

Research Paper

Impact of Microfinance Banks' Services on the Profitability of Small and Medium Enterprises: Evidence from Ilorin, Kwara State

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ABSTRACT

Purpose: This study examined the impact of microfinance banks' services on SMEs' profitability in Ilorin metropolis of Kwara State. It specifically studied how and to what extent do both financial and non-financial services affect the profitability of SMEs in Ilorin, Kwara State, Nigeria.

Design/Methodology/Approach: The study employed survey research design and data source is primary data. The population comprised all SMEs in Ilorin metropolis. Questionnaires were administered to all the 113 registered SMEs in the study area as at year 2017. 94 copies of the questionnaires were retrieved and used for the analysis. Probability regression (PROBIT) was used as a tool of analysis.

Findings: Results revealed that SMEs' access to credits from MFBs positively impacts profitability while interest rate and size of business negatively impact SMEs' profitability.

Research limitations: Only SMEs in Ilorin metropolis were surveyed and primary data via questionnaire were used. Similarly, only SMEs were considered. Hence, if other sectors of the economy in the entire state were surveyed, and if secondary data as well as other primary data source like interview are used, the results may vary.

Practical implications: The paper concluded that MFBs positively contributed to SMEs profitability in Ilorin metropolis. It is therefore recommended that small and medium entrepreneurs should source for loans from MFBs to boost their business activities for profitability. In addition, interest on loans should be reviewed downward by MFBs such that SMEs will be able to repay their loans and have some margins on the net returns. Finally, seminars and workshops should be organized by the MFBs to educate SMEs operators on their policies and on judicious use of funds.

Originality/Value: Most previous studies on the subject usually consider only financial services, meanwhile, this study included non-financial services of MFBs and empirically examined the influence of both services on SMEs performance in terms of profitability.

Keywords: MFBs; Profitability; SMEs; Life Cycle Theory.

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1. Introduction

Small and medium enterprises (SMEs) sector is globally regarded as an important force in driving the economic growth and development in both developing and developed countries because they form the bulk of business activities in a growing economy like Nigeria (Ariyo, 2008). SMEs generate employment opportunities and steer rural development, industrialization and optimum utilization of indigenous resources among others. Nigeria's over dependence on oil has really exposed the economy to unprecedented macro-economic instability resulting from the effects of external shocks to oil prices. The world economic recession and the sustained slump in oil prices posed a serious challenge for Nigeria economy which accounted for a reduction in Nigeria external reserves and also diminished the nation's capacity to finance much of its developmental needs. However, with the trend of this event, the Government under vision 20:2020 program came up with a consolidated empowerment program called the National Economic and Empowerment Development Strategy (NEEDS) and other reforms which imperatively led to the recognition given to the development of SMEs (Nigeria Vision 20:2020).

The SMEs sector is positioned to generate employment, create wealth, reduce the prevalence of poverty and sustain economic growth and development. The sector is also a major driver and index for the level of industrialization, modernization, urbanization, gainful employment and the quality of life enjoyed by the citizenry (Aremu & Adeyemi, 2011; Garengo, Biazzo & Bititci, 2005). Considering the critical role of SMEs in an economy, it is imperative to investigate the performance of SMEs. Performance has been described as a process or the manner by which the business owner or manager of SMEs executes their functions and crucial element to improving business performance in organizations (Garengo, et al., 2005).

The importance of SMEs in the growth and development of a country has been widely emphasized in the literature in terms of their role in backward integration, production of goods and services, job creation, income generation, reduction in income disparity, poverty alleviation, entrepreneurial development, technological innovation, skill development and acquisition, encouragement of economic self-dependence and vibrant private sector among others (Onakoya, Fasanya & Abdulrahman, 2013; Ofoegbu, Akanbi & Joseph, 2013; Safiriyu & Njogo, 2012; Aremu & Adeyemi, 2011; Ayozie & Latinwo, 2010). It therefore means that the performance of the SMEs sector seems to be closely related to the performance of the nation.

