Impact of financial inclusion on micro, small and medium enterprises (MSMES) performance in Nigeria: an overview

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Abstract

The study intent to examine Impact of Financial Inclusion on Micro, Small and Medium Enterprises (MSMEs) Performance in Nigeria: An Overview. Financial inclusion is a global agenda and a topic of great interest by policy makers, regulators, researchers, market practitioners, and other stakeholders. The Central Bank of Nigeria emphasize the fact the financial inclusion is achieved when adults have easy access to the broad ranges of financial products designed according to their needs and provided at affordable costs. These products include payments, savings, credit insurance and pensions. Financial inclusion suggests on innovative concept which helps achieve sustainable development, by making available financial services to the unbanked and under banked with the help of financial institutions. The concept of financial inclusion gained popularity from year 2000.the study was able to discovered that there is high interest rate charged on loan granted by financial institutions to MSEs, It takes longer period, stress and excessive documentation before loan application will be considered and there is lack of possession/ownership of adequate collateral hinders access to bank credit by MSMEs. The study recommends that MSE's must keep proper keeping of books records and account. Keeping up to date records of business transactions enable the company to keep track of its operations because many of the financial institutions give priority to proper book keeping as a criterion for accessing funds and, hence, MSEs will be at advantage if they keep good business records. And financial institutions to provide credit facilities with a lower interest rate to the small enterprises and also the government can by ensuring that the Central Bank reduce the base rate for loans offered to MSEs by providing subsidies to the financial institutions supporting the small business sector.

Keywords: Financial Inclusion, Business Enterprises, Performance, Financial Institution

I. Introduction

Financial inclusion suggests on innovative concept which helps achieve sustainable development, by making available financial services to the unbanked and under banked with the help of financial institutions. The concept of financial inclusion gained popularity from year 2000. Thus, it is great weapon to overcome financial backwardness. MSMEs are widely regarded as fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing finance they require to grow and expand, with nearly half of SMEs in developing countries rating access to

finance as a major constraint (Kalunda, 2014) and (Malenya, &Kariuki, 2017). MSMEs find it very difficult to access finance and financial services from local banks and other financial institutions as such they end-up facing unfavourable lending conditions. Even though, depositing money in banks (DMBs) in developing countries are in turn hampered by regulatory support to engage in MSME lending. Absence of a well-functioning MSMEs lending market is another factor that impede their growth and make them to suffer from negative consequences of stagnation and low performance (Kwame, 2017). However, Study of (Chauvet, & Jacolin, 2015); (Meihui, 2015); (Chenna, Kehinde, Olayinka, & Nwanneka, 2015); (Riwayati, 2017) & (Haebig, 2016) found a positive significant correlation between credit facility from formal financial institutions and performance of MSMEs.
Financial inclusion is a global agenda and a topic of great interest by policy makers, regulators, researchers, market practitioners, and other stakeholders. Moreover, World Bank Group, consider financial inclusion as a core topic, due to its capability of reducing poverty and boosting its prosperity. There is increase in emphasis on financial inclusion that reflects a growing realization of its potential in accelerating development. Inclusive financial systems provide individuals and firms with greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks, (Global Financial Development Report, 2014). The term financial inclusion defined as the provision of a broad range of high quality financial products, such as savings, credit, insurance, payments and pensions, which are relevant, appropriate and affordable for the entire adult population and especially for the low income segment Enhancing Financial Innovation & Access, (EFInA, 2015).

To promote inclusive finance system, mobile money transactions should be embraced. It should be noted that, mobile money transaction is beyond airtime purchases. It encompasses sending and receiving of money. However, despite innovative impact mobile money transaction, the use of Mobile Money transactions in Nigeria as a whole has declined marginally from19.5% users in 2014 to16.2% users in 2016; due to lack of awareness and access which became biggest obstacle to the adoption of mobile money platform in Nigeria (EFInA, 2017).

The use of Automatic Teller Machines (ATMs), Mobile Money Transactions (MMT), Savings account with formal financial Institutions (SFFIs) and Credit from formal financial institutions(CFFIs) as financial inclusion proxies were empirically supported by the study of (Beck, Demirgüç-Kunt, & Martínez Pería 2007; Kendall, Mylenko, & Ponce 2010); (Kwame, 2017; Nyaga, Kenneth, & Okonga 2014); (Khan & Sani, 2016) and (Kibet, Kenneth, Achesa & Omwono, 2015), respectively.

