Evaluation of the Nigerian Microfinance Banks Credit Administration on Small and Medium Scale Enterprises Operations

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Abstract

The micro finance policy, regulatory and supervisory framework released by Central bank of Nigeria (CBN 2005) has put the accountants, managers and players in the microfinance sector in Nigeria on gear so as to meet the requirement for minimum capital base, increased profit performance, better liquidity position, increased volume of deposits and effective customer's service delivery. The main thrust of the policy frame work was to purvey credit to the poor and the low income group. However the recent CBN report (2011) on poor performance of MFBs has put the capacity of the banks on enquiry as to micro credit delivery. The extent to which the SMEs have benefited from the credit scheme of MFBs has not received much attention in the literature. The study attempted to evaluate the convenience at obtaining credit, adequacy of the credit supplied relative to demand, timeliness of credit to operation, and cost of credit as a component of total overhead to selected SMEs located in Osun state of Nigeria. Data were collected through Questionnaire administered on SMEs as well as the annual reports and accounts of the selected MFBs. Analysis of the data and hypotheses tested showed positive and significant relationship between microcredit delivery service of selected MFBs and SMEs performance. However most MFBs seem to be competing with the commercial banks in universal banking rather than the microfinance banking they were purposely established to undertake. This manifested in the hesitation of credit to SMEs for fear of repayment. The study is expected to be useful to policy makers and players in the micro finance sub sectors of the economy.

Keywords: *MFBs, Microcredit delivery, Microfinance, SMEs, Credit Administration.*

Introduction

Micro financing is the provision of financial services to poor and low income households without access to formal financial institutions (Conroy, 2003). Microfinance is described also as banking for the poor. They are different from commercial banks because, they have limited banking services directed primarily to a designated catchments area or group. The major purpose of Micro Finance Banks is to direct attention of purveying credit to low income group and Micro, Small and Medium Enterprises (MSMEs). A major characteristic of small and medium enterprises (SMEs) worldwide is that they are generally managed by their owners either as sole proprietorship or partnership (Adamu, 2005).

The Microfinance Banking concept is an extension of the old community banking system. With the establishment of community banking system the Micro Small and Medium Enterprises access to credit had greatly improved (Akanji 2006; Oladejo 2008). Lemo (2007:34) described Micro finance banking as one of the prime strategies for achieving millennium Development Goals (MDGs), particularly targets that relate to poverty eradication, gender equality and the empowerment of the disadvantaged groups. Akanji (2006) identified three features of microfinance making it different from other financial products as smallness of Loans advanced and or savings collected, absence of asset based collaterals and simplicity of operations.

According to Rolando (2010), microfinance is a good way of supporting entrepreneurs. It provides poor borrowers with access to sustainable livelihood through zero or very low interest loans. However, Jegede (2011) observed that entrepreneurs prefer personal saving and cooperative credits to microfinance banks and commercial banks fund citing reasons of non accessibility, prohibitive collaterals and high interest rates barriers. The dismal performance of the conventional finance sectors triggered the advocation of micro financing by policy makers, practitioners, and international organizations as a tool for poverty reduction according to Mejeha and Nwachuckwu (2008)

The experience of micro- finance lending in Nigeria had not been quite successful from the formal model approach as observed Arogundade (2010). This is in line with the CBN Report (2005) that the formal financial system provides services to about 35% of the economically active population while the remaining 65% are often served by the informal sector (CBN 2005). The microfinance policy recognizes these informal institutions and bring them within the supervisory purview of the Central Bank of Nigeria (CBN).The total registered MFBs in Nigeria as at the end of 2011 stood at 993 (CBN web 2012, NDIC 2012) indicating presence in all the 774 local government in Nigeria. Provision of credit to SMEs is expected promote economic development and growth. Despite the efforts of government in the area of credit delivery to SMEs in the country, these micro enterprises have continued to be denied access from the formal financial institutions (Dada and Salisu 2008). Thus, many critics show that microfinance does not reach the poorest of the poor (Scully, 2004), or that the poorest are deliberately excluded from microfinance programs (Simanowitz, 2002). In addition, it has been argued that the size of the needed loan often exceeds the maximum amount that can be borrowed from microfinance institutions. Theoretically it is thus unclear whether microfinance really helps to reduce poverty.