The introduction of development banks in Nigeria in the 1960s was prompted by the insufficient developmental fund available for utilization in the country. Considering the important position occupied by the SMEs in economic development in addition to the problem of inadequate capital faced by the SMEs, Federal Government of Nigeria (FGN) through the apex bank (Central Bank of Nigeria) introduced the Microfinance Banks as a part of development financing banks since the majority of the SMEs find it difficult to acquire capital from either retail or whole banking. Microfinance banks provide a broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor, low-income households and their micro-enterprises.

Despite several efforts by the Federal Government of Nigeria and numerous economic contributions of SMEs in Nigeria to ameliorate the plights of indigenous entrepreneurs, more small-scale manufacturing enterprises are shutting down their operations due to liquidity problems (Adeel, Teal, & Baptist, 2006).

In Nigeria, SMEs problems are generally characterized by inadequate capital base, low managerial skills, and high levels of technical inefficiency, which reduces their potential output levels significantly (Aremu & Adeyemi, 2011; Sokoto & Abdullahi, 2013). Although microfinance banks are established primarily to cater for the need of the poor and small and medium businesses who could not have access to credit from commercial banks, effectiveness of the microfinance banks in this important role still remain a subject of academic debate. This is because the ultimate objective of poverty reduction is not yet achieved due to strict collateral security demands by banks and the high interest rates charged by them are major constraints to accessing credits by SMEs. Therefore, there is need to address the lack of access to credit in which the Based on these premises, the paper attempt to examine the effect of microfinance banks services on small and medium enterprise performance in Ilorin metropolis. The paper used Ilorin metropolis as a microcosm of Kwara State due to high concentration and dominance of SMEs and microfinance banks in that area as well as easy accessibility and proximity to information.

2. Literature Review

2.1 Conceptual Issues

2.1.1 Small and Medium Enterprises (SMEs)

It is hard to develop a general definition of a small concern because the economies of countries differ and people take on particular standards for special uses. Secondary research (Bowler, Dawood & Page, 2006; Phakisa, 2009) indicated that there are no universally accepted small business definitions. Different institutions and nations use different standards to define SMEs. This is mainly because different countries use diverse criteria in classifying their SMEs sector. Examples of such criteria include the value of assets, the number of workers employed and the volume of production or annual turnover (Aremu & Adeyemi, 2011; Ofoegbu, et al., 2013; Umar, 1997). The definition of SMEs is specific and not generic in nature because it is based on the peculiarity a country or region.

World Bank (2006), defined medium enterprises as those that have at most 300 employees and an annual turnover not exceeding 15 million US dollars, while small enterprises are those having fewer than 50 staff members and up to 3 million US dollars turnover. In the UK, Sections 382 and 465 of the Companies Act 2006 defined an SMEs as follows: a small company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees; a medium-sized company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million and not more than 250 employees (Ofoegbu, et al., 2013).

In the same vein, the Nigerian Economic Summit Group (2002) defined SMEs in Nigeria based on the nature and magnitude of business to include roadside artisans, petty traders, bottled water producers, bakers, local fabricators and their likes. Udechukwu (2003) explained that Nigeria's National Council on Industry defined SMEs in terms of number of employees as those enterprises with between 10 and 300 employees. This study is anchored on the views of Small and Medium Industries Equity Investment Scheme (SMIEIS) of 1998, which defined SMEs in Nigeria as enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million (including working capital, but excluding cost of land) and/or with a staff strength of not less than 10 and not more than 300.

2.1.2 Microfinance Banks

Microfinance is an economic development approach that involves providing financial and non-financial services through institutions to low-income clients, such as micro, small and medium-scale enterprises where the market fails to provide appropriate services (Ojo, 2009). It is the entire flexible structures and processes by which financial services are delivered to the poor and micro-entrepreneurs that are excluded or denied access to financial services by regular banks on account of their inability to provide tangible assets as collateral for credit facilities (Ana, 2008; Muktar, 2009).

Microfinance Banks (MFBs) are financial institutions licensed by the CBN to provide credit, savings and other essential financial services that are needed by the economically active poor, micro, small and medium enterprises who cannot be efficiently served by regular deposit money banks because their activities and volumes are too low to warrant the high cost of services by these big institutions (Ana, 2008). Therefore, the business of carrying out microfinance services without collateral security is what is referred to as microfinance banking.

