*IOSR Journal of Business and Management (IOSR-JBM)*
*e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 21, Issue 7. Ser. VII (July. 2019), PP 06-24*
*www.iosrjournals.org*

# An Appraisal of the Impact of Micro Credit Finance on the Performance of Small and Medium Enterprise

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**Abstract:** *Microfinance credit is one of the financial services that are expected to promote SMEs financial performance. Despite the mushrooming of microfinance institutions that provide microfinance credit in Lagos state, majority of SMEs do not perform well. The aim of this study was to investigate the impact of micro credit finance on business performance of some selected small and medium enterprise in Lagos state. The study employed descriptive survey adopting convenience sampling technique to select representative samples of 300 respondents out of an undefined population of SMEs in Lagos state. Questionnaires were administered to generate primary data that was used for this study. The data obtained were presented in tables while the Pearson correlation test was used to test the relationship between the stated variables with 10% level of significance. The simple percentage analysis was carried out using statistical package for social sciences (SPSS) version 21.This study found out that micro credit finance has significant impact on SME financial performance, learning and growth, customer performance and internal process. This study however recommends that the management of micro finance banks should take into consideration on interest rate and particularly on how to lower the interest rates. The government should come up with rules and regulations to prevent the customers from being exploited through high interest rates and other incidental fees. Management banks and other key players in monetary sectors should formulate better of policies that are favourable to small and medium enterprises to enable them access credit facilities easily. Also, an effective legal framework should be developed that specifies the rights of customers and obligations of a firm, its directors, management and employees to the customers so as to encourage the customers to patronize.*

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Date of Submission: 15-07-2019 Date of acceptance: 31-07-2019

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## I. Background To The Study

The practice of microcredit dates back to the early 1700 and can be traced to the Irish loan fund system which provided small loans to rural poor with no collateral. Over the years, the concept of microfinance spread to Latin America, then to Asia and later to Africa. Today, use of the expression micro financing has its roots in the 1970s when organizations such as Grameen Bank of Bangladesh with the microfinance Pioneer Mohammed Yunus, were starting and shaping the modern industry of micro financing Mwangi (2014). In the early 1990s with the opening up of the political space and disturbances, the need for the credit by individual, micro, small and medium enterprises increased and this led to the recognition of the microfinance institution in Nigeria

Small and medium enterprises (SMEs) are considered to be the key engine of the economic development (Chittithaworn, et al 2016). The relative importance of the SME sector varies greatly across countries, whereby SMEs have been known to make important economic contributions, whether in developed or developing countries. A number of large enterprises develop from SMEs and some of them even rely on SMEs. Even though the definitions of SMEs come in variation, the importance of SMEs in the contemporary global economy has demonstrated the shift of emphasis towards SMEs in all countries (Olomi, 2016). This is justified by both the quantitative and qualitative contributions of SME sections to the well –being of a nation's economy. Their effects can be seen in a number of areas, including providing job opportunities for the workers, distributing income, alleviating poverty, providing a training ground for the development and upgrading entrepreneurship skills, and serving as important vehicles for promoting forward and backward linkages in geographically diverse sectors of the economy in many countries (ibid). According to a World Bank report (2016) 600 million jobs are needed across Africa in the next 15 years to absorb a growing global workforce. Most formal jobs in emerging markets are with small and medium enterprises (SMEs), which also create 4 out of 5 new positions and yet more than 50% of SMEs lack access to finance, which hinders their growth (Ref: World Bank - Informal Enterprises in Kenya) In Kenya, Small and Medium Enterprises (SMEs) is an important sector of the growth of economy like many other developing countries since it employs about 85% of the

Kenyan workforce. The current constitutional framework and the new Micro and small Enterprises Act of 2012 (MSE Act 2012) provide a new window of opportunity through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of regulatory and institutional framework inclined to support SMEs in the economy Ongolo and Odhiambo (2013). Despite the importance of (SMEs) in the national economy in general, they face many obstacles that hinder their development, one of which is evident in the aspect of financial access. Several empirical studies have documented the existence of a strong positive link between the functioning of the financial system and economic growth across countries, and that stage of financing increases the probability of performance measures such as investment and employment (Rousseau and Sylla 2013). Several studies conducted in Kenya (e.g. Kibet, Achesa and Gedion, 2015; Rotich, Lagat and Kogei, 2015; Wanambisi, 2013) argue that there is positive relationship between microfinance services and SMEs performance. This includes the favourable initial credit amount, favorable interest amount, achievable collateral and, favourable credit repayment period. Furthermore, the number of the microfinance institutions in developing countries including Kenya is also increasing. It is generally acknowledged that small businesses can borrow money from formal financial avenues however there is substantial evidence that SMEs face increasingly large number of constraints such as less access to formal sources of external finance, potentially explaining the lack of SME contributions to growth (Olomi, 2016). SMEs‟ inability to access bank loan can be explained through some well-known reasons such as the collateral required by the banks, high interest rates, and lack of relationships with bankers. Several studies (e.g. Kibet, Achesa and Gedion, 2015; Rotich, Lagat and Kogei, 2015; Wanambisi, 2015) focused on the effect of microfinance services on SMEs performance; however, they did not consider the effect of entrepreneurial orientation of the SMEs owners or operators.

Despite the contribution of the reviewed literature on SMEs performance and microfinance credit, the literature has indicated that majority of the studies applied a single measure to explain the SMEs performance. Similarly, the concept of performance cannot be adequately measured by a single item since it is a multi-dimensional factor (Ahmad and Ghani, 2014). Most studies did not consider Entrepreneur Orientation as a variable which is key to SMEs financial performance. This study therefore intends to use multiple variables including the Entrepreneur orientation to examine their effects on SMEs financial performance. Recent literature focuses on the effect of micro finance on performance of SMEs using a single variable and without recognizing the impact of entrepreneurial orientation on SMEs performance.

**Statement of the Problem**

Access to microfinance credit is considered to be an important factor in determining the performance of SMEs. Microfinance credit is one of the financial services that are expected to promote SMEs financial performance. Despite the mushrooming of microfinance institutions that provide microfinance credit in Lagos state, majority of SMEs do not perform well. This has been attributed to lack of access to financial services and unfavorable credit facilities such as high interest rates and short repayment period. Despite the contribution of the reviewed literature on SMEs performance and microfinance credit, the literature has indicated that majority of the studies applied a single measure to explain the SMEs performance. Similarly, the concept of performance cannot be adequately measured by a single item since it is a multi-dimensional factor. Most studies did not consider Entrepreneur Orientation as a variable which is key to SMEs performance. This study therefore intends to use multiple variables including the Credit Repayment Period, Collateral Requirement, Credit Amount and Interest Rate to examine their effects on SMEs financial performance and customer perspective and learning and growth perspective in terms of technological advancement.

**Purpose of the Study**

The objective of this study is to provide an appraisal of the impact of micro credit finance on SME performance. Specifically, the following are the objectives of the study:

i. To examine the effect of micro credit facility on SME financial performance.
ii. To examine the effect of micro credit facility on SME learning and growth.
iii. To examine the effect of micro credit facility on firms customers**.**
iv. To examine the effect of micro credit facility on SME internal process

**Scope of the study**

This study provides a detailed appraisal of the impact of micro credit finance on SME performance, with focus placed on SMEs in Lagos state, Nigeria. This study examined how the activities of Micro Finance Institutions (MFIs) most especially in the aspect of credit facilities affects the Small and Medium enterprises in terms of financial perspective, customer perspective, internal process perspective, and learning and growth perspective. The relationship between these variables was measured within the year 2018 and 2019.