According to Orodje, (2012), prior to CBN’s intervention, Microfinance in Nigeria was taking a swift decline into the abyss. The sector was riddled with fraud and mismanagement of funds. Some of the mismanagement may have been down to a lack of understanding of Microfinance by the senior managers in some of the Microfinance Banks. This assumption was corroborated by MFB’s renting lavish offices, providing their senior personnel with salaries and benefits similar to those offered by larger commercial banks. The latent capacity of the poor for entrepreneurship would be significantly enhanced through provision of micro finance services to enable them engage in economic activities (such as small and medium enterprises) and be more self reliant, increase employment opportunities, enhance household income and create wealth (CBN, 2005).

The establishment of Micro-finance banks as an effort by the government to improve the access to loans and savings services for poor people is currently being promoted as a key development strategy to enhancing poverty eradication and economic development (Shreiner, 2005). Micro finance policy depends heavily on the availability and provision of finance. Abimiku (2000) asserted that finance is the main pre-occupation of banking industry that brings together the factors of production such as land, labour and enterprenuer into action. According to Babgana (2010) there is no doubt that SMEs need assistance through Micro-Finance Banks to become sustainable and competitive. The promotion of SMEs has been carried out by subsiding credits, providing preference treatment and targeting locations and business. However, the Nigerian microfinance industry is still in its infancy, serving an estimated 1 million out of the estimated 40 million people the industry could be serving as observed Mohammed (2008). MFIs emerged after the wildly popular informal financial sector was well established and currently co exists with this informal sector.
Therefore, empirical studies need to provide more evidence on the impact of microfinance. The extent to which the Nigerian Microfinance banks (MFBS) microcredit programs have benefited the micro entrepreneurs is worthy of investigation and form the thrust of this study.

Statement of the Problem

Microcredit programs are expected to increase self-employment profits, reduce poverty, creates jobs, enhance growth of indigenous firms and hence via this channel improve household welfare. In spite of the positive impact of Micro finance banks to the nation's economy, many of the disadvantaged and economically active poor remained financially excluded as put NDIC Report 2012). Many micro entrepreneurs still lack access to credit thereby impeding economic growth and development. The main thrust of the policy frame work of the Nigeria micro finance policy was to purvey credit to the poor and the low income group. However, the recent Central Bank of Nigeria (CBN 2011) report on poor performance of MFBs has put the capacity of the banks at micro credit delivery on enquiry. This poses threat to the objective of the microfinance policy on the provision of credit to Small and Medium Scale Enterprise (SMEs). The extent to which the SMEs have benefited from the credit scheme of the Nigerian Micro finance Banks (MFBs) is worthy of exploration. This study remains germane by appraising the credit administration of the Nigerian Microfinance banks between 2008 and 2012 especially the trend in the proportion of loan advances to SMEs as well as ease of access, convenience, adequacy of credit supplied, timeliness of credit to operation, and cost of credit as a component of total overhead. The following questions are expected to be answered in course of the study:

- What is the impact of MFBs credit administration on SMEs operations?
- How do the SMEs perceive the credit administration of MFBs?
- What are the challenges of credit access to MFBs fund by the sampled SMEs?

Study Hypothesis

HO: There is no significant difference in the SMEs perceptions of MFBs credit administration on the operations of SMEs

Apart from section one that introduced the paper, the rest of the paper is divided into four segments: section two discussed the literature review and conceptual clarifications, section three on the methodology adopted in the study, section four discusses the results and findings, while section five concludes the paper and recommendations were made thereafter for the robustness of the authors position.