Ana (2008) articulated that MFBs in Nigeria undertake all banking and financial services provision that Mega banks do, but on small scales. The basic instruments used by MFBs include: traditional and enhanced savings accounts, current accounts, fixed deposits, investment accounts; credit or lending products such as overdrafts, leases, term loans of various terms but mainly short tenured, trading loans, salary advances, LPO financing, etc.; support services including financial advisory services, feasibility reporting particularly for start-up SME's, financial training; micro insurance services; money transfers both locally and internationally in conjunction with their correspondence banks, micro pensions, capacity building, etc.

2.1.3 MFBs services and the Profitability of SMEs

Profitability is the ability of an entity to generate enough profit from its operational activities. Profit as key a measure of performance of any commercial entity. Discussing financial factor affecting SMEs, Tung and Aycan (2008), noted that insufficient access to financial resources is a significant barrier to the performance and growth of SMEs. Furthermore, it has noted that high interest rates also pose a constraint to SMEs performance and development. The interest rate which is between 20 and 25 percent need to be redressed. This is because the spreading between lending and borrowing rates is high in Nigeria, with banks, preferring to give lower rates to blue chips (Ogujiuba, 2004). Since the lifeblood of any organization is finance, it seems MFBs services will likely tell on the outlook of SMEs.

2.2 Theoretical Framework

The paper is underpinned by two theories, financial growth theory and the life cycle theory. And they explained in this section below.

2.2.1 The Financial Growth Theory

The theory was developed by Berger and Udell (1998). According to the theory, as a business matures over the years, its financial obligations and financing options metamorphose having more information available to the public. They further explained

that firms that are smaller, younger and possess more ambiguous information must depend on initial internal funding, trade credit, or a type of financing called angel finance. Angel finance is one that occurs when an individual or organization provides a limited amount of financial backing for a startup business with more favourable repayment plan. As the firm grows, it qualifies for acquiring both venture capital and mid-term loans as sources of both intermediate equity and intermediate debt respectively. Furthermore, as firm becomes older, it becomes verse in handling information more productively. This thus qualifies the firm to have access to both public equity and long term loans as sources of both long term equity and long term debt respectively.

The capital structure of SMEs is thus very different from that of bigger firms because SMEs rely more on informal financial market which limits the type of financing they are able to secure. The SMEs initial use of internal financing leads to a peculiar state of affairs whereby capital structure decisions are heavily dependent on the limited financing options. Therefore, SMEs possess varying capital structures and are financed by various sources at different stages of their development.

2.2.2 Life Cycle Theory

This is a theory developed by Weston and Brigham (1981). They posited that accelerated growth of a small firm could lead to the firm lacking capital. This is because most of the time, small firms are created with just internal funds from the owners. As the firm grows, the amount of owners' equity is no longer capable of sustaining it and the firm would have to resort to external sources of funds in order to survive. Thus, accelerated growth could result in illiquidity and thus the firm would have a decision to make between reducing its growth rate and becoming illiquid and sourcing for external funds. Weston and Brigham concluded by showing that SMEs that grow in size are very likely to have an increase in its debt structure. Therefore, there is a link between financial, non-financial and growth (profit and sales volume) in SMEs performance.

2.3 Empirical Evidence

Several works have been carried out by researchers on microfinance both in Nigeria and abroad. For example, Xitian (2013) studied the impact of microfinance on the development of small and medium enterprises (SMEs). The study shows that microfinance plays a crucial role in the revenue and profit growth of SMEs. In the same vein, Monday and Folasade (2013) studied the role of MFBs in promoting the production capabilities and development of small-scale manufacturing enterprises in Nigeria. The results showed that MFBs provided both financial and social intermediation services which had significant effect on the productivity of the small-scale businesses. Abiola (2012) also investigated the effects of microfinance on micro and small business growth in Nigeria. The result shows that access to microfinance does not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, are found to have positive effect on enterprise growth. Olowe, Moradeyo and Babalola (2013) also studied the impact of microfinance on SMEs growth in Nigeria, with particular reference to Ibadan, Oyo State. The result showed that financial services obtained from MFBs have positive significant impact on SMEs growth in Nigeria. Studies carried out by Taiwo, Onasanya, Agwu and Benson (2016) and Duru, Yusuf and Kwazu (2018) in a place in Ogun state and Lokoja in Kogi state respectively,

affirmed the relevancy of Microfinance banks’ credit provision in the development of SMEs in Nigeria.