Moreover, studies were conducted on innovative financial system that will guarantees financial access among the micro, small and medium enterprises and poor households in developing countries in order to enhance MSMEs performance and contribute to economic development of developing nations. Majority of these studies were conducted in India, Malaysia, Kenya also few were conducted in Nigeria and Ghana; they include study of (Beck, John, Blech, Almar & Gujirat (2015); (Ibrahim, 2012); (Chakrabarty, 2012); (Bergh, 2012); (Mbengue, 2012); (Matos, 2012); (Garcia, 2012); Ibor, Offiong, & Mendie, (2015) & (Mialou, 2012) respectively. However, nonbank-based digitalised-financial services such as Debit card, E-banking and Automatic Teller Machine (ATM) were used as proxies by most of the aforementioned studies.

Objectives of the Study

The main objective of this study is to overview the impact of financial inclusion on performance of MSMEs in Nigeria. Specially, the study intends to achieve the following objectives:

i. Ascertain the impact of Mobile Money Transactions on performance of MSMEs in Nigeria;

ii. Assess the effect of savings on performance of MSMEs in Nigeria;

iii. Determine the effect of Credit Facilities on performance of MSMEs in Nigeria

II. Concept of micro, small and medium enterprises

The International Finance Corporation (2001) defines small scale enterprises as a business that employs 10 to 50 workers with an asset base of not less than $2.5 million. IFC (2001) also defines medium scale enterprise as a business that employs 50 to 100 people. On her own part, the Central Bank of Nigeria (2005), describes small scale enterprise as a business that employs not less than 50 people and with an asset base of not less than ₦1million. It was adopted as an operational definition of SSE because the size of a firm is determined by the firm capitalization, among other factors.

Ezeudu (2010) stated that, the governments of many developing countries have been concerned with promoting their Small Scale Enterprises (SSEs) since the 1960s. The rationale for helping those enterprises could be summed up neatly in the often heard saying "small is beautiful". This view arises for a number of diverse reasons, which have tended to differ from one country to another. However, the criteria are important for the government agencies that administer support policies (Homi and Strange, 2001). If different enterprises use different types of technologies, and/or produce different quality/price product, the grouping of small scale enterprises may alter between the various criteria. In the event, in of absence of any guidelines, decisions about cut off points have sometimes been influenced by the lobbying power of pressure groups.

Ezeudu (2010) asserted that, studies by Berhanu (2001), Adaju (2006), Kuteyi (2006), reveal that any alternative criterion rests on certain characteristics of the enterprises. For example, Berhanu (2001) subscribes to the view that SSEs would be those enterprises that have family ownership and employ only family members. This criterion would avoid the problem of the cut off points, but there may instead be a problem of defining 'the family'. The obvious inference from this brief discussion is that no one criterion is unquestionably better than the others.

Challenges facing micro and small enterprises in accessing bank credit in Nigeria

Micro and Small business enterprises have traditionally encountered problems when seeking credits from banks to support their fixed capital investment as well as working capital for their operations (Tagoe, Nyarko and Amarh, 2005). Factors identified inhibiting funds accessibility as stated by Oladele (1985), Adepoju (2003), Osamwonyi (2004), by the MSEs are the stringent conditions set by financial institutions, the lack of adequate collateral and credit information, and the cost of accessing funds. The Mainstream Banks do not practice development banking and thus do not have the skill to fund MSEs (Osamwonyi, 2005).Cynthia (2016) identifies the following Challenges Facing Micro and Small Enterprises in Accessing Bank Credit in Nigeria:

i. There is high interest rate charged on loan granted by financial institutions to MSEs
ii. It takes longer period, stress and excessive documentation before loan application will be considered
iii. Sometimes, the business owners are required to repay the loan within a short period of time
iv. Lack of possession/ownership of adequate collateral hinders access to bank credit by MSEs
v. Inability to provide required documents reduces the chance of getting access to bank credit
vi. Lack of patience to adhere to the procedures given by banks hinders the chance of getting access to bank credit
vii. Delay in consideration of loan application by bank has a negative effect on access to credit
viii. Central Bank of Nigeria regulations on banks concerning lending affects access to credit by MSEs in Nigeria
ix. Utilization of credit is a major problem facing Micro and Small Scale Enterprises in Nigeria.

