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The Effect of Loan duration and Repayment period given by Microfinance Banks on growth and performance of Small Business in Anambra State, Nigeria.

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ABSTRACT

Effect of Loan duration and Repayment period given by Microfinance Banks on Small Business Performance in Anambra State, Nigeria was studied by the researchers. The study was descriptive in nature. The population for this study was drawn from the SMEs operating in three major towns in Anambra State. The target population was grouped based on some commercial cities in Anambra State. The sample population was 536 which was obtained from a total population of 2789. This study used a questionnaire for data collection. The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The analysis entailed gathering of data from different sources, their review and analysis to form a deduction. This study used linear regression analysis model and so the study used the analytical software in data analysis. Among the software that was used was Statistical Package for the Social Science version 21.0 (SPSS) and advanced excel for analysis. The linear regression model was applicable since it allowed simultaneous investigation of the correlations among different variables. The study established that the type of business which most of the SMEs in Anambra State engage in, is retailing. The study also established that high interest rates and repayment period inhibited some of the SMEs in Anambra State from accessing microfinance loans to a very great extent.

***Keywords**: Loan Repayment; Microfinance; Small Business; Anambra State.*

1. 1ntroduction

Microfinance Banks were established in Nigeria to deliver both financial and non-financial services to the active poor, Micro, Small Medium Enterprises (MSMEs) who are not able to obtain services from the conventional banks (Ochonogor, 2020). It is believed that introduction of microfinance institutions in the economy would alleviate poverty and enhance people's standard of living. The presumption became very popular among the policy-makers due to the role microfinance institutions have played and is still playing globally in supporting inclusive growth. The support in the growth and expansion of micro, small and medium scale enterprises in the emerging economies, speak volume of the relevance in any developing economy (Singh and Bhar, 2016).

It is important, however, to note that the establishment of microfinance institutions in Nigeria was informed by the exclusion of the poor and small scale businesses from the conventional financial services, which led the government to initiate a broad variety of informal alternative financial services that can meet the financial needs of the categories mentioned above (Rai, 2016). They were established to provide micro credit to the poor so as to alleviate poverty by the provision of microloans to low-income earners (Reeves and Sabharwal, 2013). It is also to render non-financial services to help in growing and sustaining small businesses across the nation so that the economy can be sufficiently stimulated to achieve the desired level of buoyancy necessary to enhance quality of life.

The Central Bank of Nigeria in recognition of such contributions introduced the microfinance regulatory and supervisory policy framework to support and encourage the participation of the MSMEs in the overall development of Nigeria, by increasing their access to factors of production, particularly primary capital (CBN, 2004). To the USAID (2005), the MSMEs represents about 87 percent of all firms operating in Nigeria and non-farm MSMEs account for over 45 percent of total employment and 35 percent of the GDP (SMEDAN, 2007).

1.2 Statement of the Problem

Nigerian government launched the microfinance policy in Nigeria in 2005 through the Central Bank; with the aim of providing both financial and non-financial services to the poor, micro, small and medium scale enterprises (MSMEs) and other unbanked groups in the economy. However, it is doubtful if the target groups of the policy (the vulnerable and MSMEs) have actually been impacted significantly by the operation of the institutions as poverty and unemployment are still rising like never before and the MSMEs still have lack of access to credit as one of their major challenges to contain with.

1.3 Research Objectives

The broad objective of the study is to examine the effect of microfinance institutions on small business growth and sustainability in Nigeria using Anambra State as the study area. But specifically, the study intends to:

> Examine the "effect of loan duration/repayment period and interest given by the microfinance banks on small business growth and sustainability in Anambra State, Nigeria".

1.4 Research Questions

The following research questions were raised to guide the objective of the study:

i. What is the effect of loan duration/repayment period given by microfinance banks on growth and sustainability of small business in Anambra State, Nigeria?
ii. What is the effect of interest rate charged by microfinance banks on small business growth and sustainability in Anambra State, Nigeria?
iii. How does the age of microfinance banks affect the growth and sustainability of small business in Anambra State, Nigeria?

