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DO MICRO FINANCE BANKS INFLUENCE THE PERFORMANCE OF SMALL SCALE BUSINESS ENTREPRENEURS IN IJEBU NORTH LGA, OGUN STATE, NIGERIA?

Michael Segun OGUNMUYIWA, Ph.D
Department of Business Administration,
Olabisi Onabanjo University, Nigeria
msogunmuyiwa@gmail.com;
msogunmuyiwa@oouagoiwoye.edu.ng

ABSTRACT

This paper contributes to the debate on the impact of Microfinance financial and non-financial services on the development of small-scale entrepreneurs. This study actually investigated the influence of Access to Microfinance Credit and Microfinance services on the development of small-scale entrepreneurs in Ijebu North Local Government Area of Ogun State, Nigeria. Survey research design using simple random sampling technique was employed to select 90 out of 175 registered small-scale entrepreneurs in Ijebu North LGA. Applying regression analysis on the primary data collected showed that a positive and significant relationship exists between Access to Microfinance credit and performance of small-scale entrepreneurs in the sampled areas. In addition, Microfinance service was also found to exert a significant influence on small-scale entrepreneurs' performance, albeit, the correlation coefficient and the coefficient of determination were below average. This notwithstanding, the study concludes that Microfinance provision of credit; financial services, business support, and empowerment have positively influenced business performance, income generation, asset accumulation, and overall well-being of small-scale entrepreneurs in the sample area. It is recommended that microfinance institutions should continue to focus on expanding access to credit and other financial and advisory services to small-scale entrepreneurs to continuously improve their overall performance.

Keyword: Microfinance, Small Scale Business, Entrepreneurs, Performance

Jel Classification: L21, L25, L26, M13

I. INTRODUCTION

Small-scale businesses by their nature are very crucial to a nation's socio-economic development. They are the engine of growth in both developed and developing economies through their provision of employment, contribution to a nation's revenue and overall contribution to the Gross Domestic Product (GDP). No doubt, small-scale businesses need less initial investment than other large-scale business enterprises. Small businesses provide many jobs and they account for the bulk of businesses in developing and emerging market economies (Zhang & Ayele, 2022). Small-scale enterprises are essential to both developed and developing countries' economies and have a positive effect on a nation's GDP (Erdogan, 2019). Small-scale firms also contribute to economic development, not only to economic growth. SMEs generally unquestionably perform a significant role in the development and expansion of a nation's economy (Bamfo, 2022). Micro and small-scale firms are responsible for a large amount of GDP. According to estimates from Ntiamoah *et al.* (2016), micro size firms account for about 70% of the GDP of the majority of developing nations. Micro and small-scale firms give the general public access to employment opportunities and ways to increase national revenue. They support the country by paying taxes and creating employment opportunities. (Augustine & Asiedu, 2017).

In spite of these numerous contributions of small-scale businesses, they still face many challenges, the most critical of which is access to finance. Venture capital to jump start their businesses are often times not available. Where available, majority of these small-scale enterprises find it difficult to access fund from the conventional commercial banks because of the various conditional ties attached to it. Actually, microfinance is a solution to the problem of small business owners' financial exclusion. Microfinance fills the gap by helping them get the loans and other services they require to manage their enterprises but would not have received from a typical commercial bank (Sultan & Masih, 2016). There is evidence that microfinance improves small business owners' livelihoods and lowers poverty. For instance, Schrawwat and Giri (2016) suggested that microfinance helps small business owners who are poor. All around the world, microfinance has been linked to the creation of jobs. The goods and services provided by microfinance banks help small businesses hire more people who are unemployed (Noguei *et al.*, 2020).

Access to capital is a goal of microfinance organizations for small enterprises and entrepreneurs. This indicates that it is a platform for both individuals and companies to raise money. It may also be a vehicle that can be modified to accommodate the requirements of those who are not working (Gassner *et al.*, 2019). Micro Finance Institutions (MFIs) provide financing to low-income people that are unable to use commercial banks for their financial needs. By providing tiny financial packages fit for any active businessperson, MFIs play a significant role in the economy (Zainal *et al.*, 2019).