3. Methodology

3.1 Research Design

The paper adopts the survey research design. The design is considered suitable because it is meant to afford the researcher the opportunity of systematic collection, presentation and analysis of data as well as information for the study.

3.2 Population, Sample Size and Sampling Technique

The population comprises all the 113 registered SMEs in Ilorin metropolis, 113 copies of questionnaire were administered to all SMEs’ operators, based on the purposive sampling technique. Although, the targeted population frame was equal to the sample set. 113 questionnaires were administered and 94 questionnaires were retrieved, thereby representing 83 per cent response rate, which was considered to be adequate for the investigation.

3.3 Data Sources and Data Collection Instrument

The data used for the study were obtained from primary source using questionnaire. This research instrument was designed by the researchers to obtain appropriate responses from the study population. The questionnaire was divided into two (2) sections. Section A contained demographic data of the respondents while the operational questions were contained in Section B. 113 copies of questionnaire were administered to SMEs in Ilorin metropolis.

The reliability of the scale was determined using Cronbach’s alpha methods, which indicate at 0.754. Cronbach’s alpha measures the average of measurable items and its correlation, and if the result is generally above 70%, it is considered to be consistence and reliable.

Table 1 – Reliability Statistics

Cronbach's Alpha	Cronbach’s Alpha based on standardized items	No of Items
0.754	0.768	17

Source: Authors’ computation, (2017).

3.4 Model Specification

The model used was based on Simeyo, Martin, Nyamao, Patrick and Odondo (2011)’s model, which was specified as follows:

SMEs performance = f (loan, saving mobilization and managerial training)

$$SMEs_Performance_i = \alpha + \beta_1 LS_i + \beta_2 SM_i + \beta_3 MT_i + \varepsilon_i$$

Where:

α = constant; LS = access to credit; SM = saving mobilization; MT = managerial training; β_1 - β_3 = coefficient of the independent variable; ε = error term, and i = cross-sectional characteristics of the variables.

However, the above model is re-modified and formulated thus:

$$\text{SMEs Performance} = f(\text{profitability})$$

$$Y_i = f(\text{AC}, \text{AS}, \text{MS}, \text{CS}, \text{MT}, \text{IT})$$

SMEs_Performance_i

$$= \beta_0 + \beta_1 AC_i + \beta_2 AS_i + \beta_3 SM_i + \beta_4 MT_i + \beta_5 CS_i + \beta_6 IR_i + \beta_7 SB_i + \beta_8 NO_i + \mu_i$$

Where: AC= Access to credit; AS =Advisory service; SM = saving Mobilization; MT =Managerial training; CS=Collateral security; IR = Interest rate; SB = Size of Business; NO = Nature of Occupation; α = Intercept; U_i = error term; β_1 – β_8 = Parameters

A priori, it is expected that $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 < 0$, $\beta_4 < 0$, $\beta_5 > 0$, $\beta_6 > 0$, $\beta_7 > 0$ and $\beta_8 < 0$.

3.5 Methods of Data Analysis

The paper employed both descriptive and inferential statistical tools of analysis. The descriptive statistics include mean, variance and standard deviation while inferential statistics used was regression model. In order to estimate the necessary parameters in models, the choice of ordered probit regression analysis was made using E-Views 8. The justification for this method of estimation is that the data collected were made up of discrete choice variables measured on ordinal five-point Likert Scale.

4. Data Analysis, Results and Discussion

The results of data analysis were presented and interpretations made from the administered questionnaire using the simple percentage tables. First, the demographic data of the respondents were presented followed by operational data obtained from the use of questionnaire. 113copies of questionnaire were administered among the identified classes of SMEs across different industries. 94 of these, representing 83% were retrieved and usable while the remaining 19 representing 16% were withheld by the respondents.

