MICROFINANCE INSTITUTIONS ACTIVITIES AND MICROENTERPRISES DEVELOPMENT IN SOUTHWEST, NIGERIA

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Abstract
The development of micro scale business in a developing economy cannot be overstated due to the economic contribution and nature of the business. One of the challenges of micro businesses identified by scholars in developing economy like Nigeria is accessibility of funds which microfinance institutions have been saddled with that responsibility. Thus, there is need to see how the microfinance institutions are lifting to expectation. Therefore, the study investigated how the microfinance institutions activities has impacted on the micro business development in selected Southwest States in Nigeria. The study employed descriptive research design with stratified sampling technique. Primary data was collected via questionnaire and 384 copies of questionnaire were administered but 297 were returned and useful for the analysis. The findings using regression analysis revealed that financial service of microfinance institutions has positive but insignificant effect on microenterprises development. Non-financial service of microfinance institutions has a positive and significant effect on microenterprises development in Southwest Nigeria. It is concluded that non-financial service influenced microenterprises development in the study. It was recommended that microfinance institutions in Southwest Nigeria should continue to offer non-financial services in terms of organizing training programs, give support to expand business, offer technical advice and give competent advice to the operators of micro scale enterprises Microfinance banks should lessen the conditions associated with their financial services to the operators of micro enterprises so that these operators may be able to access micro credit.

Keywords: Financial Service, Microfinance Institutions, Microenterprises Development, Non-financial Service
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1. INTRODUCTION

Businesses in Nigeria have been categorised as micro, small, medium and large-scale enterprises created to satisfy the customers and provide a competitive prices for the purpose of profit making. Micro businesses is the most common businesses among the category of businesses in Nigeria due to its characteristics. This category of business stimulates industrial take off in a country especially developing countries like Nigeria. Sowunmi (2022) pointed those micro businesses is crucial in transiting and developing an economy. Therefore, the development of micro businesses is important in achieving the economic goals of a developing nation. According to Quartey and Asamoah (2017), and Abor and Quartey (2010), the development of micro could contribute to the quality and quantity of goods and services produced and offered to meet the basic needs of the poor. Sowunmi (2022) further maintained that micro business creates employment and a medium for entrepreneurship. Thus, the development of these businesses could not be achieved without financial assistance and credit extension from the formal financial institutions like micro-finance activities (Adamolekun et al., 2021).

Financial institutions is covered by the financial system in Nigeria. The system captures various financial institutions such as deposit money banks, insurance, merchant banking, microfinance banks, finance houses, mortgage banks among others. However, microfinance banks and finance houses are the financial institutions saddled with the responsibilities of offering financial and non-financial assistance to the micro businesses in Nigeria. Microfinance institution is a set of structure that is flexible in providing varieties of services for micro business owners that could not be captured by other financial institutions like deposit money banks, and insurance firms microfinance institutions do not only render financial assistance to the micro businesses, they offer advice, organize training programs for the development of the businesses (Sowunmi, 2022; Quartey & Asamoah, 2017; Zhiri, 2017; Prah, 2016).

1.1. Statement of Problem

For any economy to grow and develop especially the developing economies like Nigeria, there is need for the micro scale businesses to be developed. Micro scale business is a scale of business that is easy to establish and very vulnerable to environmental challenges that can lead to its collapse. For micro scale enterprises to meet these challenges and overcome them, adequate finance is necessary. Funds accessibility is among the major challenges of facing micro businesses (Okunbanjo et al., 2022; Asor et al. 2016; Olowe et al., 2013; Ojo, 2009). For micro businesses to access funds from the deposit money banks, they must meet the loan requirements of the banks. The deposit money banks stringent conditions have made it impossible to access the required funds needed to grow and develop their businesses.