In order to optimize the impact of micro and small-scale firms on the economy, microfinance institutions cover the financial gap by providing services like credit facilities and business trainings. Previous researchers (Bamfo, 2022; Chikwira, *et al.* 2022; Augustine & Asiedu, 2017)

identified lack of finance as a major threat to the performance of micro scale enterprises, but majority of these studies were conducted outside the scope and clime of this study. In addition, Microfinance institutions (MFIs) have been established to address the financial needs of micro scale entrepreneurs, who often struggle to obtain funding from traditional banks. Despite the availability of microfinance funds, many micro scale entrepreneurs still face challenges in accessing financial support. This non-accessibility of microfinance funds by the local entrepreneurs however creates a financing gap. This study therefore intends to investigate this lacuna. Thus, the objective of this study is to examine the accessibility of microfinance loan facilities on the business performance of small-scale entrepreneurs as well as the effect of microfinance institution services on small business owners in Ijebu-North Local Government Area of Ogun State, Nigeria.

The rest of the study is divided into three sections. Section II focuses on the review of relevant literature while section III is on the methodology and empirical results. Section IV concludes the study and proffers recommendations.

II. LITERATURE REVIEW

In the Tanzanian municipality, Iringa, Mrindoko and Pastory (2022) assessed the contribution made by microfinance institutions (MFIs) to the reduction of poverty among small and microbusiness owners. Three Hundred and Thirty-three micro and small business owners and managers who owned and managed micro and small companies and had used MFI services were sampled for the study. The study employed a cross-sectional survey design and a mixed research approach. A systematic questionnaire was used to collect data from micro and small business owners, and an interviewing guide was used to get information from key respondents. Chi-square, Kendall Taub, Phi, and Cramer's V correlation analysis were used to analyze the data. According to the report, micro and small businesses are engaged in manufacturing, agriculture, services, and commerce. The study concluded that majority of MFI services have not increased the revenue of micro and small business owners. Albeit, the outcome demonstrates that MFI services have helped to reduce poverty among micro and small business owners in the Iringa municipality.

Ogunmuyiwa and Amida (2022) examined the impact of electronic payment systems on entrepreneurial activities in rural areas of Ogun State, Nigeria. Survey research design method was employed in the study. Three hundred and eighty-five respondents who are owners of micro and small enterprises were sampled. Purposive sampling technique was employed to administer the questionnaire to the respondents. The data were analyzed using the Ordinary Least Square (OLS) regression technique. Empirical findings revealed that electronic payment system via automated teller machine, point of sales systems and mobile banking significantly drive entrepreneurial activities in rural areas. The findings further establish that point of sales system is the most significant measure of electronic payment system driving entrepreneurial activities in rural areas of Ogun State, Nigeria.

In order to give a thorough empirical analysis of the relationship between microfinance and common business practices in Kazakhstan, Bika, Subalova, and Locke (2022) used mixed methods. The "un-bankable" borrowers operate in a robust informal sector, experience high levels of uncertainty, and have considerable mistrust for a corrupt/plundering state, as is common in transitional circumstances. We analyze different borrower interactions with microfinance institutions (MFIs) using a data-driven technique to gain insight into the various business development routes used by these MFIs. "Outreach" and "commercialized" MFIs maintain micro-asset streams that are crucial for regular business owners who must pay for continuing expenses and potential liabilities as they run their small enterprises. Neither the formalization nor the depersonalization of banking relationships with selected firms have benefited from the usage of microfinance. On the other hand, MFIs were primarily concerned with repayment, client activities remained semi-formalized or unregistered during all stages of growth, and private MFIs and borrowers preferred highly individualized loan relationships.

Bamfo (2022) evaluated the effects of microfinance services on the profitability, employment, and sales development of SMEs in Ayawaso West, Ghana. The study made use of a descriptive survey and the data were analyzed using a linear regression. The results of the study demonstrated that the performance of SMEs was positively impacted by microfinance services (loans and training). According to the study, microfinance institutions could create tailored goods and services including loans and business training to improve the performance of SMEs.