1.5Statement of Hypotheses

The following null hypotheses were formulated to guide the objective of the study as well as strengthen the analysis:

i. Loan duration/repayment period given by the microfinance banks does not have significant positive effect on growth and sustainability of small business in Anambra State, Nigeria.
ii. The interest rate charged by microfinance banks does not have positive effect on small business growth and sustainability in Anambra State, Nigeria.
iii. The age of microfinance banks does not affect the growth and sustainability of small business in Anambra State, Nigeria?

1.6 Significance of the Study

Microfinancing is one of the many interventions government has made in Nigeria towards solving the twin problem of unemployment and poverty. But like those before it, the policy doesn't seem to be achieving the purpose for which it was introduced. In the light of the above, this study is poised to determining the challenges that hinder the policy from effectively impacting the target group and by extension the Nigerian economy. Consequently, the study has two distinct significance that is, theoretical and empirical significance. From the theoretical significance perspective, the literature was greatly enriched as sufficient facts were added to the existing stock of literature thereby expanding the frontiers of knowledge.

1.7 Scope of the Study

The study covered the three major commercial towns in Anambra State and their environs, namely; Awka, Onitsha and Nnewi. It covers, in addition, MSMEs that have access to microfinance services for a period not less than five years. The target respondents include the clients of the selected microfinance banks.

2.0 Literature Review

2.1 Theoretical Framework

Gurria (2018) states that growth of MSMEs means expansion in capital base, outputs and increase in profit of the firms in the sector. He stressed further that growth of MSMEs means attaining increased capacity by the businesses in the sector to employ more hands, create more values and wealth as well as contribute in concrete terms to the gross domestic product (GDP) of the host country. To Koreen and Cusmano (2019), the national economy of a rapidly growing MSMEs sector usually experiences a boom because an effective MSMEs sector is truly the engine of growth of any economy in many respects, including the promotion of the eloquent of entrepreneur, upgrading of skills of the employees, provision of reasonable assistance for improved access to the domestic as well as export markets, offer modern testing facilities and quality certification services and from the recent trends, they now support product development, design innovation, intervention and packaging to mention but a few of their general contributions. MSMEs promote all-inclusive growth by providing employment opportunities, especially to people belonging to weaker sections of the society in rural areas and urban poor (Taiwo, 2017).

2.2 Empirical Review

Akinadewo (2020) investigated the effect of microfinance banks on growth of micro, small and medium scale enterprises in emerging economies, using the evidence from Nigeria. The study adopted descriptive survey design. From a sample of 250 respondents, regression analysis was carried out. Findings from the study suggest that significant positive relationship exists between microfinance banks, proxied by small scale financial services (SSFS); financial sustainability (FS); absence of assets-based collateral (AAC) and Advisory services (ADS) and the growth of micro, small and medium scale enterprises (MSMEs) in Nigeria. The study concluded that any upward movement in the services of microfinance banks will enhance the growth of MSMEs in Nigeria.

In a related study, Bakare (2019) examined the effect of microfinance credits on growth of business firms in Nigeria. The investigation covered a period between 2006 and 2014. The design was ex-post-facto. The results from panel data analysis showed that bank credit has negative and statistically insignificant relationship with business growth in Nigeria. The results showed further that credit provision from banks have no apparent effect on growth of businesses in Nigeria.

Onowu, Okeke, Ngige and Ozigbo (2020) examined the effect of small scale financing on growth of small and medium scale enterprises (SMEs) in Delta State, Nigeria. The study made use of descriptive survey design. Major statistical tool of analysis was Pearson Correlation Coefficient and from the analysis of the responses gathered from 350 respondents, the results showed that small scale financing enhanced the fortunes of the people significantly as 98 percent of the respondents agreed that loan facilities improved their businesses. The study concludes that multiple sources of microfinancing is what small businesses need to grow and become sustainable. Ofeimun, Nwakoby and Izekor (2018) did a study on effects of microfinance banks on small businesses growth in Nigeria. The study made use of descriptive survey design. The data for the study were obtained from the microfinance banks and CBN annual reports for the period 1990 to 2015. Major tool of analysis was Ordinary Least Squares (OLS) regression analysis. Findings indicate micro loans disbursed and microloans spread have significant positive effect on small business growth in Nigeria during the period under review. The study equally revealed that there is a significant negative relation between inflation rate and microloan spread and small business growth in Nigeria. The study concludes that microfinancing of small businesses by microfinance banks has a great effect on stimulating the economy.