## II. Literature Review

**Conceptual Definition on Microfinance**

A microfinance bank (MFB), unless otherwise stated, shall be construed to mean any company licensed by the CBN to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients.(C.B.N, 2012)

Otero and Rhyne (2018) defines “microfinance as the provision of financial services to the poor who are above the official poverty line and to the core poor households”. According to Ledgerwood (2017) microfinance services are given based on payment behavior of the borrower which shows the capability of the borrower to recover the debt.

According to Schreiner and Colombet (2018) state that “microfinance program is appropriate when there are improvements in credit accessibility especially to those who are in need of assistance rejected by banks” apart from loan provision microfinance also provide non-financial services such as training.

A Microfinance bank is any company licensed by the Central Bank of Nigeria (CBN) to carry on business of providing microfinance services such as savings, loans, domestic funds transfer, and other financial services that are needed by the economically active poor, micro, small and medium enterprises to conduct or expand their businesses as defined in the guideline for MFB in Nigeria.

Microfinance is a broad category of services, which includes microcredit. Microcredit is only about provision of credit services to poor clients; only one of the aspects of microfinance, and the two are often confused. Critics often point to some of the ills of micro-credit that can create indebtedness. Due to diverse contexts in which microfinance operates, and the broad range of microfinance services, it is neither possible nor wise to have a generalized view of impacts microfinance may create. Many studies have tried to assess its impacts.

[2] Proponents often claim that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is enhance financial inclusion (Wikipedia)

**Concept of Small and Medium Scale Enterprises**

The SMEs stands for Small and Medium Enterprises sometimes referred to micro, small and medium enterprises (MSMEs).

Small and Medium Scale enterprises varies with culture and peculiar circumstances of the person attempting the definition. The definitions in use depend on the purposes and the policies which govern the SME sector in a particular country. However, the three parameters that is generally applied by most countries, singly or in combination are: capital investment, volume of production or turnover of business.

According to Jamodu (2010) Small and Medium Scale Enterprises is defined on the basis of employment,

- Micro/cottage industries (1-10workers)
- Small scale industries (11-100workers)
- Medium scale industries (101-300workers)
- Large scale industries with (301andabove).

In Japan, small and medium firms secure capital up to one hundred million Japanese yen and less than 299 employees involve in manufacturing. The Nigeria Minister for Industry noted that “Enterprises employing less than 500 workers are generally regarded world wide as SMEs”. Based on the foregoing, the major component is the annexation of resources and over all contribution to the economic well being of developing nations across the globe. In a developing country like Nigeria, the importance of SMEs in the process of social economic development cannot be over looked. The importance of SMEs in the development of the country has been summarized in Nigeria third national development plan 1975-1980 as the generation of employment opportunities, stimulation of indigenous entrepreneurship, and facilitation of effective mobilization of local re sources including capital and skill as well as reduction in regional disparities (Rahanaty, 2018).

A microenterprise is a business that operates with very small start-up capital. The management is often built around the sole owner or micro-entrepreneur. It provides employment for few people mainly the immediate family members and does not often require formal registration to start.

The management and accounting requirements are very simple and flexible. Generally, most micro-entrepreneurs work informally, without business licences or formal records of their activities. The scope of economic activities of micro-enterprises typically includes primary production and crafts, value added processing, distributive trades and diverse services.

Moreover, in a country like Nigeria with an adverse Balance of payment situation, the growing contribution of the small scale industries sector in Nigeria’s export portfolio goes a long way in generating foreign exchange and smoothening out the adverse balanced of payment situation. This is important to the economy in that large percentage of their production inputs are sourced locally thus, reducing the pressure on the limited foreign exchange earnings and helping to eliminate some of the deficit in the balance of payment.

According to Obadeyi (2015), SMEs constitute the very basis of the national economy in terms of development of local technology, stimulation of indigenous entrepreneurship, mobilization and utilization of domestic savings, employment creation, structural balancing of large and small industry sectors in both rural and urban areas, supply of high quality intermediate products thereby strengthening the international competitiveness of manufacturer's goods, stimulate technological development and innovations, provide the capacity to expand export possibility and substitute import effectively.

Discovery has also shown that the expected role contribution by the large scale enterprise to the economy in terms of improvement in the GDP, employment generation, increasing local value added, technological development among others are been resolved by SMEs (Nwoye,2014).

**Microcredit and Microfinance**

Microcredit and microfinance are different terms and they differ in content, although the two terms are used interchangeably because they are related. Therefore according to the study conducted by Sinha (2004) states that "microcredit refers to micro loan, whereas microfinance is appropriate when involves NGO's and other financial institutions in the loan supplement along with non-financial facilities. And some argued that, microcredit is a component of microfinance which only involved in providing credit to the poor, whereas microfinance is far from that since it also provides non-financial service to un-served markets. Basically the primary social objective of microfinance is to reach under-served market both in urban and rural areas.

A microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household. The tenure of microfinance loans is usually within 180 days (6 months). Tenures longer than six (6) months would be treated as special cases. In the case of agriculture, or projects with longer gestation period, however, a maximum tenure of twelve (12) months is permissible and in housing microfinance, a longer tenure of twenty-four (24) months is permissible. In line with best practice, the maximum principal amount shall not exceed N500,000, or one (1) per cent of the shareholders fund unimpaired by losses and/or as may be reviewed from time to time by the CBN.

Microfinance loans may also require joint and several guarantees of one or more persons. There payment may be on a daily, weekly, bi-monthly, monthly basis or in accordance with amortization schedule in the loan contract.

**Features of Micro-Finance Institution**

1. The absence of asset based collateral before the advancement of the loans to the small-scale entrepreneurs.
2. It is very simple to operate and devoid of conventional banking administration bottlenecks.
3. The smallness of the loans advanced or savings collected make it easy for monitoring.
4. A micro credit fund is a pool of loan capital generated to support micro-entrepreneurs in their activities, generally with alternative collateral guarantees and a monitored repayment system.
5. The loans may serve as: working capital to cover day-to-day expenses; as see capital to start up a business; or as investment capital to purchase fixed assets.

**Problems of Micro-Finance Institution**

**i. High operating Cost:** Small Units of savings pose the challenge of high operating cost: Several loan applications to be processed, numerous accounts to be managed and monitored and repayment collection to be made from several locations especially in rural communities.

**ii. Repayment Problems.** Loan delinquency is a major threat to institutional sustainability, it is the deadly virus which afflicts MFIs. Delinquency demoralizes the staff and deprives beneficiaries of valuable services. Delinquency is a symptom of poor leadership.

**iii. Inadequate experienced credit staff:** to be viable, MFIs require experience and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFIs in Nigeria are on their first jobs. Inadequate experienced staff limits expansion and institutional performance.

- **i. Lack of re-financing facilities:** MFIs in Nigeria are not for profit entities with donors as sources of funds. Grants are hardly adequate to meaning fully scale-up out-reach.
- **ii. Internal control challenge:** Large transactions and informal operational approach pose serious internal control challenges. Operational procedures could be breached at disbursement and collection points High cash transaction which is a source of temptation for fraudulent practice.