The financial service of microfinance institutions is seen not to be enough in extending sound financial aids to micro-businesses (Usman, 2019). The non-financial service is one of the functions of microfinance institutions (Adamolekun et al., 2021). Sowunmi (2022) noted that when financial service is offered to micro enterprises operators in form of loans, advances, overdrafts, there is need for monitoring effectiveness in utilizing the loans for its purpose(s) and offering of technical advice. This is where the non-financial service is needed for the micro businesses. There is high number of micro businesses failure and this raises the concern for stakeholders if the activities of microfinance institutions have not been influencing micro enterprises (Ayogu et al., 2019). Based on this, the study intended to see how to see the influence of microfinance institutions activities on the development of micro scale enterprises in Southwest region of Nigeria capturing the non-financial service of microfinance institutions to the micro scale enterprises development and microfinance loan accessibility for the micro businesses.

Despite numerous studies on microfinance institution across the globe, it was observed that most studies have not focused on Southwest region of Nigeria on the connection between microfinance institution activities and the development of micro-enterprises. Studies in Nigeria focused on only a State in Nigeria (Sowunmi, 2022; Akingunola et al., 2018; Obokoh et al., 2016; Alalade et al., 2013), thus, the need for further studies.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Microfinance Institutions

Microfinance is defined by Kiptoo et al (2017) as the financial services provision to low-income individuals. It is the financial services render in form of credit-giving to the individuals that are poor or earn low income (Usman, 2019; Asor et al., 2018; Duru et al, 2017). Microfinance institution is the institution that provides smaller loans to cottage, micro and small businesses owners as well as entrepreneurs for smooth business operations (Zhiri, 2017). Microfinance as seen by Sowunmi (2022) is the provision of small financial assistance in form of loans to the small business owners and/or entrepreneurs that cannot meet the loan requirements of deposit money banks. The financial institution has been seen as the banking institution for the poor and/or low-income group and this makes the institution to be different from other financial institutions.

According to Omondi (2013), microfinance institutions pave for the grassroot to access funds to be used as capital for business or entrepreneurial activities. Otieno (2013) added that financial provision to the grassroot speeds up entrepreneurial or business acts which could reduce the poverty level of a developing economy. Similarly, Maruth (2011) pointed that welfarism improvement of the poor is one of the reasons for the establishment of microfinance institutions. This made Sowunmi (2022) to state that self-employed, low income entrepreneurs, startups among others are the clients of microfinance institutions. Al-Absi

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(2016); Mintah et al (2014); Ken (2012) added that stimulation of rural areas productivity, employment generation are among the rationale for the existence of microfinance institutions.

2.2. Micro-Enterprise Development

Micro businesses are informal organised activities that provide goods and services in an economy. It could be undertaken by a group of individuals, family or an individual (Ifekwem & Ogundeinde, 2016). Sowunmi (2022) stated that a micro business is business entity with N5million worth of assets excluding land and building. Ebitu et al (2016) relatively defined micro business as a business organisation that has asset base of N1.5million excluding building and land with staff strength of 1-10.

Development is seen by Dikki (2015) as the holistic change that occurs in the manner or procedure business operations are being carried out. Business development captures improvement in the activities of a business. Micro enterprise development involves the improvement in the operational activities and exploitation of growth opportunities (Hans, 2013).

Micro enterprise development means expansion in the services and products that a business entity offers to the market. It is enhanced via training, consultancy, transfer of knowledge, transfer of technology among others. According to Dikki (2015), the development of micro enterprise is aimed at reducing the risks or factors that could hinder the attainment of business goals and objectives.

2.3. Financial Service of Microfinance and Micro enterprises Development

Financial services are the services render to individual that are financially related or in nature. Financial services of microfinance institutions cover savings as well as credit. Financial service of the microfinance institutions is the microcredit given to micro enterprises. Finance service could aid in reducing level of poverty and promoting start-up business. According to Al-Absi (2016), loan disbursement, the size of loan, the repayment of the loan, the usage of the loan as well as the rate of interest on the loan are associated with financial service of microfinance institution to micro businesses.

