, Thomas R. Dye, which holds that American politics is best understood through the generalization that nearly all political power is held by a relatively small and wealthy group of people sharing similar values and interests and mostly coming from relatively similar privileged backgrounds. Most of the top leaders in all or nearly all key sectors of society are seen as recruited from this same social group, and elite theorists emphasize the degree to which interlocking corporate and foundation directorates, old school ties and frequent social interaction tend to link together and facilitate coordination between the top leaders in business, government, civic organizations, educational and cultural establishments and the mass media.

> The elites belong to an organized minority group and is found in virtually all sectors of the society where there is hereditary of power and leadership. Because for the unorganized majority of the masses to confront and wrestle power from them. Elites exist in every sector of the society. They are political, economic, social individual, financial, religious, military, academic and traditional elites. Elites emerge because of the way societies are organized.

Policies on MFBs to assist SMEs in Nigeria have all ended up in the interest of the elites. Evidence has shown that the development of microfinance institutions as economical tools is often preceded by an unbalanced status of poverty. There is also evidence indicating that microfinance institutions are higher in number within in the urban centers in Nigeria, due to the presence of upper and middle economic classes of populations. One of the most successful implementations of microfinance concepts and theories focused on the provision of credit and capacity building options primarily to urban dwellers - An effort borne partly as a response to severe effects of poverty among Nigerians.

Upon realizing that the provision of low-interest credit alone to mostly the masses clients may not be feasible enough, many MFBs bank organised their services to the elite clients. Taking cognizance of this, the present-day democracy, which has its root from May 1999, MFBs were set out as one of the cardinal areas of focus, as revealed in the approved blueprint for the establishment of the SMEs. All these programmes collapsed at one point or the other because the elites saw them as avenues to help their cronies, kinsmen, girlfriends and siblings. Most of the MFBs for instance, became an avenue where the loans that were collected were given to the elites.

LIMITATIONS OF MFBS IN PURSUING THE MANDATE OF FINANCING SMES IN THE FCT

The Small and medium enterprises in the FCT paints a challenging picture of a plethora of inadequacies purveyed in the following areas:

i. Lack the requisite collateral (and most banks continue to require collateral for lending purposes).
ii. Lack a formally recorded and audited financial history to be used to assess the profitability and cash flow of the business (and thus evaluate likelihood of loan repayment).
iii. May lack formal registration documents for their businesses and rent agreements for their plots or buildings to help identify and locate the business.
iv. The absence of a unique national ID system is problematic for institutions attempting to follow up businesses and their owners. As such, financial institutions view MSMEs as highly risky and to compensate for this risk
v. The loans typically made available to MSMEs have high collateral requirements, high interest rates and short loan maturities. In some instances, to reduce the risks, loans are typically made available to MSMEs operating in sectors that are perceived to be less risky and those that are deemed to be high risk such as the health sector are usually excluded.

vi. Financial institutions often view MSMEs as costly to serve. This is because small business owners usually require bank employees to explain financial procedures and implications to them (and this time spent is expensive). Banks typically like to visit the MSME premises and do check-ups to ensure that the business is on track. These visits are often costly to conduct as the MSME may not be in an easy to reach location. More broadly, banks often find that they apply similar processes (costs) to approve a MSME loan, as they would for a loan to a corporate despite the much lower revenue potential. To compensate for these costs' financial institutions, need to charge a premium which may make their products unattractive to the MSME (World Bank, 2012).
Akingunola (2011) submits that in the FCT, small and medium scale enterprises have performed at very abysmal level. This low performance has further exacerbated poverty, hunger unemployment and low standard of living of people in a country whose economics is ailing. Explicitly put, these problems are explained as follow:

a. Financial Constraints: In the array of impediments to the growth and development of Small and Medium Enterprises in Nigeria, access to capital is prominent. Literature on the challenges bedevilling Small and Medium Enterprises show inadequate access to credit as a major constraint to their business' growth and expansion. Most Small and Medium Enterprises are unable to meet the Risk Acceptance Criteria of the Microfinance Banks such as adequate comfort with a 150% loan-collateral margin caveat, high interest rates that often impair/erode business margins and capital and business management capacity gaps. Against the backdrop of the foregoing, the Central Bank of Nigeria enunciated the Microfinance Policy of 2005 to address the lacuna in financial services and capacity plaguing Small and Medium Enterprises in Nigeria.

The development of many small and private enterprises with the associated market competition spurs up entrepreneur spirit in many SMEs. This will in turn have significant impact on economic development. This is because entrepreneurship is a vital factor in economic development and social change, since it makes for continuous innovation, and commercialization of innovation and technology. Entrepreneurs are proactive to change. They like competition and are always ahead in the market place. They are change agents and catalyst for transforming resources into new products and services with greater utility and value. All these immensely impact on economic development and growth. Poverty is a major threat to attaining sustainable human and environmental development, as well as the much needed global economic and socio-political stability.

However, one of the keys to poverty alleviation is an economic growth that is inclusive and reaches majority of the people. The basic thrust of development is to enlarge people's choices and to create an enabling environment for people to enjoy better standard of living. This can be achieved by improving the performance and sustainability of entrepreneurs and Small and Medium Enterprises, as a backbone to economic activities. Poverty can then be reduced since subsistence enterprises are said to represent the vast majority of SMEs in developing countries. They are known to typically account for more than 90% of all firms outside the agricultural sector - with majority of them being essentially micro-enterprises, employing family members and close relatives. As such, the development of SMEs can be a key instrument in poverty reduction efforts of Nigerian government. Poverty can be reduced directly through their contribution to economic growth, employment and income generation.