**Sources of Capital for Small Scale Enterprises. (Existing firm)**

According to Osaze, B. K. (2011), firm use funds in the hope of increasing return of shareholders. These are various combinations of different types of securities issued by a company. The optimal capital structure is the blend or mix of these securities that ensures maximum potential value to owners of the company. There has been various usage of the mix or constellation of securities that must be admitted in to capital structure of firm. This means therefore that capital means different things to different people. To some, capital structure of a firm, this means therefore that capital means different things to different people. To some capital means ownership equity, investments analysis uses a broader view in analyzing the capital structure of a firm.
The following are the appropriate capitals
(i) Owners equity
(ii) Long – term creditor investment in firm of debenture or unsecured loans capital structure can be seen as the variable total book value of proportion of the following;
- All shares
- Loan capital
- Retained earning
- All other additions to outstanding capita in general, it seems to a proportional relationship between various form of long – term debt and equity.

**Sources of finance for a new firm**
Here's an overview of seven typical sources of financing for start-ups:

**1. Personal investment**

When starting a business, your first investor should be yourself—either with your own cash or with collateral on your assets. This proves to investors and bankers that you have a long-term commitment to your project and that you are ready to take risks.

**2. Informal sector**

Although the banking sector is the largest and most important source of external financing for SME, by and large, it is believed to be under-serving the needs of this sector. SMEs alternatively draw financing from a variety of sources. According to Organisation for Economic Co-operation and Development, OECD (2006), small firms rely proportionally more on non-bank sources of financing such as internal funds (savings, retained earning, family network) and the informal sector (money lender), as a result of their inability to produce the collateral requested by commercial banks (Satta, 2003). The informal sector is the main channel of credit for SMEs in African countries. According to RAM Consultancy Service (2005), informal sector channel fund up to 70-80 % of SMEs need in Viet Nam compare to 20-30 % funded by formal channel. Also, family and friends are said to be the main channel of funding because they provide the cheapest funds compared to either banks or money lenders. The latter which are not licensed entities charge exorbitant rate of up to 20% per cent monthly for unsecured loans. In Nigeria, it is common practice in the country for small business owners to organize themselves into cooperatives commonly called “Esusu”. Members of an Esusu would generally contribute a fixed amount daily, weekly or monthly, to be pulled and then collected in turns to fund their business or personal projects (Obadeyi, 2015).

**3. Loan and Overdrafts**

According to Ogujiuba et al (2014) the predominant credit facility available to small and medium scale business in Nigeria is bank overdraft, and short-term loans (asset based loans). There is scarcely a firm in the world that does not use overdraft facilities to manage its way through business cycles (CGAP, 2006). Banks prefer overdrafts and short term loans for the simple reasons that (i) they are easily rolled over, (ii) they attract almost market interest rates and (iii) they are fully collateralized. Firms always rely on overdraft to finance long-term investments, and these have to be fully collateralized. Moreover, the average interest rates are 23.5percent, similar to short-term bank loans. The difference in the average interest rate on overdraft between the very large firms and the micro firms is over 5 percent. This suggests that the interest rate differential reflects a risk premium and not just high cost of administering small loans (RPED/World Bank, 2002). According to ECA, (2001), even access to this overdraft and short-term loans are highly limited. In the survey carried out in Nigeria by the USAID (2005), approximately 70 percent of respondents utilizing commercial banks overdraft facilities with lower interest rates were required to pledge collateral in form of Land (48%), Building (31%), fixed asset, such as machinery (35%) and other assets (8%).

**4. Trade credits**

Trade credit is another source of external finance for most Nigerian SMEs. This is a short-term credit extended to companies by their suppliers, and by companies to their customers. However, this practice is not as widespread as it could be with trade credit being extended to only the most valued and trusted customers due to lack of confident in the legal system to enforce contracts (RPED, World Bank, 2002) . Conversely, trade financing/credit is more popular in Nigeria as most Nigeria financial institutions offer trade financing. Berger and Udell (2004), posit that trade credit are suitable for funding informational opaque SMEs and /or in countries with weak lending infrastructure. For instance, Ge and Qiu (2017) show that in China, a country with a relatively poorly developed formal financial sector, firms support their growth through trade credit financing. Fisman and Love (2013) also show that higher rates of industrial growth in countries with weaker financial institutions are associated with greater dependence on trade credit financing. This also affirms the survey conducted by RPED/World Bank, (2002), where 75-80 percent of their respondents in Nigeria reported giving or/ receiving trade credit. Trade credit is a profitable lending technology, with an annual interest rate of about 12-24%, still, one major fear why supplier and companies don't give trade credit to their clients is the distrust for legal and judiciary system.

**5. Leasing**

Globally, leasing is another widely-used service for SMEs, although the lack of leasing law is constraining development of this sector in Nigeria (Isern, 2014). Leasing is a loan on fixed asset (Desai et al, 2017) and it is also known as "ijarah" under the Islamic bank arrangement (Khan, 2018). According to Ahmad (2017), there are two kinds of ijarah contract used by the financial institutions in Nigeria. The first is the ijarah or true lease, which represents an exchange transaction in which a known benefit arising from a specified asset is made available in return for a payment, but where the ownership of the asset itself is not transferred. While the second type is higher purchase or lease and ownership. This is a lease whereby the lessee derived economic use and ultimate ownership on the nature of a higher purchase. Although leasing has a tremendous potential to address effectively the shortage of medium to long-term finance, in particular SMEs in Nigeria, it is however underdeveloped (RPED/World Bank, 2002). This is also the same in China where leasing companies and other non-financial companies‟ total asset account for around 1 percent of all financial sector assets (IFC, 2008). Although leasing can reduce risk effectively for credit institutions, but their growth are majorly hampered by various factors, including the lack of a coherent legal framework for leasing transactions; widespread problems of contract enforcement; difficulties in repossessing lease equipment from defaulters, and a lack of domestic long-term funds to finance leasing.(Isern, 2014 and RPED/World Bank, 2002).

**6. Love money (Patient capital)**

This is money loaned by a spouse, parents, family or friends. Investors and bankers considers this as "patient capital ", which is money that will be repaid later as your business profits increase.
When borrowing love money, you should be aware that:

- Family and friends rarely have much capital
- They may want to have equity in your business
- A business relationship with family or friends should never be taken lightly

**7. Venture capital**

Venture capital (VC) or risk capital is the name given to equity investment in businesses by outsiders who are not the main owners. Venture capital investments participate in the risk of success and failure of a business and because they face such risk, it is expected that they will look for high returns. Venture capitalist nurture enterprise in their early stages, typically when the marketing of the new product is launched UNIDO (1999) In contraction, OECD (2006) posits that venture capitalist often enter the firm at the middle to later stages of its life cycle. In all, venture capital fosters growth in companies through hands-on involvement in financing, management, and technical support. There are many venture capital schemes in many Nigerian.