Accessibility of financial service is a crucial element in developing the micro enterprises of any nation. Finance service accessibility is crucial factor to enable commencement and expansion of a business entity. Access to financial service increases the risk-bearing of micro businesses. (Sussan & Tomola, 2018). Sowunmi (2022) mentioned that small businesses face difficulties as a result of the requirements demanded by financial institutions especially the banks before the financial service could be rendered Individual collateral, repayment capacity, security deposit and guarantor are among the requirement to be melt for financial service approval.

Afsheen (2019) used panel regression to reveal that funding cost, return on assets (ROA), and the level of credit have a significant positive impact on lending interest rate around the world. Financial service of microfinance institutions was investigated by Nyikos and Soós (2018) among the Europeans Union members. It was found. that the lack of commercial sources of finance is still a problem for several European SMEs. Laura (2018) used content analysis to examine the prospect of microfinance in the United States. It is revealed that microfinance institutions provide financial aid to American citizens who are self-employed.

Interest rate, collateral requirement, and repayment periods as components of financial service of microfinance institutions have negative effect on the financial performance of small and medium enterprises (SMEs) but credit amount has positive effect on SMEs financial performance (Siddharth et al 2019; Edwins, 2018; Amsi et al., 2017; Prah, 2016; Obokoh et al., 2016; Al-Absi, 2016; Chirkos, 2014; Siyad, 2013; Alalade et al., 2013; Waithanji, 2011). However, Adevara (2017) discovered that debt rating and credit accessibility have negative effect on SMEs performance. Akingunola et al (2018) found that there is a negative relationship between intermediary financial services (credit disbursement) and micro and small businesses expansion. Thus, the need to see how microfinance institutions financial service is associated with the development of micro businesses in Southwest Nigeria.

H_0: Microfinance institutions financial services have no significant effect on micro scale enterprise development

2.4. Non-Financial Services of Microfinance Institution and Micro Enterprises Development

Financial services are not adequate for continuous improvement and sustainability of micro and small businesses. Microfinance institution as mentioned by Ledgerwood (1999) serve as a developmental tool for effectiveness of human skills in the use financial sources. Costantini et al., (2016) defined non-financial services to include all those services, provided either formally or informally, that meet the needs of small and medium-sized enterprises other than financial services. Sowunmi (2022) further opined that non-financial service of microfinance institutions could be categorised as client development service, entrepreneurship development services and business development service.

Santangelo (2013) also, listed certain non-financial services such as guidance to loans; management support; financial education; advice on credit usage. Therefore, Non-financial service of microfinance institutions may include counselling, technical support training among others (Gibson, 2001). Microfinance institutions offers financial management training. Irrespective of the type or category of non-financial service that a microfinance bank is offering, it must be structure to meet the customer needs; be accessible to their customers; be convenient for customers (Sowunmi, 2022).

Kipesha (2013) captured both financial and non-financial metrics to conclude that microfinance institutions non-financial metrics is higher than on the financial measures. Zikki (2015); Ekpe et al., (2010) found that training and networking as non-financial services of MFBs significantly contribute female entrepreneurs' performance. Ogunrinmola and Alege (2007) indicated that in Lagos State pre-loan training, group membership and cross guarantee-ship positively influence the development on micro businesses.

Otieno (2013) affirmed that financial, training programs, advisory services and business idea generation services had positive effect on small business growth. Monge (2016) employed financial services and non-financial services as proxies for microcredit. It was discovered that higher percentage of SMEs benefited from microfinance institution loans.

H_0: Microfinance institutions non-financial service has no significant impact on micro scale enterprise development

2.5 Theoretical Foundation

2.5.1 Micro Credit Theory

Adam Smith propounded micro credit theory in 18th century and was extended Karl Max. The theory is as results of individuals that are willing to deploy financial resources, labor and skills for the interest of the society. The theory looked at the micro credit facilities and the micro enterprises. The theory believed small credit should be given to individuals that could not have access to large amount of credit to to the development of industrial activities. The welfarism of the small business owners depends on the quantity of credit that would be given to them. This implied that micro business growth and development is traceable loan facilities availability. This study adopted micro credit theory emphasizes on micro credit as a provision of small credit to individuals who are poor and/or are low-income earners to support their micro business activities