Comparatively, the work of Ogunmuyiwa and Sofoluwe (2019) investigated how cooperative financing of micro scale firms relates to the development of desirable outcomes of micro scale enterprises. A multi-stage sampling approach was used to select 225 micro entrepreneurs in Nigeria. Primary data were collected from cooperative based micro firms using a structured questionnaire. Descriptive statistics and correlation analysis were used. Data collected covered information on micro firms and entrepreneurs' characteristics, volume of finance and employment band. The results of data analysis show no significant relationship between cooperative credit provided to micro scale entrepreneurs and their employment band. Increasing effort in the area of business cooperative management for effective delivery of funds was however suggested.

In Ogun State, Nigeria, Akingunola, Olowofela, and Yunusa (2018) investigated the effects of microfinance on MSEs. The stratified and purposeful selection strategy was employed. The survey was completed by 408 MSE respondents in Ogun State. Using a regression analysis, the search difficulties were evaluated. The study found a bad interaction between SMEs and intermediary financial services (loan). The second finding demonstrates that microcredit and business growth are positively correlated. According to the report, businesses that have access to microcredit typically enjoy a rise in business expansion.

In a typical South African city, Olugbenga and Mashigo (2017) evaluated the effects of microfinance on micro-enterprises and suggested specific financial mechanisms to encourage and

promote loans to these businesses. Based on survey results from the municipality of Ga-Rankuwa in the Tshwane region of Gauteng Province, South Africa, it was clear that these small firms had little chance of growing and boosting the local economy without independent microfinance institutions in Ga-Rankuwa Municipality to address their financial needs. It was discovered that microfinance had little effect on the community's micro-enterprises.

Chikira *et al.* (2022) which investigated whether microfinance institutions offered loan facilities to small-scale entrepreneurs used a vector error correction model for quarterly time series. The study employed a survey methodology and a customized Likert questionnaire to gather data. The findings demonstrated that there was no gender difference in the geographic location and affiliation with microfinance institutions in terms of credit availability.

Yaqub (2012) investigated how microcredit affected the welfare of small businesses in the Alimosho local government in Lagos State. 95 microbusiness owners were subjected to the chi-square test by the researcher. The welfare of small business owners is significantly impacted by microcredit. Therefore, it is advised that the microfinance banks offer an acceptable interest rate. The beneficiaries were given some time before the loan is repaid by microfinance bank and they were able to invest the loan over a longer period. Babajide (2012) investigated how microfinance in Nigeria affected the expansion of SMEs. Panel data and multiple regression analyses were used in the study. Five hundred and two (502) financial institutions were chosen at random. It turned out that SMEs in Nigeria were unable to grow as a result of lack of access to microfinance. Additionally, it was suggested that microfinance banks be recapitalized in order to increase their capacity to support the development and growth of SMEs.

Using the Z-Test statistical technique, Osotimehin, Jegede, Akinlabi, and Olajide (2012) examined the difficulties and future development potential of MSEs in Nigeria. In Ten (10) local government areas in Lagos State, 100 copies of the questionnaire were analyzed. The findings demonstrated that people's propensity to work for themselves is a major factor in the extraordinary expansion of SMEs in Nigeria. They explained that SMEs in Nigeria were unable to operate effectively due to financial limitations and a lack of managerial skills.

Franca (2013) evaluated how microcredit institutions affected the growth of SMEs in Anambra State. The study applied Chi-square analysis on 450 responses obtained in the study area. The study revealed a strong connection between the growth of SMEs and microcredit organizations. The low level of association suggested that other factors besides capital (microcredit) affected SMEs. The study also demonstrated the importance of collaboration between the government, SMEs and microfinance institutions for the growth of both the Nigerian economy and SMEs in particular. In Lagos State, Ashamu (2014) examined the effectiveness of microfinance organizations. Using descriptive statistics on 110 copies of the questionnaire, the survey discovered that during the previous three years, the activities of microfinance organizations have grown extraordinarily. This is mostly caused by the growth of activity in the unorganized sector. The conversion of community banks into microfinance banks and banks' reluctance to give

emerging micro-enterprises to the fund both helped microfinance operations. The study also recommended that a policy framework be quickly adopted and put in place to control and standardize the operations of microfinance organizations.

Olusanya, Sufian, and Temi (2014) also looked at how microfinance banks affect SMEs in Nigeria. They employed Spearman's correlation on 100 structured questions. The result revealed that the development of SMEs in Nigeria was greatly influenced by microfinance banks, and that job chances in Nigeria were greatly influenced by microfinance policy.