In Africa, there is little experience of venture capital although there has been a start in some countries like like Nigeria. In their study, Dagogo and Ollor (2009) examine the use of venture capital (VC) financing for small and medium-scale enterprise (SME) development in Nigeria by comparing the economic value added (EVA) of venture capital-backed SMEs and those of non-venture capital-backed SMEs. They found that VC financed SMEs clearly outperformed non-VC-financed SMEs, and that the distinctive performance is the effect of management support by venture capitalists in their portfolio SMEs. According to USAID findings, most of the owners of the SMEs that were targeted by project of venture capital in Nigeria in 1980s had no desire to reduce their debts in exchange for partial ownership of the company, and moreover many companies either were unwilling or did not have the financial documentation needed by venture capitalist to assess realistically the potential for investment (UNIDO, 2009). Berlin (2018) says, venture capitalists take an active role in the management of the firm they fund and work in close collaboration with the stock market to take the firm they fund public. In this case, they place emphasis on the support they offer start-ups and the controls they might be granted as well as the exit strategy available. This exit strategy can be in form of trade sale or a public issue (IPO) (OECD, 2006). Venture capital funds are usually obtained from institutional investors, especially Pension funds, financial intermediaries and the corporate sector as well as official sector. Most venture capitalist can provide large sum of equity finance and also bring a wealth of expertise to a business, and it is easier to secure further funding from other sources if venture capitalist is successfully attracted. However its importance, one problem faced by venture capital is capital gain tax (OECD, 2006). Some firms' owners, apart from refusing to share their company with the venture capitalist, also see the requirements and processing of securing a deal with venture capitalist as long and complex.

The first thing to keep in mind is that venture capital is not necessarily for all entrepreneurs. Right from the start, you should be aware that venture capitalists are looking for technology-driven businesses and companies with high-growth potential in sectors such as information technology, communications and biotechnology.

Venture capitalists take an equity position in the company to help it carry out a promising but higher risk project. This involves giving up some ownership or equity in your business to an external party. Venture capitalists also expect a healthy return on their investment, often generated when the business starts selling shares to the public. Be sure to look for investors who bring relevant experience and knowledge to your business. (Kobla, 2016)

Micro finance banks (MFBS) has a venture capital team that supports leading-edge companies strategically positioned in a promising market. Like most other venture capital companies, it gets involved in start-ups with high-growth potential, preferring to focus on major interventions when a company needs a large amount of financing to get established in its market.

**8. Angels**

Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others. They are often leaders in their own field who not only contribute their experience and network of contacts but also their technical and/or management knowledge. Angels tend to finance the early stages of the business with investments in the order of #25,000 to #100,000. Institutional venture capitalists prefer larger investments, in the order of #1,000,000.

In exchange for risking their money, they reserve the right to supervise the company's management practices. In concrete terms, this often involves a seat on the board of directors and an assurance of transparency.

Business Angels (BAs) are wealthy individuals who invest in high growth businesses in return for equity (i.e. share of ownership). They are different from venture capitalist in that they tend to invest more on an "intuitive feeling" rather than based on the precise valuation of the term sheet of the company. BAs often play key important roles in the early stages of the life of the firm. They are individuals with experience, who have capital to invest and seek opportunities of all kinds among newer enterprises. They also play active roles in the development of products and management of the company in its early stage (OECD, 2006). Some BAs operate own their own, whereas others do so as part of a network, syndicate or investment club. Senegal and some African countries host business angels but they appear to be very few and information on their operation is hardly available (Zavatta, 2008).

Business angels in Nigeria are more likely than average to invest in SMEs owned by younger people whose age fall at 40 years and businesses that are majority owned by women. Findings also show that firms financed by business angels were likely to be trying to finance fixed assets (62 percent) than working capital (44 percent). This proves that business angels are more likely to be for expansion purposes rather addressing cash fall. Also, firms financed by business angels received debt financing on relatively better terms than other businesses (Riding, 2006). According to other research, business angels are associated with successful entrepreneurial firms that achieve relatively high rates of return (Riding, 2015). Although BAs have enormous impact on SMEs funding, they don't make investment regularly and may not be actively looking for an opportunity, so they may be difficult to find. They tend to place emphasis on their relationship and how well they can work with an entrepreneur, so tracking down one may take longer than expected.

**9. Business incubators**

Business incubators (or "accelerators") generally focus on the high-tech sector by providing support for new businesses in various stages of development. However, there are also local economic development incubators, which are focused on areas such as job creation, revitalization and hosting and sharing services.

Commonly, incubators will invite future businesses and other fledgling companies to share their premises, as well as their administrative, logistical and technical resources. For example, an incubator might share the use of its laboratories so that a new business can develop and test its products more cheaply before beginning production.

Generally, the incubation phase can last up to two years. Once the product is ready, the business usually leaves the incubator's premises to enter its industrial production phase and is on its own. Businesses that receive this kind of support often operate within state-of-the-art sectors such as biotechnology, information technology, multimedia, or industrial technology. Riding (2016)

**10. Government grants and subsidies**

Government agencies provide financing such as grants and subsidies that may be available to your business. The Canada Business Network website provides a comprehensive listing of various government programs at the federal and provincial level.

**Criteria**

Getting grants can be tough. There may be strong competition and the criteria for awards are often stringent. Generally, most grants require you to match the funds you are being given and this amount varies greatly, depending on the granter. For example, a research grant may require you to find only 40% of the total cost. Riding (2016).

**Generally, you will need to provide:**

- A detailed project description
- An explanation of the benefits of your project
- A detailed work plan with full costs
- Details of relevant experience and background on key managers
- Completed application forms when appropriate

**Most reviewers will assess your proposal based on the following criteria:**

- Significance
- Approach
- Innovation
- Assessment of expertise
- Need for the grant.

**Some of the problem areas where candidates fail to get grants include:**

- The research/work is not relevant
- Ineligible geographic location
- Applicants fail to communicate the relevance of their ideas
- The proposal does not provide a strong rationale
- The research plan is unfocused
- There is an unrealistic amount of work
- Funds are not matched

**11. Bank loans**

Bank loans are the most commonly used source of funding for small and medium-sized businesses. Consider the fact that all banks offer different advantages, whether it's personalized service or customized repayment. It's a good idea to shop around and find the bank that meets your specific needs.

In general, you should know bankers are looking for companies with a sound track record and that have excellent credit. A good idea is not enough; it has to be backed up with a solid business plan. Start-up loans will also typically require a personal guarantee from the entrepreneurs.

Across developing countries, micro, small and medium enterprises (SMEs) are turning to Microfinance Institutions (MFIs) for an array of financial services; this is because Microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development Goals (MDGs) which are: poverty and hunger reduction, universal primary education, reduction of child mortality, combating diseases, malaria and environmental sustainability (Mahjabeen, 2018). The reason is because access to sustainable financial services enables owners of micro enterprises to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2015). The primary objective of microfinance institutions (MFIs) is to provide financial services (credit and savings) to the poor in order to release financial constraints and help alleviate poverty (Godquin, 2014). According to (Wydick and Kevan, 2011), the provision of credit to the poor serves two purposes. First, as borrowed capital is invested in small enterprises, it often results in significant short-term increase in household expenditure and welfare. Secondly, microenterprises credit spurs economic growth in the informal sector through fostering increase capitalization of business, employment creation, and long-term income growth.

Micro finance banks (MFBS) offers start-up financing to entrepreneurs in the start-up phase or first 12 months of sales. You may also be able to postpone the principal payments for up to 12 months.