3. METHODOLOGY

The study utilised descriptive research design. This research design was utilized as to give accurate representation of persons, events, or situations. Kothari (2008) mentioned that descriptive research design explains the approach at which a study is carried out and stating the current position of the population. The population of the study comprises all microenterprises operating in Southwest, Nigeria. The population of microenterprises in Southwest Nigeria are presented in the table below:

TABLE 1. MICROENTERPRISES IN SOUTHWEST NIGERIA

State	Number of Microenterprises
Ekiti	1,017,510
Lagos	3,329,156
Ogun	1,178,109
Osun	1,370,908
Oyo	1,909,475
Ondo	1,058,025
Total	9,863,183

Source: National Bureau of Statistics, 2017

Thus, the population of microenterprises in Soutwest Nigeria is 9,863,183. The study selected three States with high number of registered microenterprises as the target population of the study. Therefore, Lagos State, Oyo State and Osun State are the target population for the study. The study employed purposive sampling technique to capture large respondents to achieve the objectives of the study.

TABLE 2. TARGET POPULATION OF THE STUDY

State	Number of Microenterprises
Lagos State	3,329,156
Osun State	1,370,908
Oyo State	1,909,475
Total	**6,609,539**

Source: National Bureau of Statistics, 2017

The target population for the study is 6,609,539. The study used Raosoft table to determine the sample size and 384 was arrived at. Stratified sampling was further used to ascertain the appropriate sample size for each State capture in the study. Using proportionate sampling formular

$$Pn = \frac{PN}{N} * \frac{n}{1}$$

Pn = Estimated microenterprises Per State; PN = Microenterprises Population Per State; N= Total Population of the study; and n = Sample Size of the Study

Thus, the sample size for each State are presented as follows

TABLE 3. SAMPLE SIZE FOR THE STUDY AREAS

States	Population	Sample size
Lagos State	3,329,156	193
Osun State	1,370,908	80
Oyo State	1,909,475	111
Total	**6,609,539**	**384**

Source: Researcher's Computation, 2022

The method of data collection for this study is primary data. Primary method of data collection was selected because it will enable the researcher to collect information directly from the respondents. Questionnaire was used to collect data from the respondents. The questionnaire is divided into sections. Section A consists of the demographic information of the respondents and section B contains questions on the variables employed in the study. The items for each variable was adapted from previous studies.

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The items on non-financial services of microfinance institutions were adapted from the study of Sowunmi (2022); Makorere (2014). The items of financial service were adapted from the studies of Prah (2016); Chrkos (2016). The items for micro scale enterprises development were adopted from Sowunmi (2022); Duru et al (2017).

The items were ranked on 5-likert scale of strongly agree, agree, undecided, disagree and strongly disagree. The research instrument passed through reliability and validity test using Cronbach Alpha and Kaiser-Meyer Olkin sampling adequacy. The study employed descriptive analysis and regression analysis to amalysis the data collected from the primary source. The study used simple regression for hypotheses one and two through Statistical package for social sciences (SPSS) version 26.

4. RESULT AND DISCUSSION

This part of the study discussed the results and the implication of the results.

TABLE 4. RESPONSE RATE

State	Questionnaire Administered	Questionnaire Retrieved
Lagos State	193	171
Osun State	80	68
Oyo State	111	58
Total	384	297

Source: Researchers' Computation 2022

Table 4 showed that 384 copies of questionnaire were distributed to the operators of micro scale businesses in the selected States of Southwest, Nigeria. 193 copies of questionnaire were administered in Lagos State but 171 copies were found usable retrieved; 80 copies of questionnaire were administered to Osun State but 68 copies of questionnaire were filled; and 111 copies of questionnaire were administered but 58 were filled and returned.