Furthermore, SMEs often have a vested interest in community development. Being local, they rely upon communities for their workforce. For the communities, they provide goods and services tailored to local needs and at costs affordable to local people. They are an important source of employment, particularly for low-skilled workers, as well as women and young people, who usually make up the greatest proportion of the unemployed in emerging economies. Their flat management structures mean that their personnel must fulfil multiple roles, which makes them less vulnerable to unemployment during periods of economic downturn. Their small size and flexibility allow them to adjust to local market fluctuations and to weather local market shocks more comfortable. If well established in rural communities, migration to urban centre is often reduced, thus reducing excessive pressure on urban infrastructure.

The area of MFBs' objective of Financing SMEs in the FCT that the scholars did not talk about is the supply-side focusing on the practices of the supplier of credit (i.e the Microfinance Banks), the environment that influences the supply of funds to SMEs, the risk that the supplier of funds incur by servicing SMEs, and the high transaction cost involved in delivering credit to SMEs. This academic research is an initial attempt at filling the research gap on SME financing gap in the FCT. It opens new agendas for academic research and debates on the issues of fund accessibility among SMEs, the fulcrum of Nigeria's economic growth.

MICRO-FINANCE BANKS AND PROMOTION OF SMES IN THE FCT

Statistical data from SMEDAN (2021) show that the Federal Capital Territory of Nigeria has an estimated 485,055 MSMEs, made of 2,244 small, 446 medium, and 482,365 micro enterprises. Despite the sheer number of MFBs incorporated within FCT Abuja, which grew from about 5 in 2011 to 71 in 2021 (CBN, 2022), there still exist gaps in the eradication of poverty within its less economically viable communities (Ijigah, 2012). A revealing challenge shows that majority of the 71 MFBs incorporated within Abuja are either out of service or have had their licenses revoked (Agwuegbo, 2021, CBN, 2021 & NDIC, 2021).

The Federal Capital's Millennium Development Goals (MDGs) office reported that 336 out of 858 communities in the FCT - representing over thirty nine percent of the city's 2,238,751 population as estimated by (National Bureau of Statistics, 2021) - are below the poverty line. This information indicates a disconnect between the Government, SMEs and MFBs currently operating in Abuja – reasons for which this study will ascertain. A significant number of studies from SMEDAN (2021), indicate that approximately (90%) of businesses in the FCT are SMEs (or MSMEs). This reveals a significant statistic when compared to (53%) in Anambra and (65%) in Lagos. The report also indicates that SMEs represent about (90%) of the manufacturing/industrial sector in terms of number of enterprises in Nigeria, contributing approximately (45%) of GDP compared to (40%) in Asian countries and (50%) in the US or Europe (Adelaja, 2012).

Despite evidence regarding the relevance of SMEs within FCT's economic system, (Banji, 2006) noted that FCT has a low amount of domestic investment through loans to SMEs when compared to other capitals in other emerging markets. This occurs as the majority of loans granted are usually issued to large corporate and governments while SMEs are left with little to no options.

As a stimulus to remedy this, the Central Bank of Nigeria (CBN) in 2012 established the Micro, Small and Medium Enterprises Development Fund, with a seed capital of N220billion and the mandate of providing for the wholesale funding requirements of SMEs and other Financial Institutions (CBN, 2013). There is however, little evidence that suggests that these requirements have presented any significant impact on SMEs.

It is pertinent to the summation of well informed and eminently enlightened conclusions at this point, to identify key prescriptions tailored by the CBN towards provision of services to SMEs by MFBs, and based on this, seek out a basis for measuring adherence to these services and their impact on SME growth. While these services are outlined within the (CBN, 2005) Microfinance Policy

Regulatory and Supervisory Framework for Nigeria, they only form the basis of guideline for service and as such, are not compulsory for MFBs to adhere to.

This provision of funds in form of credit and microloans empowers the poor to engage in productive economic activities which can help boost their income level and thus alleviate poverty in the economy. Microfinance activities are targeting at improving the access to loans and to savings services for poor people. It is currently being promoted as a key development strategy for promoting poverty reduction/eradication and economic empowerment. It has the potential to effectively address material poverty, the physical deprivation of goods and services and the income to attain them by granting financial services to households who are not served by the formal banking sector. Microfinance is an effective development tool for promoting pro-poor growth and poverty reduction. Financial services enable poor and low-income households to take advantage of economic opportunities, build assets, and reduce their vulnerability to external shocks that adversely affect their living standards.

CONCLUSION AND RECOMMENDATIONS

The study revealed that the MFBs operators in the FCT have inadequate experienced credit staff. To be viable, MFIs require experience and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFIs in Nigeria and indeed FCT are on their first jobs. Inadequate experienced staff limits expansion and institutional performance.

Again, loan delinquency is a major threat to institutional sustainability. It is the deadly virus which afflicts MFIs. Delinquency demoralizes the staff and deprives beneficiaries of valuable services. Delinquency is a symptom of poor leadership.

Based on the conclusion and findings on this research, the following recommendations are made;

i. To contribute to business development as well as economic growth, microfinance banks should offer more array of services that better suite their target market. Microfinance banks should design and market their financial services towards the SMEs in a way that truly aims to improve their products and services.

ii. Advisory services offered by microfinance banks have proven be significant in business development. However, there is still a drawback on the potential these advisory services can have on business development. Microfinance banks should reassess marketing strategies used in creating awareness of these services. This will help reach its full potential when effectively used by SMEs owners.

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