Literature Review and Conceptual Clarifications

Relevance of Microfinance Institutions (MFIs) in Nigeria

Microfinance programmes provide loans, savings and other financial services to low-income and poor people for use in small businesses. Originally based on traditional forms of community financing (a cross between finance and development assistance), microfinance is found all over the world in places such as Africa, Latin America and Asia. Informal microfinance systems predated the formal microfinance sector in Nigeria and remain in existence. There are several forms of informal finance in Nigeria including the Moneylender or Pawnbroker who are individuals that extend credit, usually with excessively high interest rates. Unpaid loans may result in the surrender of land, assets, or a form of indentured servitude on behalf of the debtor. Others are Personal Savings at Home where money is kept at home, Informal Savings and Credit (Esusu). These informal microfinance associations (often referred to as Rotating Savings and Credit Associations or RoSCAs) are operated by various ethnic groups both in urban and rural locations and resemble savings and loan institutions which provide benefits to members only. The association works by mandating that all members contribute to a pooled fund periodically. The pooled funds are then partially or entirely distributed to a member in rotation once the funds reach a certain amount. RoSCAs can be traced back to 16 century in Nigeria and are best thought of as a form social capital. The institution is extremely popular in Nigeria and the majority of adults belong to at least one association. As far back as 1984, an estimated 12.25 million adults were involved in esusu. RoSCAs have several different tribal names. The Yoruba ethnic group refers to it as Esusu or Ajo, Igbos refer to it as Isusu or Uto and the Hausa call Adashi'. (Anyanwu 2004, Basu et al 2004, Alabi et al 2007, Onaolapo and Oladejo 2011)

The microfinance movement began in earnest in the early 1980s in places like Bangladesh and Bolivia and has, over the last three decades, captured the interest of multilateral donor agencies and private sector bankers.

The claim of Hulme (2000) that MFIs are not a cure for poverty is doubtful and may need further clarifications. This is because of conflicting literature evidence that MFIs could create and provide a broad range of micro financial services that would support poor people in their efforts to improve their own prospects and the prospects of their families (Akanji 2006; Akintoye & Oladejo 2008). Further to this is the assertion of Mohammed and Hasan, (2008) that there were over 7000 micro – lending organizations providing loans to more than 25 million poor individuals around the globe. The Nigerian microfinance industry has come a long way. It boasts of the entire four well - known models in the industry. A CBN study identified, as of 2001, 160 registered Microfinance Institutions (MFIs) in Nigeria with aggregate savings worth N99.4 million and outstanding credit of N649.6 million, indicating huge business transactions in the sector (Anyanwu, 2004). With a population of about 150 million and GDP per capita of $641 (in 2006), two – thirds of Nigeria's people are poor. Nigeria has the third highest number of poor people in the world. Most of these people are dependent on micro and small – scale farm and off – farm enterprises for their livelihood (UNDP, 2007).

One of the challenges microfinance currently faces in Nigeria is for the MFIs to reach a greater number of the poor. The CBN survey indicated that their client base was about 600, 000 in 2001, and there were indications that they may not be above 1.5 million in 2003. The existing microfinance in Nigeria serves less than 1 million people out of 40 million potential people that need the service (CBN, 2005). Furthermore the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy. Another challenge is that most of microfinance funding goes to the commercial sector to the detriment of the more vital economic activities, especially agricultural and manufacturing sectors which provide the foundation for sustainable growth and development. Currently, only about 14.1 and 3.5 per cent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 percent, funded commerce (Anyanwu, 2004). About 90% of Nigeria's businesses are considered microenterprises and these farm or non-farm activities serve as the main income source for the majority of the labour force. Due to the unwillingness or inability of commercial banks to provide financial services to the urban and rural poor, coupled with the unsustainability of government-sponsored development financial institutions and programs, most micro entrepreneurs still access financial services from informal sources, including savings and credit associations, traders, or moneylenders. Semi-formal and formal providers of microfinance are a small but rapidly growing part of the financial sector in Nigeria with a handful of large, microcredit NGOs and locally-owned community banks providing the bulk of services.