Umanhonlen, Okoro-Okoro and Umanhonlen (2018) did an assessment of the impact of microfinance banks on small and medium scale enterprises in Nigeria (1992 – 2015). The study's design was ex-post-facto and the statistical tool of analysis was multiple regression analysis. The result revealed that microfinance banks' loan has significant negative relationship with SMEs in Nigeria in both short and long-run. The negative state of the result was an indication that microfinance loan has not really yielded the expected positive impact on SMEs.

Aremu and Olofinlade (2021) examined the impact of microfinance banks' credit on the performance of small and medium scale enterprises in Oyo State, Nigeria. The study adopted descriptive survey design. Major tool of analysis was multiple regression analysis. The result of Athe analysis showed that microfinance bank credit had significant impact on the profitability and market size of small and medium scale enterprises. The study concludes that even in the face of significant impact of microfinance credit on SMEs, the conditions of microfinance banks' credit loans are still very stringent. In a related study, Kio, Ahmed, Abubakar, Aliyu and Lawal (2021) examined the effect of loans and savings from microfinance banks on business growth of SMEs in the North Central Geo-political Zone of Nigeria: an empirical analysis.

2.3 Loan Duration and Small Business Growth

This is the length of time given to the customer by the lending authority or institution to repay the loan given to him or her (Babajide, 2011). Loan duration or repayment period is usually part of the negotiation process between the lender and borrower amongst the financial institutions operating in the informal sector and those operating in the formal sector too. In the opinion of Yunus (2011), inadequate time frame in loan repayment or loan duration hampers the growth and development of small businesses because it constitutes an interruption in the operation of the business as it does not permit proper and effective utilization of the facility by the business operators. Wookock (2018) observes that if the repayment period is too short, the borrower (small business operators) will not be able to generate sufficient revenue to facilitate repayment of the loan. However, he notes equally that granting a longer repayment period could lead to the borrower becoming extravagant and in the end may fail to pay back. He therefore suggests that loan repayment terms should match the cash pattern of the customer to help him/her budget effectively for sustainable cash-flows. Babalola (2019) observes that the main aim of microfinance scheme is to increase access by MSMEs sector to credit to increase their productive capacity as well as that of the active poor and the vulnerable so that the pace of economic growth and development can be accelerated in the country.

3.0 Methodology

3.1 Research Design

The study adopted descriptive survey design because the data for the study was principally primary in nature. Descriptive survey design is concerned with the collection of data for the purposes of describing and interpreting existing conditions, prevailing practices, beliefs, attitudes, on-going processes, testing and finding out whether certain variables are associated and if they do, the degree of association (Ndagi, 1984 in Obasi, 2000).

3.2 Population of the Study

In selecting the target population for the study, we were guided by certain criteria. One, the business must have consistently been in operation for at least five (5) years. Two, they must be clients of microfinance banks. Three, the microfinance banks must have been in operation for upward of at least ten (10) years, including those that metamorphosed from community banks in 2005 to microfinance banks. Four, they are spread across urban and rural areas of the state. Five, the micro, small and medium scale enterprises must have equally been clients of registered microfinance institutions for upward of at least five years. From the directory of MSMEs domiciled in the Ministry of Commerce and Industry, Anambra State, the following figures were generated for the study: Awka – 871; Onitsha - 903 and Nnewi – 1015; thus, giving a total population of 2,789.

3.3 Determination of Sample Size

Sample size for the study was determined through the application of a formula developed by Borg and Gall (1989). The procedure is as follows:

$$n = (Z_\alpha)^2(e)[N]$$

Where:

n = Sample size to be determined
N = The entire population of interest
$Z_{(\alpha)}$ = Confidence level (1.960) at 0.05
e = Error margin (0.05)
α = Significance level

Substituting the values in the formula, we have:

$$n = (1.960)^2(0.05)[2789]$$
$$= 3.8416\ (139.45)$$
$$= 535.71112$$
$$= 536\ (\text{Nearest whole number})$$

Thus, the sample size for the study is 536 MSMEs operators.