In Sokoto state, Nigeria, Abdusalam and Tukur (2014) investigated the effect of microfinance on small company growth. For a predetermined sample of 120 organizations, they employed multiple regressions. The findings demonstrated a positive relationship between microcredit availability and the tangible asset worth of businesses. They also discovered that having access to microcredit has a favorable effect on job growth. Therefore, they advised the microfinance banks to expand their credit program for SMEs.

Okibo and Makanga (2014) investigated how Kenya's microfinance institutions affected the country's efforts to combat poverty. A descriptive survey design with a stratified sampling technique was used for the study. Different groups of women have received microfinance services from the microfinance institution. The organization also used a variety of delivery methods to provide its services, like giving small loans to women to support the expansion of their enterprises as well as the education of their children. They suggested that microfinance organizations, like PAWDEP, should set up systems to help the most vulnerable people develop their technical and entrepreneurial abilities through training and adequate utilization of funds.

Ahmed (2015) studied the difficulties that Somalia's capital city of Mogadishu's microfinance organizations encountered in reducing poverty. SPSS surveys were utilized in the investigation. The findings demonstrated how microfinance organizations had helped to reduce poverty. In their 2016 study, Taiwo, Yewande, Edwin, and Benson (2016) examined how microfinance organizations helped in financing small enterprises. Interviews with 15 small enterprises in Lagos State provided them with primary data. Their findings demonstrated that microfinance reduces the resource gap for small enterprises, which benefits businesses greatly. They also advocated for the recapitalization of microfinance institutions to boost their capabilities and promote the growth and expansion of small businesses.

Past studies on the relationship between microfinance banks and performance of small-scale entrepreneurs across developed as well as developing economies with relevant supporting studies from Nigeria, has shown a strong empirical connection between the two variables. From the synopsis of the reviewed studies, there is no gainsaying that microfinance banks is sine qua non to the development of small business entrepreneurs. However, a lacuna still exist on the exact impact of microfinance banks credit as well as the various services provided by them on small scale entrepreneurs in the chosen area.

III. METHODOLOGY

3.1 The Method

The population of the study comprises of all the One Hundred and Seventy Five (175) registered Small Scale Enterprise owners in Ijebu-North local government area. Survey research design was employed for the study in order to determine the effect of the explanatory variables (Access to credit and Microfinance services) on the dependent variable (Performance of small-scale enterprises). Simple random sampling technique was employed to select a sample size of 90 small business owners in Ijebu-North Local Government Area. These 90 small business owners make up the study's sample using Taro Yamane sample size formula. The instrument of data collection was the questionnaire administered to the small-scale entrepreneurs and owners/mangers in Ijebu North Local Government Area.

3.2 The Model

In order to achieve the objectives of the study as already stated. The study's model is built to show the relationship as well as the impact of microfinance access to credit and financial services on performance of small business enterprises in Ijebu North LGA, Ogun State, Nigeria. Pursuant to the above, the model for the study is stated in behavioural form as shown below.

$$SSBEP = \beta_0 + \beta_1 AMFC + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots, (1)$$

$$SSBEP = \beta_0 + \beta_1 MFS + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots. (2)$$

Where SSBEP = Small Scale Business Entrepreneurs Performance, AMFC = Access to Microfinance Credit, MFS = Microfinance Services, β_0 = the constant parameter, β_1 = the slope of the equation and μ = stochastic term. In a-priori terms, AMFC and MFS are expected to be positively related to Small Scale Business Entrepreneurs Performance (SSBEP), That is,

β_0 and β_1 are expected to be > 0 ……(3)

3.3 Empirical Results

Before proceeding to estimate the regression equations as stated in equations (1) and (2), statements of tentative hypotheses are hereby formulated as follow:

H0₁: Access to microfinance credit is not significantly related to performance of small-scale businesses in Ijebu North LGA, Ogun State, Nigeria.

H0₂: Microfinance service is not significantly related to performance of small-scale businesses in Ijebu North LGA, Ogun State, Nigeria.

Table 1: Access to Microfinance Credit and Small Scale Business Entrepreneurs Performance.