The major providers of microfinance capital include commercial banks and development finance institutions (DFI) such as the Nigerian Industrial Development Bank (NIDB). As of June 2004, commercial banks had invested N10 billion out of a possible N24 billion that these banks have collectively set aside to invest in micro enterprises (Anyanwu, 2004). The DFIs have been largely unsuccessful due principally to the government's severe reduction in funding to these institutions. Arogundade (2010) opined that the conventional retail banking system might not be able to provide required form of loan facility to meet the peculiar needs of the Nigeria Small and Medium Enterprises (SME), considering so many factors such as collateral and security adequacy, administrative processing bottlenecks, high cost interest rates on loans and so on. Zohir and Matin (2004) developed a theory that microfinance can have spillover effects to many aspects of the community such as transportation and health. Mushtaque, Chowdhury and Mosley (2004) suggest that MFIs have broad impacts like stabilizing volatile financial sectors, using derived demand to increase employment, and providing institutional inspiration. But Mohammed and Hasan (2008) observed that as microfinance continues to grow as an alternative source of funding certain challenges must be overcome. These include MFIs tendency to charge interest rates even higher than that of commercial banks which tends to discourage borrowers; MFIs tendency to aggravate the income gap by lending at rates from 30% to 100% while paying out a paltry 4.5 – 6% interest annually. In addition, lending tends to be made largely to the commercial sector at the expense of poorer individuals in the agricultural industry (majority of Nigerians). Nearly 65% of the population (85 million) is considered unreachable in that existing MFIs have been unable to adequately address their financial needs. Managers of MFIs may also have incentives to avoid the very poor since their goals are to be sustainable, and the poor are more costly to serve than those nearer to the poverty line (Murdoch and Armendariaz 2005).

Nnanna (2003) acknowledged that, small and medium scale enterprises are considered generally as the bedrock of the industrial development of any country. Apart from the numerous goods produced by SMES, they provide veritable means of large scale employment, as they are usually labour intensive Despite the efforts of Nigeria government in the area of credit delivery to SMEs in the country, these micro enterprises have continued to be denied access from the formal financial institutions (Dada and Salisu 2008.). This has made for increasing rate of poverty in Nigeria based on the poverty assessment study commissioned and sponsored by the World Bank in 1995. The study showed that poverty level in Nigeria has been extremely high with about two thirds of the population living below the poverty line in 1996. This situation is further confirmed by the National poverty eradication programme (NAPEP 2010) that about 70% of Nigerians were poor. The world Micro credit summits Declaration of February 1997 in its overview of micro credits and its capacity to empower poor people to end their poverty noted that micro credit programmes extend small loans to the poor people for self employment projects that generate income allowing them to care for themselves and their families.

Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country. Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: .esusu. among the Yorubas of Western Nigeria, etoto for the Igbos in the East and adashi in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria and also operate in the urban centres (Otu *et al*, 2003). The non-traditional, formalized microfinance institutions (MFIs) are operating side by side with the informal services. The financial services provided by the MFIs in Nigeria include savings, credit and insurance facilities.

The new change in the perception of micro credit delivery service might have been the basis for the establishment of microfinance banks in Nigeria. Soludo (2005) opined that an overview of the performance of the SMEs in Nigeria shows that past policies made limited impact on the Micro enterprises sector. For instance it is estimated that SMEs account for about 70% of the total industrial employment in Nigeria, but contributed only 10-15 percent of the total manufacturing output. The constraints of the SMEs sub-sector were attributed to include poor access to long term credit. That is why Adelaja (2006:2) thought the present consolidation of the banking industry though desirable but more of threat than opportunity for MSMEs. Anwatu (2006:3) said that 75% of the private sector is dominated big Small and Medium Enterprises (SMEs) reiterating that organized private sector (OPS) is the engine of growth and creator of wealth and employment, while Eke (2007:31) argued that MSMEs account for over 93 percent of the total entrepreneur in Nigeria.

