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Financing Constraints of Microenterprises (MES) in North-Eastern Nigeria: The Prospect of Islamic Microfinance

Dr. Usman Bukar Muhammed[1], Ibrahim Muhammad Baba[2], Aminu Dawood Mika'el[3] and Lukman Lawan Muhammad[4]
[1]*Department of Islamic Studies, Yobe State University, Damaturu, Nigeria*
[2]*Department of Islamic Studies, Yobe State University, Damaturu, Nigeria*
[3]*Department of Islamic Studies, Yobe State University, Damaturu, Nigeria*
[4]*Department of Islamic Studies, Yobe State University, Damaturu, Nigeria*

[1]*Corresponding Author: ibbhus@gmail.com*

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ABSTRACT
Micro Enterprises (MEs) occupy a central place in the economies of both developed and developing nations. Micro Enterprises are business with fewer than ten (10) employees. These enterprises have fundamental roles in the development of any economy. In addition, they make-up the vast majority of enterprises (between 70% and 95%) around the globe. Despite the importance and contributions of MEs to the economic growth of Nigeria, many constraints affects their development and the most formidable of these constraints is the lack of access to finance. However, the emergence of Islamic microfinance in the Nigeria is a positive innovation in the economy. Adoption of Islamic microfinance would significantly address the financing constraints faced by micro enterprises in the region. It is against this background that this study examined the financing constraints faced by micro enterprises in the north-eastern region and assess how Islamic microfinance can improve MEs access to finance. A structured questionnaire was used to collect data from microenterprises in two (2) states of the north-east region, namely, Gombe and Yobe states, respectively. Multiple sampling techniques were used to identify respondents in six (6) local government areas (3 from each state), including, Gombe, Akko, Funekaye, Potiskum, Bade and Damaturu LGAs. Out of the 440 copies of questionnaires administered, 426 were usable. The results of descriptive analysis revealed that microenterprises may eventually succeed in accessing external financing, but they might encounter difficulties in the process of obtaining these loans. The challenges MEs often face in accessing external funds include: religious prohibition, high interest rate, strict documentation requirement, high collateral, short loan duration, insufficient amount of loan, and complexity of loan application and procedure. The result also showed that Islamic Microfinance have high prospect in enhancing ME access to finance and majority of ME owners are willing to patronize the Islamic microfinance if offered.

Keywords: *financing constraint, microenterprises, islamic microfinance, north-eastern nigeria*

I. INTRODUCTION

Micro Enterprises (MEs) occupy a central place in the economies of both developed and developing nations. Micro Enterprises are business with fewer than ten (10) employees. These enterprises have fundamental roles in the development of any economy. In addition, they make-up the vast majority of enterprises (between 70% and 95%) around the globe (Organization for Economic Co-operation and Development [OECD], 2017). They also serve as growth engine that contribute tremendously to employment generation, provision of goods and services, wealth redistribution, improvement of standard of living, sustainability and the enhancement of the Gross Domestic Products (GDPs) of many countries. More so, MEs serve as seed beds for new initiatives and avenue for adaptation of local technologies which, make their expansion necessary for promoting inclusive economic growth. (Small & Medium Enterprises Development Agency of Nigeria [SMEDAN] -National Bureau of Statistics [NBS], 2017)

In Nigeria, the micro enterprise has been the key driver of the country's economy. It is an important engine for growth, employment generation and social cohesion in the country. SMEDAN-NBS (2017) indicated that Nigerian MEs account for 98% of small business with a total number of 41, 469,947 enterprises. Equally, MEs generated a total employment of 56,758,240 persons in the country. In terms of their contribution to GDP and export, MEs together with SMEs contributed 49.78% and 7.64%, respectively (SMEDAN-NBS, 2017).

However, despite being recognized for their importance and contribution towards the Nigerian economy, many constraints to the MEs development exist, and the most formidable constraint is the lack of access to external finance. SMEDAN-NBS (2017) revealed that 90.5% of MEs indicated lack of access to finance as their major challenge. This by implication have stifled the growth of the segment and limited its contribution to the overall economy.

Furthermore, most of the financial institutions do not serve MEs, because MEs are perceived as having a high risk of defaulting on loans, high costs involved in small transactions and perceived low relative profitability. This led MEs to resort to alternative sources of funding such as personal savings, borrowing from family or friends, informal financiers, which can only cater for a small portion of the financing needs of the sector. This unmet demand presents a significant challenge for the growth of micro and small business subsector.