Table 2 shows that 11% of the respondents are between 20-25yrs, 26% of the respondents are 26-31yrs, 21% of the respondents are between 32-37yrs, 18% of the respondents are between 38-43yrs, 14% of the respondents are between 44-49years of age, 10% of the respondents are between 50 years old and above. 65% of the respondents are 61 Male, 35% of the respondents are 35 females. 59% of the respondents are married, 36% are single, and 5% are divorced. On education, 34% of the respondents are SSCE/ND holders, 46% are HND/B.Sc.; 15% are ACA/ACIB/MBA holders while 5% are holders of M.Sc./Ph.D. About 35% of the respondents are owner of the business, 27% of the respondents are admin manager, while 16% of the respondents are accountant, and 22% of the respondents are cashier. Based on respondents' experience, 9.6 % have 0-3yrs of experience, 39% are 4-7yrs, 39% are 8-11 years and 12% have 12 years and above. As per the businesses' length of operation, 16% of them are 0-4years, 30% are 4-8years, 29% are 10-14 while 26% are 15years and above. Further, on size of the business, 32% are micro-business, 38% are small, and 30% are medium. Finally, on nature of occupation, 9.6 of the respondents are farming, 18% of the respondents are fishing, 27% are petty

trade of the respondent, 36% of the respondents are small scale manufacturing and others are 10% of 9 respondents.

Table 2 – Demographic Data

Variables	Frequency	Percent	Cum. Percent
Age			
20-25yrs	10	10.6	10.6
26-31yrs	25	26.6	37.2
32-37yrs	20	21.3	58.5
38-43yrs	17	18.1	76.6
44-49yrs	13	13.8	90.4
50-Above	9	9.6	100.0
Total	94	100.0	
Sex			
Female	33	35.1	35.1
Male	61	64.9	100.0
Total	94	100.0	
Marital Status			
Married	55	58.5	58.5
Single	34	36.2	94.7
Divorced	5	5.3	100.0
Total	94	100.0	
Educational Qualification			
SSCE/ND	32	34.0	34.0
HND/BSc.	43	45.7	79.7
ACA/ACIB/MBA	14	14.9	94.6
MSc. /PhD	5	5.3	100.0
Total	94	100.0	
Position Held			
Owner	33	35.1	35.1
Admin manager	25	26.5	61.6
Accountant	15	16.1	77.7
Cashier	21	22.3	100.0
Total	94	100.0	
Years of Experience			
0-3yrs	9	9.6	9.6
4-7yrs	37	39.4	49.0
8-11yrs	37	39.3	88.3
12-Above	11	11.7	100.0
Total	94	100.0	
Length of Operation			
0-4yrs	15	15.9	15.9
4-8yrs	28	29.9	45.8
10-14yrs	27	28.7	74.5
15yrs-Above	24	25.5	100.0
Total	94	100.0	
Size of Business			
Micro	30	31.9	31.9
Small	36	38.3	70.2
Medium	28	29.8	100.0
Total	94	100.0	
Nature of occupation			
Farming	9	9.6	9.6
Fishing	17	18.1	27.7
Petty trade	25	26.5	54.2
Small scale	34	36.2	90.4
Others	9	9.6	100.0
Total	94	100.0	

Source: Field Survey, (2017).

Table 3 – Opinion Rating of Small and Medium Enterprise Operators in Ilorin Metropolis