The Nigeria Micro Finance Banks (MFBs): Origin and Benefits

The launching of microfinance policy, regulation, and supervisory framework guideline by the Central Bank Nigeria 2005, is a major land mark in the history of micro credit delivery service in Nigeria. One of the policy thrusts, according to Asuquo (2005:16) was the emergence of large number of private-sector initiated Micro finance banks (MFBs) across the country, either through converting existing community banks, transforming the existing NGO-MFIs or promoting fresh micro finance operators. The basic concept underlying the emergence of microfinance banks is community oriented. One of the reasons for the microfinance policy was the deficiency in the existing microfinance outfits of the federal government. For example in the utilization of the SMEEIs fund. As at December 2004, only 8.5 billion (29.5%) of the N28.8 billion Small and Medium Equity Investment Scheme (SMEEIs) fund had been utilized. Moreover, 10% of other fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institution that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of fund. Other evident facts are weak institution capacity, weak capital base, existence of huge un-served market, economic empowerment of the poor, employment generation and poverty reduction, the need for increased saving opportunity and the interest of local and international communities in Micro financing (CBN 2005). Nigeria's microfinance industry has grown terrifically due largely to the growing informal business sector and the reluctance of banks and other existing financial institutions to fund these emerging small businesses.

In order to enhance the flow of financial services to micro, small and medium enterprises in the country, the Federal Government of Nigeria (FGN) launched the new Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) in December, 2005. The MPRSF aimed among other things to bring the existing informal institutions under supervisory purview of the Central Bank of Nigeria (CBN). By doing this, monetary stability in the country is enhanced and financial infrastructure of the country is expanded to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs) in the country (CBN, 2005). The policy is also meant to address the problem of lack of access to credit by small business operators.

Ogunrinola and Alege (2008) carried out a study to ascertain the impact of a UNDP- sponsored microcredit programme in Nigeria on microenterprise development. They found variables such as pre-loan training and entrepreneur level of education impact significantly on microenterprise development. Bekele and Zekele (2008) also investigated long term survival of microenterprise finance by microfinance institution, they concluded that enterprise that did not participate in such schemes regularly are 3.25 times more likely to fail in comparison with businesses that participated regularly. The methodology employed in these two papers mentioned above, however, does not help understand if and how microfinance contributed to credit market development. The focus of this paper is not on the impact of a single MFI but on evaluating whether the microfinance industry, through its many institutions, improved local credit markets. This study contributes to the literature by studying whether Microfinance Banks (MFBs) collectively serving a local market improved credit access of the entrepreneurial poor. The rest of the paper is divided into four sections. In section II, relevant theoretical and empirical studies are reviewed while the methodology of the study is explained in section III. The findings of this study are presented in section IV while section V contains the concluding remarks.

Babajide (2011b) applies the financing constraints approach to study whether microfinance institutions improved access to credit for microenterprises in Nigeria or not. According to this approach, microenterprises with improved access to credit rely less on internal funds for their investments. Thus, investment sensitivity to internal funds of micro enterprises in Lagos State (a municipal with significant presence of Microfinance Banks (MFBs) was compared to that of micro enterprises in Ekiti State (a municipal with no (or limited) presence of MFBs) using a cross sectional survey method and Microfinance Institutions (MFI) branch location data. Results indicate that MFBs alleviated micro businesses' financing constraints. This approach is applicable to evaluating microfinance impact in other countries.

According to the CBN Reports (2009) as shown in table I below, the total assets of MFBs increased from 75.5 billion in 2007 to 122.7 billion in 2008, representing an increase of 62.5 percent. The major components of the total assets in 2008 were loans and advances 42.75 billion, placements 26.25 billion and balances with banks 17.46 billion, representing 34.8 percent, 21.4 percent and 14.2 percent, respectively. The assets of the MFBs were largely funded by deposit liabilities of 61.17 billion and shareholders' funds of 37.02 billion.

Furthermore the Nigeria Deposit Insurance Corporation (NDIC 2012) has reported that the total deposit mobilisation created by the 596 (60%) Microfinance Banks (MFBs), which rendered their accounts at the end of March 2011, was N326.85billion. The banks that made their returns represented 60 per cent of the total number of MFBs in operation according to the report. Also the total loans credited by the banks were N251.96 billion, an indication that the microfinance sub-sector in Nigeria was being patronised. However the study carried out by Enhancing financial innovative and access in August, 2010, revealed that 39.2 million adults in Nigeria were excluded from financial services.