III. Empirical Review

In the study of Agyekum, (2017), it was discovered that, financial exclusion is the greatest among poor people in emerging and developing countries, including the rural households that account for more than 70% of global poverty. The study found a positive impact of technology on financial inclusion. Specifically, the use of modern technological facilities, such as mobile phone and internet, are found significant in reducing both information asymmetry and transaction costs in providing financial services. The study suggests the use of nonbank-based digitalised-financial services (DFS) as yardstick of achieving inclusive finance and economy. It is worthy of noting that, the study discovery and suggestion on nonbank-based digitalised-financial services (DFS) may appear insignificant if the users are under apathy and lack of confidence on the platform due to cases of fraud and Yahoo boys hacking.

Sunday, (2016) Examined the effects of financial inclusion on the Nigerian economy (1990-2015). In this study, financial inclusion was regarded as provision of a broad range of high quality financial products such as savings, credit, insurance, payments and pension, which are affordable for the entire adult population especially the low income segments or disadvantaged economy. The study applied descriptive and quantitative research techniques based on ex-post factor research designed to study financial inclusion and Nigerian economy.

The study use Ordinary least squares (OLS) regression technique and adopted the analytical method of data analysis by using the e-view statistical software version 8.0 for test of hypotheses. It was found that, Deposit Money Banks(DMBs)' financial intermediation activities, financial deepening, financial accessibility, institutional infrastructures all have positive significant effect on economy growth (Real GDP) no relationship exist between financial inclusion and poverty eradication in Nigeria. The study recommends the need for government to create an enabling environment for effective financial inclusion through platforms such as bank branches, Automatic Teller Machine (ATM) and Point of Sales (PoS) (terminals by making them adequately equipped in order to enhance financial inclusion by integrating informal sector of the economy, into the mainstream economy. However, this recommendation is not guided by any empirical evidences and justification hence ATM and PoS terminal does not form part of the study proxies and no clear proof that can justify the assertion of making ATM and PoS terminals equipped can enhance financial inclusion and informal sector which MSMEs belong. It is along these backgrounds that, this study consider examining effect of ATM usage by MSMEs on their performance through survey research designed and of course a literature gap that, this study intend to fill.

Otiato (2016) conducted a research on determinants of financial inclusion and performance of Small and Medium Enterprises in Nairobi City, Kenya. The study used descriptive research designed with population of 236 SMEs and a sample of 30 samples. The study used primary data collected using questionnaires and SPSS was used in analysing the data, the research consider Quality and usage of various financial services as determinants of financial inclusion, product/service costs, volume levels traded, profit margins, human resource levels and efficiency levels as SMEs performance proxies.

Avani (2016) conducted a study on financial inclusion and MSEMEs Kerala, India. The research employed secondary research design. The study views financial inclusion as a delivery of financial services at affordable cost to vast section of the disadvantaged and low income group. Or it broadly means universal access to a wide range of financial services at affordable cost. These include not only banking products but also other financial services such as insurance and equity products. Furthermore, the findings of the study shown non line relationship between credit facilities and MSMEs performance, meaning that, credit does not enhance MSMEs performance. However, the paper was poorly written; as it does not portray academics standards; right from the title of the paper 'Financial Inclusion and MSMEs'. Clear intention of the paper was not captured; neither clear targets population of the study nor sample and sampling techniques were stated. Research methodology are not justified, this means the findings of the study may be irrelevant for academic consumption due to absence of needful.

Savings with formal financial Institutions and MSMEs performance

Central Bank of Nigeria (CBN) Financial inclusion report of 2015 reviles that, there were 5.7 branches per 100,000 adults in Nigeria as at December 2015, compared with 5.9 branches per 100,000 adults as at December 2014. Meaning that, decreased in number of deposit money banks branches have negative effects on access to financial services by adult population and firms. Although, the number of microfinance bank branches increased by 5.7 per cent between 2014 and 2015, but number of microfinance bank branches per 100,000 adults remained 2.3 people as at 2016. This shows that, financial inclusion is likely to increase as many adult population and firms are likely to access and utilize financial services which will eventually enhance their productivity and financial performance (Central Bank Nigeria, 2015).