4.1 Reliability and Validity Test of Study

TABLE 5. RELIABILITY AND VALIDITY OF THE RESPONSES

Variables	Reliability (Cronbach Alpha)	Validity (KMO) Test	No of Items
Microfinance Financial Services	0.764	0.752	7
Microfinance Non-Financial Services	0.775	0.655	7
Micro Enterprises Development	0.902	0.752	7

Source: Researchers' Computation, 2022

Table 5 revealed the reliability and validity tests of the respondents' responses. Cronbach Alpha and Kaiser Olkin Measure of sampling adequacy were used to compute the reliability and the validity tests. The reliability and validity test were conducted based on the variables employed to achieve the objectives of the study. The table showed all the variables microfinance financial services; non-financial services, microfinance institution (microfinance financial services; and non-financial services) and micro scale enterprises development have Cronbach Alpha values of 0.764; 0.775; and 0.902 respectively and the values are all greater than 0.70 which is the rule of thumb for reliability test.

According to Nunnally (1967), reliability coefficient of 0.70 is acceptable. Thus, there is internal consistency in the responses of the respondents. Also, the validity values via Kaiser Olkin Measure (KMO) show that microfinance financial service, non-financial services, and micro scale enterprises development have 0.752; 0.655; and 0.752 respectively. This implies that the items for each variables measured what they are meant to measure as the values of KMO is greater 0.50.

4.2 Normality Test

The normality of data distribution was assessed by examining its skewness and kurtosis (Kline, 2005). A variable with an absolute skew-index value greater than 3.0 is extremely skewed while a kurtosis index greater than 8.0 is an extreme kurtosis (Kline, 2005). Cunningham (2008) stated that an index smaller than an absolute value of 2.0 for skewness and an absolute value of 7.0 for kurtosis is the least violation of the assumption of normality. The results of the normality test of the dependent and independent variables indicated skewness and kurtosis in the range of -1 and +1 as shown in Table 6. This implies that the assumption of normality was satisfied. Therefore, the data was found to be suitable for inferential analysis.

TABLE 6. NORMALITY TEST OF THE STUDY VARIABLES

Variables	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Microfinance Financial Services	297	-0.564	0.111	0.458	0.222
Microfinance Non-Financial Services	297	-0.335	0.111	0.239	0.222
Micro Enterprises Development	297	0.000	0.111	-0.482	0.222

Source: Researchers' Computation (2022)

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4.3 Linearity Test

The study tested for the linear relationship between the independent variables and the dependent variable using the Pearson's correlation coefficient and the results are presented in Table 7.

TABLE 7. LINEARITY TEST RESULTS

		Test Results	Conclusion
Microfinance Financial Services	Pearson Correlation	.616**	Linear Relationship
	Sig. (2-tailed)	.000	
	N	297	
Microfinance Non-Financial Services	Pearson Correlation	.556**	Linear Relationship
	Sig. (2-tailed)	.000	
	N	297	

Source: Researchers' Computation (2022)

4.4 Multicollinearity

To test whether multicollinearity would pose a serious challenge to the study, tests based on Variance Inflation Factor (VIF) and their reciprocal tolerances were conducted. The results of the tests are presented in Table 8. All the predictor variables had a VIF of less than 10. The explanatory variables were not highly correlated and could not pose a serious problem. The data was thus suitable for hypotheses testing using regression analysis.

TABLE 8. MULTICOLLINEARITY TEST RESULTS

Variables	Tolerance	VIF	Remark
Microfinance Financial Services	0.521	1.918	No multicollinearity
Microfinance Non-Financial Services	0.567	1.762	No multicollinearity

Source: Researchers' Computation (2022)

4.5 Hypotheses Testing

The part of the study demonstrated the results of the data collected from the owners of microenterprises in selected States in Southwest Nigeria.