Variable	Beta	Std. Error	T-statistics	Prob.
Constant	-1.294	0.463	-2.792	0.006
AMFC	0.633	0.033	19.469	0.000
	R = 0.760	R^2 = 0.577	F-statistics = 379.038	0.000

Source: Author's computation from regression output, 2023, Dependent Var: SSBEP

In testing Hypothesis 1, the empirical results from table 1 shows that the coefficient of Access to Microfinance Credit is correctly signed in line with theoretical and a-priori expectations. The t-statistics confirms the significance of the β estimate at both 1 and 5 percent levels of significance ($p < 0.000$). A correlation coefficient of R = 0.760 is indicative of a high positive correlation between small-scale business entrepreneurs performance and access to microfinance credits. In addition, the coefficient of R^2 at 0.577 shows that 57.7 per cent variation in small-scale business entrepreneurs' performance is accounted for by access to microfinance credit. The F-statistics of 379.038 with a probability value of 0.000 shows that the significance of the overall regression estimates.

This study's outcome confirms that microfinance credit facilities have a high impact on business performance of small-scale entrepreneurs in the sampled area of Ijebu-North Local Government Area of Ogun State, Nigeria.

Table 2: Microfinance Institution Services and Small Scale Entrepreneurs Performance

Variable	Beta	Std. Error	T-statistics	Prob.
Constant	11.052	0.482	22.924	0.000
MFS	-0.495	0.067	-7.407	0.000
	R = 0.406	R^2 = 0.165	F-statistics = 54.863	0.000

Source: Author's computation from regression output, 2023, Dependent Var: SSBEP

Table 2 result is used to test the significance of hypothesis 2 and the coefficient of Microfinance Services is not correctly signed in line with theoretical and a-priori expectations. This shows that there is a negative relationship between services provided by microfinance banks and performance of small-scale entrepreneurs in Ijebu North LGA, Ogun State. However, the t-statistics confirms the significance of the β estimate at both 1 and 5 percent level of significance ($p < 0.000$). A correlation coefficient of R = 0.406 is indicative of a moderate but positive correlation between small-scale business entrepreneurs performance and microfinance services. The coefficient of R^2 at 0.165 only shows that 16.5 per cent variation in small-scale business entrepreneurs performance is accounted for by the services provided by microfinance banks. The F-statistics of 54.863 with a probability value of less than 0.000 shows that the overall regression estimates are significant. These regression outcomes suggest that microfinance services have also affected business performance of small-scale entrepreneurs in Ijebu-North Local Government Area, Ogun State, Nigeria.

IV. DISCUSSION

Findings from table 1 indicate that there is notable impact of microfinance credit facilities on business performance of small-scale entrepreneurs in Ijebu-North Local Government Area of Ogun State. Several past studies conducted supported this result. Khandker and Samad (2014) conducted a study in Bangladesh and found evidence supporting the impact of microcredit on business performance of the poor. The study suggests that access to microfinance credit facilities enables micro-scale entrepreneurs to invest in their businesses, purchase necessary equipment, expand operations, and seize growth opportunities. This access to capital positively influences their business performance. Similarly, Armendariz and Morduch (2010) highlight the positive influence of microfinance credit facilities on business growth and profitability. They emphasize that micro-entrepreneurs can use microfinance funds for working capital, inventory management, and investment in productive assets. By so doing, they enhance their business performance, generate higher revenues, and contribute to economic development. The study of Field, Pande and Rigol (2013) is also in tandem with the present finding. They conducted an experiment in India and found that the classic microfinance model does not discourage entrepreneurship among the poor. On the contrary, access to microfinance credit facilities encourages micro-scale entrepreneurs to start and expand their businesses. This leads to increased business growth, profitability, and employment generation within the micro-enterprise sector.

In addition, Duvendack, Palmer-Jones, Copestake, Hooper, Loke and Rao (2011) examined the impact of microfinance on the well-being of poor people. They emphasize that microfinance credit facilities, particularly when tailored to the needs of women entrepreneurs, contribute to women's empowerment, increased income, and improved decision-making power within their households. This empowerment translates into improved business performance and overall well-being. Another study consistent with the result is Cull, Demirgüç-Kunt and Morduch (2009) who emphasized the role of microfinance in meeting the financial needs of micro-scale entrepreneurs. They argued that microfinance institutions help bridge the gap between traditional banking systems and the financing needs of small businesses, enabling entrepreneurs to access credit for business investments and activities.