In order to address challenges of MEs' access to external financing and that of the MSMEs sector, in general, government has increased its focus on the sector through several lending and credit facilitation programmes. For instance, Nigerian Bank for Commerce and Industries (NBCI), Nigerian Industrial Development Bank (NIDB), SME Apex Unit of Central Bank, National Poverty Eradication Programme (NAPEP), National Economic Reconstruction Fund (NERFUND), National Directorate of Employment (NDE), Bank of Industry (BOI), Youth With Innovations in Nigeria (YOUWIN), Subsidy Reinvestment and Empowerment Programme (SURE-P), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), N-Power and Tradermoni schemes and so on. Nevertheless, the government has allocated a huge amount for financial assistance and provided various programs for the micro, small and medium enterprises, the effort is seen as being less effective when these businesses remained financially constrained.

1.1 Statement of the Problem

Given that microenterprises are considered as a springboard for economic growth in Nigeria, however, limited access to adequate financing continues to prevent sustainable growth and development of the sub-sector. Many MEs have difficulties in meeting their financial demands, especially during the start-up stage and as such, they perform poorly, which consequently affects their longevity. According to Saidu (2014) most micro and small businesses in Nigeria perish within their first five (5) years of existence. This difficulty arises due to the enterprises' lack of credit history, poor business structures and weak financial basis, which rendered them unable to provide collateral and hence, not eligible for accessing formal financing.

However, various government efforts and initiatives have been made to enhance MEs' financing as well as their growth and development in the county; among these efforts, is the microfinance policy of 2005. The policy provides for the establishment of microfinance banks (MFBs) in order to provide micro-credit to low income earners as well as to enhance MEs' access to finance. Despite these efforts and initiatives by the government, many of the MEs face challenges in meeting their financing demand for start-up or expanding their existing businesses. Furthermore, most of the researches conducted in the study area focus on the SMEs financing in general, rather than on the component-based SMEs, particularly the micro enterprises. There is also dearth of research on microfinance for MEs from the Islamic perspective in the study area.

It is against this backdrop that this study examined the financing constraints faced by micro enterprises in the north-eastern region and assessed how Islamic microfinance can improve MEs access to finance.

II. LITERATURE REVIEW

2.1 Concept of Micro Enterprises (MEs)

Micro enterprises (MEs) are a very heterogeneous group. They are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet café in a small town to a small manufacturing and construction firms as well as retail and wholesale traders. The owners may or may not be poor; the firms mostly operate in urban, rural and/or local markets; they embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy (OECD, 2004).

Definition has been the point of contention among countries, policy makers and researchers about Micro Enterprises (MEs). Generally, there is no universally accepted definition of MEs. However, researchers applied two different approaches to set appropriate operational definitions and create more contextually appropriate concept of MEs using quantitative and qualitative variables (Waked, 2016). Many developed and developing countries apply the quantitative definitions according to the quantitative criteria, the definitions mainly express the size of enterprises, in terms of asset value, capital investment, turnover as well as quantitative indices like number of employees, which is the most commonly use criterion (Waked, 2016; Bahago, 2015; Etuk, Etuk & Baghebo, 2014; Usman & Abdallah, 2014).

In Nigeria, National Policy on MSMEs (2015) defined micro enterprises (using dual criteria) as the enterprises with less than N5 million asset base (excluding land and buildings) and less than 10 employees. In a case where conflict exist on

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classification between employment and assets criteria, the employment-based classification will prevail. (SMEDAN, 2017; National Policy on MSMEs, 2015).

Where there exists a conflict in classification between employment and assets criteria, for example, if an enterprise has assets worth seven million naira (N7m) but employs 7 persons, the employment-based classification will take precedence and the enterprise would be regarded as micro enterprise. Employment-based classification tends to provide a relatively more stable definition, given that inflationary trends frequently compromise the asset-based definition (SMEDAN National Policy on MSMEs, 2015).

2.1.1 Characteristics and Economic Sectors of MEs in Nigeria

Abdullahi *et al* (2015) argued that to create a clear picture of what micro and small enterprises are, certain characteristics associated with firms need to be identified and discussed. Generally, MEs are usually characterized with little capital investment, minimal fixed assets, highly localized in the area of operation, lack of technical and managerial skills and often with unsophisticated management structure (Tom, Glory & Alfred, 2016; Abdullahi, et al 2015 Mumani, 2014; National Policy on MSMEs, 2015). According to Ali, Bala and Yusuf (2015) the management structure in SMEs generally combines ownership and management in one person, hence they revolve around the single owner-manager rather than separating the ownership from management. Consequently, in the operation of micro and small scale businesses, there is flexibility in decision-making and prevalence of largely informal employer-employee relationship.