**The Role of Small and Medium Scale Enterprises In the Economy of Nigeria**

The government has recognized the role of small–scale enterprises has to play in Nigerian Economy inputting a firmly on a sustainable self reliance, integrated and poverty alleviating growth in the new millennium of the 21stcentury.

Owualah (2017) stated that the significance of Small–Scale enterprises is attributed to their influence in stimulating indigenous entrepreneurship and technology. It is through acting as a scatted or nursing usually for the indigenous population, which they serve as vehicles for industrialization and diffusion of innovative ideas for reaching dimension.

According to Kasiumu (2012), "no country which is desirous of rapid industrialization can afford to relegate the small and medium scale enterprises to the background. Nigeria in her early stages of industrialization the economy was dominated by traditional and small enterprises, which draw their strength not from the abundance of capital but from her supply of labour. Then labour was very cheap, they used what they have to acquire what they wanted. Japan recognized that Small and Medium Scale Enterprises constitute the fountain head vilify for her national economy and consequently their problem have been virtue of their number, diversity, penetration in all sector production and marketing, contribution of employment and to the prosperity of particular region.

Invention and innovation are among the foundation of any economy. Let us take United State of American for example, their increase in productivity over hundred years of their existence as a nation are rooted on one principle source less effort at a lower cost . This singular principle enhances productivity. According to the office management budget of the United State of America, more than 50% of the major technological advance and innovation originated with individual investors and small companies. They also provide linkage within the economy by producing cheap intermediate goods as input for large–scale enterprises simply because of low over head cost of production of small enterprises. From the foregoing role of small–scale enterprises could be succinctly summarized as follows;

- Stimulation of indigenous entrepreneurship
- Development of local technology
- Mitigation of rural urban migration
- Greater employment creation per unit capital invested.
- Promotion of effective recourse utilization
- Facilitation of managerial training for unskilled and semi–skilled workers
- Ability to meet the special need of small group of consumers
- Enhancement of regional economic balance through industrial disposal
- Small–scale enterprises constitute diverse organized activities

**Balance Scorecard Approach to Business Performance Management**

According to Kaplan and Norton, 2016, Performance evaluation is done by considering the company performance from these four (4) perspectives namely: financial perspective, customer perspective, internal process perspective, and learning and growth perspective. A more detailed description of each perspectives are as follows:

**1. Financial Perspective**

This focuses on the objectives and measures in all other balanced scorecard perspectives. Each measure must be part of a causal relationship, which in turn will be able to improve financial performance.

Mulyadi and Setiawan (2011) explains that the financial performance measures indicate whether the strategies, goals, strategic initiatives and implementation is able to contribute in generating profits for the company. Financial measure commonly manifested in profitability, growth and shareholders' value. Financial perspective can be measured through appropriate financial ratios financial statement profitability ratio, which is a tool to analyze or measure the level of business efficiency and profitability achieved by the companies concerned. Generally ratios used are:

**i.** **Return on Assets (ROA):** This ratio is used to measure the ability of management to obtain an overall profit through the use of its assets. It is the proportion of the earnings to the asset employed during production.

ii. **Return on Investment (ROI):** This measure is used to align the income generated by the investment level. This invariable means that it is the measure of the proportion of the amount earned as profit to the amount invested.

**Financial Perspective to Business Performance Management for Each Stage of Business Life Cycle**

For the application of the balanced scorecard to measure the performance of a financial perspective, the company needs to determine the strategic objectives relating to the company's ability to survive the financial sector, become successful and prosperous, and then determine the size of the results for each of these strategic objectives. Measurement used can be very different in each stage of the business life cycle. Kaplan and Norton (2010: 42-43) divide the business life cycle into three stages;

- **Growth:** This stage is the initial stage of the business life cycle. In this stage the company usually has a negative cash flow and return on capital is low, then the measurement used is the rate of growth of sales or revenues.
- **Sustain:** In this stage the company is expected to maintain existing market share and gradually grow year after year. Most at this stage the company will establish financial goals related to profitability. This purpose can be expressed by means of the size associated with the accounting profit as operating profit and gross margin. This measure assumes that the investment capital of a company is already fixed and asks the manager to maximize the revenue generated from the capital investment. In addition, at this stage the company was asked to not only manage the flow of income but also the level of investment capital invested. The measure is used to regularize the profit generated by the return on investment.
- **Harvest:** This is a stage in which the company gains from the investment made. This stage is achieved by firms in producing its products having reached saturation point. The company just invests in the maintenance and repair of facilities that have been owned. The overall financial objective for the business at this stage is the operating cash flow (before depreciation) and saving various working capital requirements.

**2. Customer Perspective**

In the perspective of the company's customers, the firm identifies market segments and customers where they will compete. A market segment that will be the source of a major component of financial goals, or it could be said that the market or sales are the backbone of the company's sustainability. Customer satisfaction in enjoying the products or services of the company is an important variable to assess the success of a company, because without the presence of the consumer, it is sure that the existence of the company will not last long. Customer perspective enables companies to identify and measure the proportion of the value to be given by the company to customers and target markets. Mulyadi (2011) states that the measure that can be used to analyse the success of achieving the strategic target customers are:

i. **Market Share:** Market share reflects the proportion of businesses owned by the company in a market segment. That is the portion of the target market that the business acquires in the midst of competition. The higher the market share, the higher the efficiency of the business.

ii. **Customer Acquisition:** Customer acquisition reflects the company's ability to attract or win new customers or business. It is important to attract more customers because the performance of a business can be measured by considering the amount of customers acquired.

iii. **Customer Loyalty:** Customer loyalty reflects the company's ability to sustain or maintain relationships with existing customers. It is important to acquire customers but it is more important to retain the customers so that they become loyal to the company’s brand.

iv. **Customer Satisfaction:** Customer satisfaction reflects the company's ability to satisfy its customers based on certain criteria such as producing products or rendering services that are of the right quality, right quantity, at the right time and right price. The company can also use the marketing mix that is the famous 4p’s or the extended 7p’s in a bid to satisfy its customers.

v. **Profitability Customer.** Customer profitability reflects the ability of the service to the customer or a specific market segment in generating profits. It should be noted that measurement of performance should always have an element of profit therefore; the performance of a business can be measured by looking into the rate at which the products produced to the customers yield profit to the firm.

**3. Internal Business Perspective**

This perspective refers to the work done in the organization. In this perspective the organization's performance is measured by how the organization is run and whether the organization can operate production or services effectively and efficiently. Kaplan and Norton (2010) explain that for internal business perspective, there are three main components, namely:

i. **The process of innovation:** In the process of innovation, business unit examines emerging customer needs that are still hidden, and then create a product or service that will meet those needs. Innovation process is divided into two parts: identifying market needs and create products or services to meet the needs of the market.

ii. **The process of operation:** Process operating companies show activities undertaken by the company begins from the receipt of a customer order and ending with the delivery of products or services to customers. This process focuses on the delivery of products and services to existing customers in an efficient, consistent and timely manner. Customers appreciate the grace period (lead time) of delivery most especially when it is favourable. A company must always measure cycle time and set goals for employees to reduce the overall production process cycle time.

iii. **The process of service:** This explains the process of service to the customer after the sale of products or services are performed. After-sales service activities include warranty and repair, and replacement of defective products that are returned and processing customer payments.