However, in order to determine the number of respondents to be assigned to each industrial zone, we applied proportionate sampling as follows:

$$n_i = \frac{nh_i}{N} \times n$$

Where:

n_i = Sample size for ith zone
nh_i = Population of ith zone
N = The entire study population
n = Study sample size

Substituting the values in the formula, we have:

1. Awka:

$$n_1 = \frac{871}{2789} \times 536 = 167$$

2. Onitsha:

$$n_2 = \frac{903}{2789} \times 536 = 174$$

3. Onitsha:

$$n_3 = \frac{1015}{2789} \times 536 = 195$$

Table 3.1: Population and Sample Distribution

S/N	Industrial Zone	Population	Sample Allocation	Percentage of Total
1.	Awka	871	167	31.2
2.	Onitsha	903	174	32.4
3.	Nnewi	1015	195	36.4
		2789	536	100.0

Source: Field Survey, 2022

3.4 Instrument for Data Collection

An item structure instrument developed by the researchers to reflect a five (5) point Likert scale format of strongly agree, agree, disagree, strongly disagree and undecided, was used to elicit information from the respondents. The instrument covered information on effect of loan duration/repayment period, on MSMEs growth and sustainability, effect of interest rate on MSMEs growth, collateral, non-financial services and timely or regular credit disbursement to clients.

3.5 Validity of the Instrument

The instrument was content validated. The validation exercise was carried out by giving some copies of the questionnaire to some experts to criticize and make comments. The corrections made by the supervisor and the experts were duly reflected on the final draft of the instrument.

3.6 Reliability of the Instrument

The reliability of the instrument was determined through the method of test re-test. The procedure involved giving 20 copies of the instrument to the people outside the study area to complete. After an interval of two weeks, the same instrument was administered on the same group of people a second time and both the first and the second responses were collated and analyzed through the application of Spearman rank order correlation coefficient. The result of the analysis showed 0.73 as coefficients for the research question and it was considered adequate for the study.

3.7 Method of Data Collection

The main method that was used for collecting the data was direct questionnaire administration. The method was chosen because of its obvious advantages. One, it affords the researcher the opportunity of assessing whether the respondent actually understood the questionnaire items. Two, it gives the researcher the opportunity of making clarifications/explanations to the respondents in areas that are not quite clear to them. Three and finally, the method reduces the volume of non-response which often associate with surveys of this nature.

3.8 Method of Data Analysis

The data generated from the study was analyzed quantitatively, whereas the demographic data and research questions were analyzed through summary statistics of percentage, the hypothesis was analyzed through the inferential statistics of Pearson correlation coefficient and multiple regression analysis. All tests were carried out at 0.05 level of significance.

4.0 DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 The result of "The Effect of Loan duration and Repayment period given by Microfinance Banks on growth and Sustainability of Small Business in Anambra State, Nigeria" is hereby presented. The performance of the SMEs, Credit accessibility.

Table 4.1: Response rate

Response	Frequency	Percentage
Responded	240	45
Not responded	296	55
Total	536	**100**

Source: Research findings

4.2 Data Presentation

4.2.1 Data Reliability

To test the reliability of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. Reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. In this case, a reliability co-efficient of 0.822 was registered indicating a high level of internal consistency for the Likert scale used.

Table 4.2: Cronbach's Alpha

Reliability Statistics	
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
0. 822	0.880

Source: Research findings

4.2.2 Challenges of accessing microfinance loans

The respondents who indicated that they never used microfinance loans were further asked to indicate the reasons that inhibit their enterprise from accessing microfinance loans. The responses were placed on the five Likert scale where 1= No extent, 2=Small extent, 3= Moderate extent, 4= Great extent and 5= Very great extent. The results are presented in table 4.3 below:

Table 4.3: Challenges of accessing microfinance loans

	mean	Standard deviation
High Interest rates	4.3612	0.6234
Bureaucracy	3.7421	0.2346
Turnaround time	3.6124	0.2632
Securities and Collateral	3.4213	0.8946
Repayment period	3.9142	0.9764
Application fees	3.3613	0.2346

Source: Research findings

From the findings, respondents to a very great extent indicated that; high interest rates (mean=4.3612), and repayment period (mean=3.9142) inhibit their enterprise from accessing microfinance loans. In addition, to a great extent respondents stated that; bureaucracy (mean=3.7421), turnaround time (mean=3.6124), securities and collateral (mean=3.4213, and application fees (mean=3.3613) inhibit their enterprise from accessing microfinance loans. This reveals that high interest rates and repayment period inhibit some of the SME's in Anambra State from accessing microfinance loans to a very great extent.