TABLE 6. REGRESSION RESULTS FOR THE STUDY

Variables	R	R^2	Adjusted R^2	F-value	β	P-value	N
Financial Service	0.064	0.044	0.001	1.224	0.168	0.269	297
Non-Financial Service	0.777	0.604	0.602	449.547	1.051	0.000	297

Dependent Variable: Micro Enterprise Development

Source: Researchers' Computation, 2022

Table 6 showed that financial service has positive but insignificant impact on micro scale enterprise development (β = 0.168, F = 1.224, p-value= 0.269>0.05%) with R^2=.044 which showed that 4.4% of the variations in micro scale enterprises development is explained by financial service of Microfinance institutions. Based on these findings, thus, the null hypothesis that microfinance institutions financial services have no significant effect on micro scale enterprise development is accepted. The findings showed that microfinance institutions non-financial services have positive and significant effect on micro scale enterprise development (β = 1.051, F = 449.547, p-value= 0.000<0.05) with R^2=.604 that showed that 60.4% of the variations in micro scale enterprises development is caused by non-financial service of microfinance institutions. Based on these findings, thus, the null hypothesis that microfinance institutions non-financial services have a significant effect on micro scale enterprise development is rejected.

4.6 Discussion of Findings

The intermediation of funds from deficit to surplus are done by financial institutions which microfinance institutions are part of. Microfinance institutions are sole charged with the responsibility of providing financial assistance to the micro and small businesses in Nigerian economy and this as results of the crucial role which the micro scale businesses in enhancing Nigerian economic growth.

The study demonstrated that financial service has not enhanced the development of micro scale businesses in Southwest, Nigeria. This could be that the micro scale business operators cannot access the desired credit or loans that will make them to achieve their business objectives and goals from the microfinance banks. This shows that the criteria to be melt for loan to be accessible or given out to micro scale business owners are too stringent to be. The collateral security, the repayment period of loan, high interest rate could be among the factors that make accessibility of microfinance credit to be hard for operators of micro scale businesses in Southwest Nigeria. The results of the hypothesis is consistent with the results of Fawowe (2017); Harash et al. (2014); Ali et al. (2013); Olowe et al., (2013) but inconsistent with the findings of Turyakira, et al., (2019); Duru et al., (2018); Onyiego et al., (2017); Harelimana (2017). On the other hand, the study revealed that the activities of microfinance institutions to the development of micro scale businesses is effective through the non-financial services that are being rendered to the operators or owners of micro scale businesses in Southwest Nigeria. These non-financial services of microfinance institutions that enhance development of micro scale businesses in Ogun State include training on running a micro scale business, guidance to loans usage, business management support,

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financial education, counselling among others. The results of the hypothesis is in line with the findings of Sowunmi (2022); Muogbo and Obamuyi (2018); Dikki et al (2015) among other studies.

5. CONCLUSION

Based on the findings, the study concludes that microfinance institutions non-financial services have a positive and significant effect on the development of micro scale enterprises in Southwest Nigeria. It is concluded non-financial services of the bank enhance micro business development. It is concluded that financial service of microfinance institution has a slight positive effect but no significant effect on development of micro scale enterprises in Southwest Nigeria.

The finding is relevant to the owners of micro business in Southwest region of Nigeria and in Nigeria at large. The findings help the micro businesses owners to know how microfinance activities or operations can contribute to the development of their businesses. Also, the findings let the management of the microfinance in the study area to know if they are achieving their purposes of being established. Furthermore, the study will be relevant to the prospective researchers. This study will serve as a platform for other studies relating to microfinance bank and micro scale enterprises to stand on and the study will be useful in coursework for students on the concepts or constructs relating to microfinance and micro scale enterprises. Equally, this study will enlighten the government on the need to continuous formulating policies and monitoring the activities of the microfinance banks and other microfinance institutions like finance houses, cooperative societies, discount houses etc. in a way that they impact positively on the development of micro businesses in Nigeria.

It is affirmed that financial services have not been effective in developing microenterprises in Southwest region of Nigeria. From the conclusions of the study, the following recommendations are put forward: microfinance institutions in Southwest Nigeria should continue to offer non-financial services in terms of organizing training programs, give support to expand business, offer technical advice and give competent advice to the operators of micro scale enterprises Microfinance banks should lessen the conditions associated with their financial services to the operators of micro scale enterprises so that these operators may be able to access micro credit.

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