**4. Learning And Growth Perspective**

In this perspective, measurement of performance matters relating to human resources. There are three dimensions that must be considered in this perspective and they include:

i. **Information System Capabilities:** Measurement of the company can be done by measuring the percentage of availability of the information required by the employees and the customer, the higher percentage of availability of information on the cost of production and others serves as a basis for measuring the performance of such firm.

ii. **Motivation, Granting Privileges and Restrictions Authority Employees:** Measurements can be done through several dimensions, which are measurement of the advice given to the company and implemented on improving employee performance, and measurement of the limitations of the individual within the organization.

iii. **The ability of Employees:** Measurement of the ability of employees is dependent on three main points namely extent of employee satisfaction, extent of employee turnover in the company, and the extent of employee productivity. To determine the objectives and measures related to the ability of the employees the following must be noted:

iv. **Productivity of employees:** This is a measure of the results, the overall impact of efforts to increase employee morale and expertise, innovation, and customer satisfaction. The goal is to compare the output generated by the number of employees who were deployed to produce the output. There are many ways to measure labor productivity and one of the simplest measure of productivity is per capita income.

v. **Percentage Skilled Employee Training**: Coaching and development of human resources is a priority concern. This is done in an effort to increase competence in managing the management, so that employees can continue to grow and become skilled in their respective work units.

vi. **Employee satisfaction:** Overall job satisfaction is now considered very important by most companies and this is a pre-condition to improve productivity, quality responsiveness, and customer service. To achieve employee satisfaction, then the manager can conduct surveys on a regular basis. There are several elements of employee satisfaction about involvement in decisions (Oginni, et al 2013), namely recognition, access to information, active encouragement to creativity and initiative.

**5. Social Perspective**

For Small and Medium scale Enterprise (SME) there is a social aspect that should be added for performance assessment such institution. This addition is based on the argument that in order to measure the performance of an SME, we should not only consider the aspect of financial sustainability (balanced scorecard) of the organization, but also must consider aspects of improving the living standards of clients (social perspective) as a measure of the success of an SME's principal, including Cooperative Financial Services in it.

**Impact of Microcredit on Growth of Small and Medium Enterprises**

Microfinance credit can be considered to be one of the financial sources of SMEs. It plays a crucial role on poverty alleviation due to its contribution in the development of SMEs. For instance, SMEs sector in Nigeria is a source of income for over eight million people who present the majority of the Nigerian workforce (World Bank, 2016).

SMEs need capital injection to facilitate their operations and growth, but the existence of the financing gap requires microcredit to fill the gap. (Fisher, 2013) implies that success of microcredit has been achieved in alleviating poverty in developing countries. SMEs gain self employment, create job opportunities and women gain economic empowerment to meet their family needs. (Nichols, 2017) asserts that microcredit programmes have been promoted as among key strategies for poverty alleviation and women empowerment. Economic independence is gained by SMEs enabling them meet their basic needs. Microcredit programmes provides SMEs with access to networks and equipping markets to necessitate wider experience by individuals.

Microcredit programmes results in social benefits. Establishments of adult literacy programmes have been put in place to encourage business training. Providers of education gain earn income as they are employed to do so. SMEs that participate in literacy programs, places them in better position in decision making hence reducing chances of failure. (Hoque, 2018) shows that, many studies have been done in the past and reveal that micro credit improves capacity to cope with economic difficulties because there is a positive influence on the well being of borrowers. Despite the positive impacts of micro credit, there are arguments against microcredit.

Micro credit does not create assets for the poor and the very poor borrowers, but increases income to meet daily expenditure. To some it reduces assets due to the demand of repayment of loan as it is severe that borrowers are compelled to sell assets to repay loan.

**Credit Amount and SMEs Performance**

The amount of credit offered by the financial institutions may determine the performance of SMEs in terms of sales, liquidity and even the operating costs. This is supported by several researchers such as Oleka, *et al* (2014 UWFT, 2015; Wanambisi 2013). For example, Oleka, *et al* (2014) argue that the loan size positively influence the growth of SMEs. It was also argued that the business that receive adequate amount of loan frequently perform better than the ones that do not (Wanambisi, 2013) also argues that appropriate loan sizes for clients, matching SMEs needs influence the business sustainability.

**Interest Rate and SMEs Performance**

A well-developed microcredit system can help SMEs to access affordable credit services (Alhassan and Hoedoafia, 2016). The microfinance credit can be affordable to SMEs if the interest rate is low. Access to low interest rates has been attributed to a major factor that increases SMEs performance (Mwangi 2011, Kipkebut 2014). Similarly access to low loans increases SMEs risk bearing abilities, improve risk coping strategies and enables consumption smoothing over time.

**Collateral Requirement and SMEs Performance**

Collateral is defined as security for loans that it can protect the lender if the borrower default (Indersta and Mueller 2017). Studies cite that increase in firm’s collateral relax the credit constraints faced by the firm, facilitating the firm to borrow more (Wang, 2014). A well-developed microcredit system can help SMEs to access affordable credit services particularly if the collateral requirement is affordable (Wiklund, J. and Shepherd, D, 2016).

**Credit Repayment Period and SMEs Performance**

A well-developed microcredit system can help SMEs to access affordable credit services particularly if there are friendly repayment period options to repay the loan (Wiklund, J. and Shepherd, D, 2016). Mosley (2012) stated that “the short time frame reduces the risk of non-repayment to the bank, which can be reasonably certain that the business’s fortunes will not decline so far within such a short time period that it cannot repay the loan, while the bank will also be protected from long-term variations in the interest rate”.

## III. Theoretical Framework

**Theories on Micro credit and SME**

The aim of this section is to review theoretical literature related to microcredit. These theories seek to emphasize on the need of external funds as source of finance when internal funds do not sufficiently meet the needs of the firm. The theories are poverty alleviation theory and the trade off model.

The poverty alleviation theory is adopted owing to the fact that it emphasize the need to empower people most especially the poor through micro credit and other credit facilities towards venturing into SMEs of their choice.

**The Poverty Alleviation Theory**

The pressing need for rural economy is to create job for large unemployed and under employed labour force. It is customarily argued that jobs can be created either by generating wage employment or by promoting self-employment in non-farm activities. Creation of employment requires investment in small working capital. (Wahid, 2014) unfortunately income from other sources is so low that they cannot generate investible surplus on their own. Thus obtaining credit under certain circumstances can help the poor accumulate their own capital and thus improve their living standard through the income generated from investments.

**The trade – off Model.**

Different explanations provide the theoretical basis for the decision taken by firms in the respective areas on the justification for the choice of financing sources and the appropriate mix. The trade-off model postulates that the firm will aim at the optimal gearing levels that will balance the tax benefits of additional debt with the expected costs of financial distress as the level of indebtedness rises (Cunningham, Brierley, 2011; Bunn, and Drehmann, 2015). Considering non-tax benefits of debt such as information asymmetries between lenders and borrowers, managers may raise equity only when company's shares seem overvalued. Investors will consequently discount any new and existing shares when a new equity issue is announced. Crook et al, (2011) found out that firms' trade-off several aspects, including the exposure of the firm to bankruptcy and agency costs against the tax benefits associated with debt use. Firms are faced with higher cost of capital because of the increased risk of liquidation and thus they tend to avoid debt. However, firms use debt in order to enjoy tax benefits as a trade-off with the costs associated with bankruptcy and agency, and this implies that there is an optimal debt-equity ratio for the firm, which changes as benefits and costs alter over time (Modigliani and Miller, 2013). It is clearly evident that managers will opt for the mix of sources that minimizes the cost of capital but at the same time not exposing the entity to the factors that may adversely affect the going concern of the firm

## IV. Methodology

**Research Design**

This study employed descriptive survey. The descriptive survey design allows the use of quantitative research approach, the designs as purported by (Creswell, 2013; Zikmund, Babin, Carr and Griffin, 2010) allows the researcher to capture quantitative aspects of the study which provides an understanding of a research problem. Survey design is efficient in that many variables can be measured without substantially increasing the time or costs and ensures collection of data on current phenomenon.