TABLE I Showing MFBs Performance between 2007 and 2008 by CBN Banks Report

ASSETS	**2007N'000**	**%**	**2008N'000**	**%**	**VARIANCE**	**% change**
Cash	1,410,122	1.9	2,292,586	1.9	882,4664	62.2
Balance with banks	11,801,327	15.6	17,458,886	14.2	5,657.559	47.9
Placement	21,381,543	28.3	26,246,792	21.4	4,865,249	22.8
Investment	3,715,676	4.9	7,295,318	5.9	3,579,642	96.3
Loans and advances	22,850,226	30.2	42,752,990	34.8	19,902,764	87.1
Other assets	8,141,945	10.8	14,469,789	11.8	6,327,844	77.7
Fixed assets	6,249,078	8.3	12,237,353	10.0	5,988,275	95.8
Total assets	**75,549,917**	**100.0**	**122,753,714**	**100.0**	**47,203,797**	**62.5**
FINANCED BY						
Paid up capital	11,203,112	14.8	28,340,254	23.1	17,137,142	153.0
Reserves	10,607,658	14.0	8,681,521	7.1	(1,926,137)	(18.2)
Share holders' fund	**21.810,770**	**28.9**	**37,021,775**	**30.2**	**15,211,005**	**69.7**
Placements from other banks	290,500	0.4	2,081,648	1.7	1,791,148	616.8
Deposits	41,217,713	54.6	61,568,100	50.2	20,350,387	49.4
Long term loans	497,881	0.7	3,033,965	2.5	2,536,084	509.4
Other liabilities	11,733,053	15.5	19,048,226	15.5	7,315,173	62.3
TOTAL LIABILITIES	**75,549,917**	**100,0**	**122,753,714**	**100.0**	**47,203,797**	**62.5**

SOURCE: CBN BANKS REPORT 2009

Nigerian Commercial Banks and Microfinance

The response of the banking system in Nigeria is changing to pay attention to microfinance seekers. Apart from the Bankers Committee decision that 10 per cent of the funds accruing to the Small and Medium Industries Equity Investment (SMIEIS) should be channeled to micro enterprises through registered microfinance institutions, the universal banking concept of commercial banks provide fund to SMEs that operate accounts with them. Under the SMIEIS arrangement, banks in Nigeria agreed to set aside 10 per cent of their pre-tax profit annually for equity investment in small and medium industries. At the end of June 2004, over N24 billion had been set aside under the scheme, while less than N10 billion had been invested. Apart from providing a large volume of resources, the fund is fairly medium to long term in nature and this has the potential of positively changing the structure of the microfinance industry in Nigeria (CBN, 2004). With the establishment of Microfinance banks (MFBs), it is expected that the SMEs will have more access to credit and such engender the desired growth and development in a developing economy like Nigeria. This study set to find out empirically whether the purposes of MFBs have been achieved in the sampled SMEs in Osun state Nigeria.

Methodology

This section focuses on the research techniques adopted and used for this study with the aim of achieving the research objectives. Both primary and secondary data were used for the study. Primary data were collected from a sample of Small business owners (entrepreneurs) to determine their perceptions about the credit administration of the MFBs on their operations. Secondary data were obtained from the financial reports of the selected MFBs in Osun state to evaluate the proportion of their total credit available to MFBs between 2008 and 2012. Data collected from the questionnaire were analysed, summarised, and interpreted accordingly by percentage analysis. Mean score was used to measure the degree of perception of the most preferred benefits and weaknesses of the credit administration of the selected MFBs.

The questionnaire used was the five point scaled questionnaire (Likert type) consisting of few but relevant questions to the study. In choosing the sample frame, Twelve (12) microfinance banks were chosen from the Osogbo and Ife/Ijesa axis of Osun State. The choice of this location was borne out of the proximity of the researcher to the area. This of course is seen to be of possible positive impact on the ability of the researcher to gather relevant and timely data for the study. Six (6) of the microfinance banks were chosen from Osogbo (an averagely economical vibrant city), Four (4) from Ijesa (a fairly economical vibrant city), Two (2) from Ife. The bias in the choice of numbers chosen from each of these towns was deduced from their geographical sizes and economic activities within the towns. A total of 240 questionnaires were administered on the customers of these microfinance banks on one come one serve inside the banking hall (though at different dates of the same week). This brings the sample size to 240 as such that twenty customers were picked each from the twelve sampled MFBs. The sampling method adopted choice of MFBs was the purposive (a non probabilistic) sampling method while customers were selected at random. Out of the 240 questionnaire only 200 were found useful for the purpose of the study.