4.2.3 Inferential Statistics

The study further applied general Linear Model to determine the predictive power of the effect of micro finance loans on the financial performance of small medium enterprises in Anambra State. This included regression analysis, the Model, Analysis of Variance and coefficient of determination.

4.2.4 Regression Analysis

In addition, the researchers conducted a multiple regression analysis so as to test relationship among variables (independent) on the effect of micro finance loans on the financial performance of small medium enterprises. The researchers applied the statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions for the study.

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the three independent variables (microfinance loans, age of the SME, credit accessibility).

4.2.6 Coefficient of Correlation

Table 4.4: Coefficient of Correlation

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.103	0.2235		5.132	0.000
	Microfinance loans	0.852	0.1032	0.1032	6.569	.001
	Age of the SME	0.643	0.3425	0.1425	4.117	.004
	Credit accessibility	0.473	0.1243	0.1234	4.018	.001

Source: Research findings

Multiple regression analysis was conducted as to determine the relationship between the financial performance of the SME and the three variables. As per the SPSS generated table below, regression equation ($Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$) becomes:

($Y=1.103+0.852\ X_1+0.643\ X_2+0.473X_3+\varepsilon$)

Where;

$Y=$ Financial performance

$X_1=$ Microfinance loans

$X_2=$ Age of the SME,

$X_3=$ Credit accessibility.

According to the regression equation established, taking all factors into account (Microfinance loans, age of the SME, and credit accessibility) constant at zero, financial performance of the SME will be 1.103. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in Microfinance loans will lead to a 0.852 increase in financial performance of the SME; a unit increase in age of the SME will lead to a 0.643 of the SME increase in financial performance, while a unit increase in credit accessibility will lead to a 0.473 increase in financial performance of the SME.

This infers that Microfinance loans contribute most to the financial performance followed by age of the SME. At 5% level of significance and 95% level of confidence, Microfinance loans, age of the SME, and credit accessibility were all significant in financial performance of the SME.

CONCLUSION

The study concludes that high interest rates and repayment period inhibit some of the SME's in Anambra State from accessing microfinance loans to a very great extent. The study also concludes that microfinance loan influence financial performance in SME's in Anambra State to a very great extent. The study also concludes that at 5% level of significance and 95% level of confidence, the study found out that Microfinance loans and credit accessibility were all significant in financial performance of the SME.

The study established that high interest rates and repayment period inhibit some of the SME's in Anambra State from accessing microfinance loans to a very great extent. It is in this line of thought that the study recommends that Microfinance Banks should lower interest rates and as well increase repayment period. The management of MFBs should revise their lending policies and requirements so as to ensure that most of the traders can be able to access credit more easily. This would be effective in attracting more customers to the MFBs as well as enabling the traders to sustain their businesses.

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Appendix I

Reliability Test for the Instrument

Reliability test was designed to determine the suitability and adequacy of the research instrument in any empirical study that would make use of primary data for analysis (Kervin, 1992).

In this regard, we used a test re-test method of reliability testing. The method involved administering 20 copies of instrument on a group of business owners outside the study areas. After an interval of two weeks, the same instrument was administered on the same people a second time and the results of first and second exercises were collated and analyzed through the application of Spearman rank order correlation coefficient. The results of the estimation were as presented below: The formula for Spearman rank order. Correlation coefficient is as follows:

$$r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Where:

r = coefficient to be determined
n = number of response options
d = difference in rank order
1and 6 = Constant

The value of the coefficient ranges between -1 to +1

Reliability Estimation for Research Question

Response Options	Result of 1st Responses (x)	Result of 2nd Responses (y)	Rx	Ry	Rx – Ry (d)	d^2
Strongly agree	7	5	1	2	-1	1
Agree	5	6	2	1	1	1
Disagree	4	3	3	4	1	1
Strongly disagree	2	4	4.5	3	1.5	2.25
Undecided	2	2	4.5	5	-0.5	0.25
Total	20	20				5.5

$$r = 1 - \frac{6(5.5)}{5(5^2 - 1)}$$

$$r = 1 - \frac{33}{120}$$

$$r = 0.73$$