**Population of the study**

Target population in statistics is the specific population about which information is desired. A population is a well defined or set of people, services, elements, events, group of things or households that are being investigated.

For this study, the target population included registered SME entrepreneurs in trade, services and manufacturing sectors. The target group was SMEs from selected markets in Lagos state who are traders, manufacturers and those in-service businesses. The population of SMEs in Lagos State cannot be effectively obtained because they are geographically dispersed.

**Sample Size**

According to Mulyadi and Setiawan (2016), the minimum sample size depends on the type a research involved. For a survey research, a sample of 10% to 30% of population is acceptable. This is concurrent with Lapoite (2013) who had similar observation. For this study the researchers selected 310 SMEs within Lagos. The study targeted traders, service providers and manufacturers in different market.

**Sampling Technique**

The convenience sampling method were use to select the SES that form the bases of the study.

**Data Sources and Method of Data Collection**

The data for this study were obtained from primary sources and secondary sources. The primary data was obtained through the administration of questionnaire to respondent. However, it should be noted that the review of related literatures which includes other research works, the publications in journals and text book were also used and this serve as the secondary source used.

**Variable Definition and Measurements**

The variables of this study as stated in the topic include Micro credit finance, SME financial performance, learning and growth, internal business and customers perspective. Each of the variables was further broken down into simple sub variables and questions asked to address them.

The relationship can be mathematically expressed thus:

$\mathbf{Y\ (_{fp,\ cp,\ ib,\ lg,}) = f\ (X_{cg})}$

Where Y represents the dependent variables which are fp (SME financial performance), ib (internal business), ig (internal growth) and cs (customer perspective)

X represents the independent variable i.e Micro credit finance

**Reliability and Validity of the Instruments**

Reliability refers to the consistency of measurement and were assessed using the test retest reliability method. In order to obtain reliable data; the researcher designed a questionnaire through a series of revisions under the guidance of the supervisor to ensure high quality data collection. To measure reliability, the researcher used a checklist of questions to get data consistency and completeness from respondents. Validity is the measure of accuracy of the data given by the respondents. The data collection instrument was designed in a way to measure the opinions and attitudes of respondents. Few respondents were interviewed by the researcher to validate answers given in the questionnaire. Questionnaires were validated by the help of the supervisor.

The research instrument used in the collection of data is the questionnaire. Questionnaires were administered to every member of the sample selected. The questionnaire was divided into sections A and B, Section A relates to the personal characteristics (biography data) of respondent while section B addressed relevant questions concerning the variables. The variables were ranked using the 5-point Likert scale format. The five point Likert scale avail participants or respondents the opportunity to select from a range of options like - Strongly Agreed, Agreed, Undecided, Disagreed and Strongly Disagreed.

**Technique of Data Analysis**

In this research, primary data from questionnaires was used. The primary data played a major role since SMEs do not have reliable financial data. Quantitative data from closed ended questions was coded by assigning numerical values to differentiate the categories. Before processing the responses, the completed questionnaire was edited for completeness Data was then analyzed using statistical package for social sciences (SPSS). Demographic data obtained was summarized using descriptive (frequencies and percentages) and the findings were presented using frequency tables. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. The information was displayed by use of tables. The level of significance was measured using multiple regression model and Pearson Coefficients correlation and to determine the direction and strength of relationship between dependent variable and independent variables. The computer statistical package for social science (SPSS) software was used for this purpose.

## V. Test Of Hypothesis

**Table 1:** Correlations (Hypothesis One).

**$H_0$: There is no significant effect of micro credit facility on SME financial performance.**

**Correlations**

| | | Micro Credit Facility | SME financial Performance |
|---|---|---|---|
| Micro Credit Facility | Pearson Correlation | 1 | .886** |
| | Sig. (2-tailed) | | .000 |
| | N | 280 | 280 |
| SME Financial Performance | Pearson Correlation | 0.886 | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 280 | 280 |

**. Correlation is significant at the 0.01 level (2-tailed).

**Decision rule:** Reject $H_0$ if Pearson correlation calculated value is less than 1, Accept $H_0$ and reject $H_1$ if the calculated value is equal to 1 or greater than 1 at (0.01) significant level (2-tailed).

**Conclusion:** Since the Pearson correlation calculated value is 0.886 and is less than 1 at, 0.01, we reject $H_0$ and conclude that there is a significant micro credit facility on SME financial performance at (0.01) significant level (2-tailed).

**Table 2:** Correlations (Hypothesis Two).

**$H_0$: There is no significant effect of micro credit facility on SME learning and growth.**

**Correlations**

| | | Micro Credit | SME Learning and Growth |
|---|---|---|---|
| Micro Credit | Pearson Correlation | 1 | .917** |
| | Sig. (2-tailed) | | .000 |
| | N | 280 | 280 |
| SME Learning and Growth | Pearson Correlation | 0.917 | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 280 | 280 |

**. Correlation is significant at the 0.01 level (2-tailed).

**Decision rule:** Reject $H_0$ if Pearson correlation calculated value is less than 1, Accept $H_0$ and reject $H_1$ if the calculated value is equal to 1 or greater than 1 at (0.01) significant level (2-tailed).

**Conclusion:** Since the Pearson correlation calculated value is 0.917 and is less than 1 at, 0.01, we reject $H_0$ and conclude that there is a significant effect of micro credit facility on SME learning and growth at (0.01) significant level (2-tailed).

**Table 3:** Correlations (Hypothesis Three).
$H_0$: There is no significant effect of micro credit facility on firm's customers' performance

**Correlations**

| | | Micro Finance Credit | Firm's Customers' Performance |
|---|---|---|---|
| Micro Finance Credit | Pearson Correlation | 1 | .868** |
| | Sig. (2-tailed) | | .000 |
| | N | 280 | 280 |
| Firms Customers' Performance | Pearson Correlation | 0.868 | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 280 | 280 |

**. Correlation is significant at the 0.01 level (2-tailed).

**Decision rule:** Reject $H_0$ if Pearson correlation calculated value is less than 1, Accept $H_0$ and reject $H_1$ if the calculated value is equal to 1 or greater than 1 at (0.01) significant level (2-tailed).

**Conclusion:** Since the Pearson correlation calculated value is 0.868 and is less than 1 at, 0.01, we reject $H_0$ and conclude that there is a significant effect of micro credit facility on firm's customers at (0.01) significant level (2-tailed).