Credit from formal financial Institutions and MSMEs performance

Malenya, & Kariuki (2017) viewed access to credit facilities formal financial institutions particularly savings and credit from microfinance banks as yardstick of achieving financial inclusion. Availability, convenience and proximity of branches to customers, impacts on the decisions made by customers hence accessibility was essential as per the study. The study showed that financial institutions aim at making services affordable with much regard given to decisions made on pricing of loans, transaction fees and ledger fees, as such there is positive relationship between access and usage of credit facilities and other financial services with MSMEs performance.

Uchenna ,Kehinde , Olayinka &Nwanneka (2016), deemed that, financial inclusion can be measured using loan to deposit ratio (LDR), financial deepening indicators (FDI), loan to rural areas (LRA), and branch network (branch). Measures of financial deepening adopted in the study are ratios of private sector credit to GDP and broad money supply to GDP. Economic growth was proxied as growth in gross domestic product (GDP) over successive periods while per capita income (PCI) was adopted as a measure of poverty and hence an index of development. They revealed that, credit delivery to the private sector (an index of financial inclusion) has not significantly supported economic growth in Nigeria and financial inclusion has promoted poverty alleviation in Nigeria through rural credit delivery.

Mobile money transactions and MSMEs performance

Simiyu, (2015), Mobile Money Transactions (MMT) has marked a new frontier in mobile phone technology with an ever increasing number of micro businesses using it in their transactions to enhance performance. The number of uses to which Mobile Money Transactions (MMT) can be put keeps increasing with time. However, it is not clear how Mobile Money Transactions influences the growth of SMEs. It was established that, mobile money had made a significant contribution to the SME sector. Majority of the traders rely on it as opposed to the formal banking sector for their day to day transactions (Simiyu, 2015).

IV. Theoretical Framework

The Theory of Technology Acceptance Model (TAM)

Mobile payment procedures are essentially information technology (IT) procedures and channels through which users make various payment transactions through mobile devices. Studies show that, the acceptance to use the mobile payments varies with the context in which users are able to use a mobile payment procedure. Moreover, the mobile payment procedures are functional services adopted for utilitarian reasons (Khodawandi, Pousttchi & Wiedmann, 2003). This study focuses on the factors influencing the mobile money platforms and ATM usage by the MSMEs operators and applies the Theory of Technology Acceptance Model (TAM). TAM is a theoretical model that explains how users come to accept and use a technology (Davis, 1989).
The model suggests that, when users are presented from using new technology, a number of factors may influence their decisions on how and when they will use it. These factors are perceived usefulness which is seen as the degree to which a person believes that; using a particular system would enhance his or her job performance, and perceive ease of use which means as the degree to which a person believes that using a particular system would be free from effort (Davis, 1989). These two factors are considered to be the primary determinants for adopting and using a new technology and are influenced by other variables such as security concerns, cost, convenience, and satisfaction (Lu, Yu, Liu and Yao, 2003).

TAM has been widely used to predict user acceptance and use based on perceived usefulness and ease of use (Ndubisi &Richardson, 2012). Consequently, TAM was chosen as the appropriate model and was extended to include other factors such as perceived ease of accessibility of the mobile payment services, perceived low cost of the mobile payment services, perceived convenience, perceived security, perceived support from the mobile services provider and from the government, perceived satisfaction and actual usage of the mobile payments**.**

V. Conclusions and Recommendations

In conclusion, most of the owners/managers of MSEs in Nigeria do not have the necessary training or education on how to manage their businesses profitably. Equipping the various MSMEs Owners with the necessary skills such as credit management, cash management, investment decision making and bookkeeping will help improve the returns on their investments. When there is an increase or an improvement in the performance of MSEs, the financial institutions will be flexible when offering them credit facilities.

The following are the recommendations are made:

i. MSE's should ensure proper keeping of books records and account.
ii. Keeping up to date records of business transactions enable the company to keep track of its operations because many of the financial institutions give priority to proper book keeping as a criterion for accessing funds and, hence, MSEs will be at advantage if they keep good business records.
iii. Maintaining a bank account with any of the financial institutions will also help the MSEs to have easy access to credit facilities and having a considerable amount in a bank account with a financial institution means the institution will have an idea of how much of capital the MSE operates with, thus serving as a guarantee that the MSE will be able to pay the credit back in time.
iv. financial institutions to provide credit facilities with a lower interest rate to the small enterprises and also the government can by ensuring that the Central Bank reduce the base rate for loans offered to MSEs by providing subsidies to the financial institutions supporting the small business sector.

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