S/N	Operational Questions	N ⁵	SA ⁶	A ⁷	U ⁸	D ⁹	SD ¹⁰	Mean	Std. Dev.
1	Credit obtained from MFBs has improved performance of SMEs	94	45 (47.9)	31 (32.9)	3 (3.2)	7 (7.4)	8 (8.5)	3.84	1.31
2	Microfinance banks have improved our operational performance by organising series of training for SMEs operators on the application of loan	94	Nil -	11 (11.7)	4 (4.3)	23 (24.5)	56 (59.6)	1.85	1.11
3	Growth and survival of small and medium enterprises is propelled more by microfinance banks than other conventional banks	94	49 (52.1)	14 (14.9)	13 (13.8)	10 (10.6)	8 (8.5)	3.92	1.26
4	Advisory services of MFB given to SMEs operators contribute to their performance	94	51 (54.3)	35 (37.2)	8 (8.5)	- -	- -	2.77	1.43
5	Most of the start-up capital comes from microfinance banks	94	6 (6.4)	9 (9.6)	13 (13.8)	27 (28.7)	39 (41.5)	3.90	1.17
6	High interest rate charged by microfinance banks do affect SMEs profitability	94	59 (62.8)	27 (28.7)	3 (3.2)	5 (5.3)	- -	4.36	0.84
7	Problems confronting small and medium entrepreneurs in the study area are inadequate capital, poor electricity supply and low turnover	94	33 (35.1)	41 (43.6)	8 (8.5)	8 (8.5)	4 (4.3)	3.66	1.11
8	No legal constraint attached to obtaining credit from MFBs	94	- -	- -	2 (2.1)	54 (57.5)	38 (40.4)	1.8	0.83
9	MFBs demand for collateral beyond the capacity of SMEs	94	57 (60.6)	32 (34.0)	5 (5.3)	- -	- -	4.50	0.58
10	MFBs charge higher interest than obtainable elsewhere	94	41 (43.6)	33 (35.1)	- -	2 (2.1)	18 (19.1)	3.79	1.44
11	Inadequate collateral or guarantor status inhibit small and medium enterprise owner's access to credit facilities	94	44 (46.8)	32 (34.0)	- -	10 (10.6)	8 (8.5)	4.06	1.11
12	MFBs prefer non SMEs customers with chance of loan repayment.	94	38 (40.4)	56 (59.6)	- -	- -	- -	4.38	0.49
13	Size of business determines the profitability of SMEs.	94	47 (50.0)	36 (38.3)	11 (11.7)	- -	- -	4.37	1.42
14	Nature of occupation have significant influence on SMEs Profitability	94	- -	- -	5 (5.3)	51 (54.3)	38 (40.0)	3.53	0.15

Source: Field Survey, (2017).

⁵ Number of observations

⁶ Strongly Agreed

⁷ Agreed

⁸ Undecided

⁹ Disagreed

¹⁰ Strongly Disagreed

Table 4 above shows that 79% of the respondents agreed that credit obtained from MFBs has improved performance of their businesses. Also, about 82% of the respondents disagreed that microfinance banks have not improved their operational performance due to failure organising trainings for SMEs’ operators on the application of loan. About 66% of the respondents further agreed that growth and survival of small and medium enterprise is propelled more by microfinance banks than other conventional banks. 59% opined that advisory services from MFBs given to SMEs operators contribute to their performance. However, about 70% of the respondents confirmed that most of their start-up capital does not come from microfinance banks. 90% of the respondents agreed that high interest rate charged by microfinance banks do affect SMEs profitability. 78% of the respondents agreed that problems confronting small and medium entrepreneurs in the study area are inadequate capital, poor electricity supply and low turnover. About 67% of the respondents agreed that credit assistance from MFBs has enhanced SMEs savings adequately. 97% of the SMEs disagreed that there are legal constraints attached to obtaining credit from MFBs. About 94% of the respondents agreed that MFBs demand for collaterals beyond the capacity of SMEs. Cumulatively, about 78% of the respondents agreed that MFBs charge higher interest than obtainable from cooperative societies and other informal sources. However, about 80% agreed that inadequate collateral or guarantor status inhibit small and medium enterprise owner’s access to credit facilities. 99% of the respondents agreed that MFBs prefer non SMEs customers with higher chance of loan repayment. Also, 88% of the respondents agreed that the size of business determine the profitability of SMEs. Finally, about 94% of the respondents agreed that the profitability of the business is based on the nature of the business.

Table 4 – The result of ML - Ordered Probit regression Analysis Output

Variables	Coefficients	Standard Error	z-Statistic	Prob.	dy/dx
ACC_CRE	0.646743	0.117520	2.448664	0.0008	.0148515
ADV_SEC	-0.087065	0.222659	-0.391025	0.6958	.0088117
COLL_SEC	-0.211729	0.115819	-1.828101	0.0675	.0214287
INT_RATE	-0.226339	0.087763	-2.578967	0.0099	.0229073
MAG_TRA	0.059801	0.131793	0.453748	0.6500	.0060523
SAV_MOB	0.099621	0.098906	1.007228	0.3138	.0100824
SIZ_BUSS	-0.127085	0.143466	-3.439522	0.0004	.0211632
NAT_OCC	0.221480	0.344530	3.109793	0.2421	.0133421
Pseudo R-squared	0.868296				
LR statistic	11.76977				
Prob. (LR statistic)	0.000106				

Source: Authors' Output using E-view 8, (2017).