On the impact of microfinance institution services on small-scale entrepreneurs in Ijebu-North Local Government Area, Ogun State, the study confirms that the services provided by microfinance institutions have fully affected the business performance and overall well-being of small-scale entrepreneurs in Ijebu North LGA, Ogun State. This impact can encompass various aspects, including access to credit, financial services, trainings, business support, and empowerment. Microfinance institutions offer a range of financial services beyond credit, such as savings accounts, insurance, and remittances. Access to these financial services enhances financial stability, enables investment in productive assets, and improves the ability to cope with emergencies, ultimately affecting the business performance of these entrepreneurs.

Many microfinance institutions provide business support and advisory services to help micro-scale entrepreneurs develop essential skills and knowledge. These programs cover areas such as financial literacy, business planning, marketing, and managerial skills. By improving the entrepreneurial capabilities of small-scale entrepreneurs, these services enhance business performance, efficiency, and competitiveness. Numerous studies and reports support the significant impact of microfinance institution services on small-scale entrepreneurs For example; Armendariz and Morduch (2010) study emphasized the role of microfinance in empowering individuals and promoting sustainable development.

4.1 Implications for Theory

The study demonstrated the positive effects of microfinance on overall business growth. The theoretical implication of the positive impacts of access to credit on small business entrepreneurs is the existence of direct relationship between both variables. In addition, the theoretical implications of a negative relationship between micro finance services and performance of small-scale entrepreneurs is that the empirical findings is not in conformity with the stated a-priori expectations. This of course negates theoretical expectations that increase in microfinance services would lead to better entrepreneurial performance.

4.2 Implications for Practice

The practical implications of access to credit enables small entrepreneurs to invest in their businesses, expand operations, manage risks and improve their financial stability. In addition, business training and support programs provided by microfinance banks enhanced the entrepreneurial skills and knowledge of entrepreneurs leading to improved business practices, productivity and profitability. Furthermore, microfinance institutions have played a critical role in promoting financial inclusion and reaching underserved population, such as women, rural communities, and low-income individuals. Thus, there is a need for microfinance institutions to focus on expanding access to credit for small-scale entrepreneurs. This can be achieved by simplifying loan application processes, reducing collateral requirements and offering flexible repayment options. Additionally, exploring innovative approaches such as digital lending platforms can help reach a larger number of entrepreneurs and streamline the credit disbursement process. This approach has long reaching developmental implications for both the lender and the borrower.

In addition, microfinance institutions as a matter of policy need to strive towards offering a broader range of financial services beyond credit, such as savings accounts, insurance and remittance facilities. This has implications of enabling micro-entrepreneurs to build assets, manage risks, and save for future investments. It is crucial to design these services in a tailor-made direction in order to meet the specific needs and preferences of micro-entrepreneurs, particularly those operating in the informal sector.

V. CONCLUSIONS

The study investigated the significant impact of microfinance institution access to credit and financial services on small-scale entrepreneurs in Ijebu North LGA of Ogun State, Nigeria. The study established the existence of a positive and significant relationship between access to credit and performance of business entrepreneurs. In addition, a significant relationship was also affirmed between microfinance services and performance of small business entrepreneurs. Thus, the provision of credit, financial services, business support and empowerment through microfinance institutions have been shown to positively influence business performance, income generation, asset accumulation and overall well-being of small business entrepreneurs.

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Ogunmuyiwa, Michael Segun is an Associate Professor in the Department of Business Administration, Faculty of Administration and Management Sciences, Olabissi Onabanjo University, Ago-Iwoye, Nigeria. He has a brief stint in Sona Breweries PLC before joining the academia in 1996. Apart from teaching at both undergraduate and postgraduate levels, he has supervised over 500 undergraduate Projects and not less than 100 M.Sc. and M.B.A Dissertations as well as some Ph.D Theses. In addition, he has more than 70 publications in Books, Journals and Learned Conferences both locally and internationally. Dr. M.S Ogunmuyiwa is happily married with Children.