**Table 4.4.4:** Correlations (Hypothesis Four).
$H_0$: There is no significant effect of micro credit facility on SME internal process

**Correlations**

| | | Micro Finance Credit | SME Internal Process |
|---|---|---|---|
| Micro Finance Credit | Pearson Correlation | 1 | .845** |
| | Sig. (2-tailed) | | .000 |
| | N | 280 | 280 |
| SME Internal Process | Pearson Correlation | 0.845 | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 280 | 280 |

**. Correlation is significant at the 0.01 level (2-tailed).

**Decision rule:** Reject $H_0$ if Pearson correlation calculated value is less than 1, Accept $H_0$ and reject $H_1$ if the calculated value is equal to 1 or greater than 1 at (0.01) significant level (2-tailed).

**Conclusion:** Since the Pearson correlation calculated value is 0.845 and is less than 1 at, 0.01, we reject $H_0$ and conclude that there is a significant effect of micro credit facility on SME internal process at (0.01) significant level (2-tailed).

**Summary of Findings**

This research work was undertaken to address the effect of micro credit finance SME performance. The following were derived from the data obtained from representative samples through carefully administered questionnaire that were analyzed accordingly.

There is a strong significant relationship between micro credit facilities and SMEs financial performance. The Return on equity, which measures the profitability of shareholders investment and shows the net income as a percentage of shareholders' equity, as well as the returns on assets recorded in the selected firm when they have facilities from the micro finance bank as against when they do not have indicated that there is a relationship between microcredit finance and SMEs financial performance.

The finding from the second hypothesis indicated a 0.917 which means there's a strong significant relationship between micro credit finance and SMEs learning and growth. It is found that SMEs need financial aid to be able to get the technology needed to operate at a global level. Micro finance offers various packages that can help the entrepreneur learn and grow their businesses from time to time.

There is a strong positive relationship between credit facilities and customer performance in of the SME examined. This means that customers performs better when they have financial or trade benefits from the SMEs and this can only be possible when the SMEs have the fund to render those incentives.

The finding from the fourth hypothesisindicateda0.845 which means there's a strong significant relationship between micro credit finance and SMEs internal process. The internal process which include and not limited to employees relationship, employee performance compensation, quality of work life and so on. Is very much dependent on how the firm can manage the financial resources at it disposal. "Money answers all things", they say. When there is enough funds for the entrepreneur, he can as well provide better working condition and environment to all stakeholders and ease firm operations.

## VI. Conclusion

From the analyses, it can be concluded that micro credit finance affects the business performance of small and medium enterprises in Lagos state. The mode of operations, technology, customer relations, learning and growth, quality of work life and work environment all improves when there is adequate use of cheap finance which can be provided by micro finance banks. According to the study of Adegoke (2018), the affirms that entrepreneur can exhibit their skills more on a global level when they have enough resources to do so and financial resources cannot be overemphasized.

## VII. Recommendation

Based on the following findings of this study the following recommendations were made:

- The study recommends that the management of micro finance banks should take into consideration on interest rate and particularly on how to lower the interest rates. This will enable the management to create a comprehensive understanding that can be leveraged to influence more SME's to take up loans and thereby increase financial performance.
- The government should come up with rules and regulations to prevent the customers from being exploited through high interest rates and other incidental fees. This will enable more customers to take up loans thereby expanding their SME's businesses.
- Management banks and other key players in monetary sectors should formulate better of policies that are favorable to small and medium enterprises to enable them access credit facilities easily.

**Suggestions for Further Study**

Based on the conclusions, the study recommends the following: The microfinance institutions consider entrepreneur orientation training while disbursing credit. The trainings should target SME entrepreneurs who do not have entrepreneurial skills and should help the SMEs not only in the process of setting up new businesses, but also acquaint them with skills to identify new marketing possibilities including familiarizing them on the various statutory requirements such as Income Tax, VAT etc.

The study focused on the effect of microfinance credit factors (credit amount, interest rate, collateral requirement, credit repayment period and entrepreneur orientation) on SMEs financial performance. The key shortcomings while conducting the study was time limitation, delayed responses and inadequate finances. The target population of the study was limited to SME owners within Lagos State. This study would have been carried across the whole country because SMEs are spread throughout the country

The study recommended the following areas for further research given their inconclusive findings namely: Effect of credit repayment period on SMEs financial performance; and Effect of credit interest rates on business cash flows and business financial costs. The study also recommends the need to conduct further studies countrywide to establish commonalities and differences in the effect of microfinance credit on SMEs financial performance in order to generalize the findings. The findings cannot be generalized using Lagos only. In addition, the study recommends that further similar studies among larger enterprises be conducted in order to find out the effect of credit on performance of these businesses. This would contribute to the body of knowledge since that knowledge is missing

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**APPENDIX**
**QUESTIONNAIRE**

**SECTION A: BIO DATA**

Instruction: please tick ( ) the appropriate option and fill the spaces provided

1. **SEX**: Male ( ) Female ( )
2. **AGE**: under 20years ( ) 20years under 30years ( ) 30years under 40 year( )
 40years under 50 ( ) 50years and above ( )
3. **MARITAL STATUS**: Single ( ) Married ( ) Others ( )
4. **QUALIFICATION**: SSCE ( ) ND or Equivalent ( ) BSC/HND ( )
 Other ( )
5. **WORKING EXPERIENCE**: under 3years ( ) 3 years under 5years ( ) 5years under 10years( )
 10years and above ( )

**SECTION B**: **INDICATE THE EXTENT AT WHICH YOU AGREE OR DISAGREE WITH EACH OF THE STATEMENTS**.

**Using: Strongly Agree = SA Agree= A Undecided= U Disagree = D Strongly Disagree = SD**

| | | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|---|
| **SN** | **QUESTIONS** | **SA** | **A** | **U** | **D** | **SD** |
| | **Micro Credit Finance** | | | | | |
| 1 | The interest rate on microfinance credit is low | | | | | |
| 2 | The interest rate is fair and affordable | | | | | |
| 3 | The interest rate on loan does not significantly decrease the business cash flows | | | | | |
| 4 | The legal requirements to justify the ownership of the collateral are affordable | | | | | |
| 5 | The collateral value is affordable | | | | | |
| 6 | The collateral value is not the key requirement for the business to qualify for microfinance credit | | | | | |
| 7 | The credit repayment period is favorable to the business | | | | | |
| 8 | The time given to repay the loan allows the business to accumulate the required amount of cash | | | | | |
| 9 | The time given to repay the loan does not negatively influence the business cash flow | | | | | |
| 10 | The duration of loan repayment is flexible | | | | | |
| | **SME Performance** | | | | | |
| 11 | My firm can meet up with the demand placed on our product | | | | | |
| 12 | The service method needs to be addressed so as to increase the productivity in my firm | | | | | |
| 13 | Our service is better than that of competitors in term of best quality | | | | | |
| 14 | With the rate of improvement in my organization we can be the best around. | | | | | |
| 15 | The net profit earned is sufficient | | | | | |
| 16 | The number of employees have increased | | | | | |
| 17 | The volume of inventory purchased from suppliers on cash basis have increased | | | | | |
| 18 | Sales have increased | | | | | |
| 19 | The number of customers have increased | | | | | |
| 20 | The complaint by customers has reduced in recent time | | | | | |

IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

* Adewuyi Titilayo. " An Appraisal of the Impact of Micro Credit Finance on the Performance of Small and Medium Enterprise ". IOSR Journal of Business and Management (IOSR-JBM), Vol. 21, No. 7, 2019, pp. -.06-24