Considering the volume of data required, a computer based statistical software (SPSS – Statistical Package for Social Sciences) was used in the course of data analysis. 200 questionnaires were selected for the purpose of analysis. A five point Likert scale was used to measure all the statements (1 = strongly disagree to 5 = strongly agree). Before the field work, a pilot study with ten branch employees was conducted in order to refine the questions. Finally, data was analyzed via frequency analysis and mean score analysis.

Result and discussions

The study aimed at examining the impact of MFBs credit administration on the operations of SMEs in Osun state of Nigeria. Data was presented using descriptive statistics and analyzed through simple percentage analysis. Special statistical packages called SPSS was used to obtained the result given below. We made use of 200 respondents for the analysis. A Z- score statistics was employed in testing the hypothesis set. Symbolically representation of Z – Score statistics is given below: Z= X-N/sdx Where Z represents the z- score value, X is sample mean, N is the population mean and Sdx is the standard error of the mean which is calculated as standard deviation divided by root of the sample size. The test adopted 95 confidence levels which is 0.05 level of significance. Testing the overall significance of the z-score implies testing the null hypothesis Ho against Hi, if the null hypothesis is true i.e. the zones and sample means do not lie within population means at 0.05 significant level, we accept the null hypothesis that there is no significant relationship between the dependent and independent variables, but if it is otherwise, we will reject the null hypothesis and accept the alternative hypothesis. For Testing the Hypothesis in Q1, Q2, Q3, Q5 and Q6.

Table II shows the mean scores of SMEs' perceptions of the credit delivery of selected MFBs. Table II shows that the statements "No legal constraint attached to obtaining credit from MFBs" (4.80) and "It is easy obtaining credit from MFBs,"(4.42) ranked first and second in the preference by the sampled SMEs. The SMEs give average importance to the statements, "Credit assistance from MFBs has been adequate for MFBs" (4.41); "Credit obtained from MFBs has improved performance of SMEs" (4.31) while the statements "MFBs require collateral before granting credit to SMEs" (4.33) and "MFBs give priority to SMEs in their credit administration" (4.19) were ranked lowest as perceived benefits of MFBs credit to SMEs. Table III shows SMEs' Perceptions of the challenges associated with credit delivery of MFBs. In Table III the statements "MFBs are not willing to give credit to SMEs for fear of repayment" (1.98); "MFBs charge higher interest than obtainable elsewhere" (1.95) ranked first and second in the challenges of credit delivery of MFBs to SMEs in the sampled area. The statements "MFBs demand for collateral beyond capacity of SMEs" (1.93); "MFBs prefer non SMEs customers with chance of loan repayment" (1.79) were in the average while the statements "Stringent conditions attached to loan to SMEs beneficiaries" (1.34); "MFB s see granting credit to SMEs as high risk" (1.23) were ranked lowest as challenges of credit delivery to SMEs by the sampled MFBs in Osun state.

Findings from Table IV revealed that Hypothesis in Q1 showed that samples means =3.75, standard deviation (s.d)=1.137528, the standard error of the mean -(Sdx) = 0.120 and population mean (N) ranges between 3.1648 and 3.635, the z-score = 1.96. The relationship between dependent and independent variables is significant. Tested Hypothesis in Q2, where sample means =3.64, Standard deviation =1.046843, Standard error of the Mean =0.1058 and population means (N) ranges between 2.383 and 2.97. Z-score = 1.96. Thus the relationship between the dependent and independent variables is significant.