The regression analysis carried out on the effects of financial and non-financial services of MFBs on the SMEs profitability in Ilorin metropolis, indicated good outcome. Using a multiple regression analysis of probit, a positive relationship was found between access to credit, interest rate and SMEs performance in Ilorin metropolis. It also indicates that, access to credit and reduction in interest rate would boost the SMEs profitability. However, response from the respondents shows that despite the fact that access to credit and interest rate as an important factor determine SMEs performance, available of this has not been easy.

In terms of the signs and magnitude of the coefficients which signify the effects of financial and non-financial of MFB on SMEs profitability, the result indicates that three of the variables, access to credit, interest rate and size of business concur with a priori theoretical expectation. If accessibility to credit increases by 1% there is probability that

profitability will increase by 1.4%. Also, if interest rate reduces by 1% there is probability that profitability will increase by 2.2%. Similarly, increasing the size of the business might ebb-away the profitability of the SMEs, according to the finding here, 1% increment in the business size will lead to about 1.27% decline in probability. As a matter of fact, increment in business size has to be complemented with expansion of other factors. The significant coefficients of access to credit (ACC CRE) and size of business (SIZE BUSS) is positively significant while interest rate (INT RATE) negatively but significant which is indicated by probability values (0.0099), (0.004) and (0.008) respectively at 5% level of significance. Advisory service (ADV SER), collateral security (COLL SER), managerial training (MAG TRA), savings mobilization (SAV MOB) and nature of occupation do not have significant effects on SMEs profitability. Overall, the findings from the study revealed that financial and non-financial services of MFBs have significant influence on SMEs profitability in Ilorin metropolis which is indicated by probability (LR-stat) 0.000106. The result obtained from this research corroborates the studies carried out by Maruthi, Smith and Laxmi, (2011), Quansah et al., (2012), Abiola, et al., (2012), Abiola, Iyoha and Joseph (2011), Ranjani, (2012), Chiyah and Forchu, (2012), Simeyo et al., (2011), Muritala, Awolaja and Bako, (2012), Ofoegbu, et al., (2013), Taiwo et al., (2016) and Duru et al., (2018) who discovered that microfinance is a major determinant of SMEs growth globally. However, findings from this study contradicts with the study of Afolabi (2013) who found an indirect relationship between interest rates charge by MFBs and SMEs growth in Nigeria.

5. Conclusion and Recommendations

The paper is on the impact of microfinance banks services on small and medium enterprises' profitability in Ilorin metropolis. The study employed ordered probit model to investigate the said impact. The study found positive and significant relationships between financial and non-financial services provided by MFBs on the profitability of SMEs. The paper confirms the positive contributions of microfinance banks via improved access to credit, managerial training, advisory service and growth in the size of business leading to SMEs profitability. Based on the result of the study, it is observed that microfinance banks in Nigeria are faced with insufficient funds which militates against their efforts to grant sufficient loans to SMEs, yet their efforts to meet the financial and non- financial needs of SMEs is considerably acknowledged.

It can therefore be concluded that the various services provided by the MFBs to SMEs in Ilorin metropolis has contributed significantly to improved profit.

From the conclusion above, the study therefore recommends that:

- i. Small and medium entrepreneurs should apply for MFBs loans to boost their business activities. This will lead to an increase in the volume of capital available for business activities and probably lead to higher profitability;
- ii. The interest on loans should be reviewed downward so that the end-users (SMEs) will be able to service the loans and also have some margin on the net returns;
- iii. The microfinance banks should at all times give professional advice to SMEs. Proper professional advice would come from proper appraisal of the loan and this will inform the lending microfinance banks whether the amount the SMEs requested for is too much for the project or less;

- iv. Seminars and workshops should be organized by the MFBs to educate SMEs operators on their policies and on judicious use of funds.

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