Tested Hypothesis in Q3, where sample means =3.52, Standard deviation =1.133933 Standard error of the Mean =0.1253 and population means (N) ranges between 3.164 and 3.656, Z-score = 1.96. Thus the relationship between the dependent and independent variables is significant. Tested Hypothesis in Q5, where sample means =3.27, Standard deviation =1.113993 Standard error of the Mean =0.09025 and population means (N) ranges between 2.354 and 2.706, Z-score = 1.96. Thus the relationship between the dependent and independent variables is significant. Tested Hypothesis in Q6, where sample means =3.99, Standard deviation =.84467 Standard error of the Mean =0.0955 and population means (N) ranges between 2.322and 2.696, Z-score = 1.96. Thus the relationship between the dependent and independent variables is significant viable small scale enterprises sector in a country like Nigeria is in dire need of self-reliant industrial strategy to turnaround her down-trodden economy.

The implication of these issues on SSEs development calls for the attention of both the policy makers and academicians. This is because from the works of Abdukadir (1981) and Babalola (1982), at the end of 1979 over 80% of all establishments registered under the Factory Act were small scale enterprises and according to NACCIMA (2006) 75% of the private sector is dominated by small and medium enterprises.

Table II SMEs' Perceptions of the credit delivery of selected MFBs

S/N	RESPONSES	MEAN	RANK
1	It is easy obtaining credit from MFBs	4.42	2
2	Credit assistance from MFBs has been adequate for MFBs	4.41	3
3	No legal constraint attached to obtaining credit from MFBs	4.80	1
4	MFBs require collateral before granting credit to SMEs	4.33	5
5	Credit obtained from MFBs has improved performance of SMEs	4.34	4
6	MFBs give priority to SMEs in their credit administration	4.19	6

Source: Researchers Findings 2013

Table III SMEs' Perceptions of the Challenges Associated with credit delivery of MFBs

S/N	RESPONSES	MEAN	RANK
7	MFBs prefer non SMEs customers with chance of loan repayment	1.79	4
8	MFBs demand for collateral beyond capacity of SMEs	1.93	3
9	MFBs are not willing to give credit to SMEs for fear of repayment	1.98	1
10	MFBs charge higher interest than obtainable elsewhere	1.95	2
11	Stringent conditions attached to loan to SMEs beneficiaries	1.34	5
12	MFB s see granting credit to SMEs as high risk	1.23	6

Source: Researchers Findings 2013

TABLE IV Showing Mean score, Standard Deviation, Z- Score and the Significance of the Variables

	Sample Mean ($\bar{x}$)	Standard Deviation	Standard Error of the Mean (x)	Population Mean (μ)	Z-score Zt 0.005	Z-score calculated (Zc)	Decision
Q1	3.75	1.137528	0.120	3.1648 - 3.635	1.96	1.96	Significant
Q2	3.64	1.046843	0.1058	2.383 -2.797	1.96	1.96	Significant
Q3	3.52	1.133933	0.1253	3.164 – 3.656	1.96	1.96	Significant
Q5	3.27	1.113993	0.09025	2.354 – 2.706	1.96	1.96	Significant
Q6	3.99	.84467	0.0955	2.322 - 2.696	1.96	1.978	Significant

Source: Researchers Findings 2013

Conclusion and Recommandations

The study aims to evaluate the effectiveness of credit administration of the Nigerian Microfinance Banks on the operations of selected SMEs in Osun state Nigeria. The overall result from data analysis and the hypotheses tested showed significant relationship between MFBs credit and SMEs performance (5 % significance level). However the sampled SMEs who were customers to the selected MFBs faced some challenges at accessing credit from their MFBs including reluctance for fear of timely repayment and charging higher rate than obtainable elsewhere. In view of the above findings, the following recommendations may be found useful by both MFBs SMEs and the government at improving economic well being and ultimate poverty reduction in line with the objectives of the microfinance policy of 2005 as amended in 2011:

- The supervisory agency (CBN) should ensure that MFBs operate in line with the microfinance policy objectives of increased credit access of SMEs for sustainable development
- SMEs should be made to be aware that MFBs are not platform to share the national cake and thus ensure that loan obtained be repaid to time.

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