Similarly, Tom, et al (2016) opined that characteristically, small business is one that is actively managed by its owners, highly personalized, largely local in the area of operations, of relatively small size within the industry and largely dependent on internal sources of capital to finance its growth. It is very easy to start up one since it does not involve drawing up complex plans nor does it involves much capital. In the same vein, the exit and failure rates are very high (Saidu, 2014).

Etuk, et al (2014) categorized MSMEs into two categories; growth-oriented and subsistence enterprises which provide employment and income mainly for their owners and a relatively small number of external employees. Subsistence enterprises represent the vast majority of MEs in developing countries. On the other hand, the growth-oriented type are innovative type of businesses which usually operate in growing markets, as well as businesses that are efficiency-oriented and/or network-intensive, which tend to grow through acquisitions and support from governments.

More so, in terms of economic sectors, MEs cover a wide range of economic activities (SMEDAN-NBS Survey, 2017; National Policy on MSMEs, 2015; Etuk, et al, 2014; OECD, 2004). SMEDAN-NBS (2017) recognized 16 economic sectors in which MEs participate in Nigeria. Thus; (i) manufacturing (ii) wholesale and retail trade; repairs of motor vehicles and motor cycles (iii) accommodation and food service activities (iv) mining and quarrying (v) construction (vi) water supply; sewerage, waste management and remediation (vii) agriculture (viii) transport and storage (ix) information and communication (x) administrative and support services activities (xi) education (xii) art entertainment and recreation (xiii) real estate activities (xiv) professional, scientific and technical services (xv) human health and social works (xvi) other services activities. Out of these 16 economic sectors, the following five (5) sectors represents the major sectors of MEs, namely, wholesale/retail trade, agriculture, other services, manufacturing and accommodation and food service activities (in descending order) (SMEDAN-NBS, 2017).

2.1.2 Micro Enterprises in Nigerian Economy

In Nigeria, the micro enterprise has been the key driver of the country's economy. It is an important engine for growth, employment generation and social cohesion in the country. SMEDAN-NBS report (2017) indicated that Nigerian MEs account for 99.8% of MSMEs sector with a total number of 41, 469,947 enterprises (out of 41, 543,023 MSMEs). Equally, MEs generated a total employment of 56,758,240 persons (which, is also equal to 95%, of the total 59,647,954 employment generated by MSMEs in the country). In terms of their contribution to GDP and export, MEs together with SMEs contributed 49.78% and 7.64%, respectively (SMEDAN-NBS, 2017).

Taiwo, Falohun and Agwu (2016) posited that in Nigeria, the contribution of micro and small enterprises has been recognized as main sustenance of the economy because of their capacity in enhancing the economic output and enhances human welfare. They also constitute the driving force of such industrial growth and development and this is due to their great potentials in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of development.

Similarly, Etuk et al, (2014) argued that generally MSMEs represent important sources of innovation. They spur-up entrepreneurship, which, positively influences the economic development. This is because entrepreneurship is a vital factor in economic development and social change, since it creates continuous innovation and commercialization of technology.

In the financial sector, MEs help in the mobilization and utilization of domestic savings. (Etuk, et al 2014). Finally, Taiwo et al (2016) and Ahmed (2002) posited that MEs are vital tools of poverty reduction. This is confirmed by World Bank's recognition of the sector amidst the core elements of strategy to foster economic growth, employment and poverty alleviation in 2012 (Etuk, et al 2014)

2.2 Literature on MEs Financing Constraints

Notwithstanding the importance of micro enterprises to economies worldwide, they are also more likely to be financially constrained than small, medium and large firms. These micro businesses need working capital to operate, grow and compete in the marketplace. Yet, providing them with capital is proved to be challenging to banks and other financial institutions globally (Hamid, 2016; Wangmo, 2016; Waked, 2016; Bahago, 2015; Freeman, 2015; World Bank - IDB, 2015; Saidu, 2014; Bazza, et al 2014; Etuk et al, 2014; Ghandi & Amissah, 2014; KPMG, 2014; Abdulsaleh & Worthington, 2013; EFInA, 2012; Basil, 2005).

Abor and Biekpe (2006) argue that the presence and nature of a 'finance gap' for micro and small businesses has been debated for decades, ever since the Macmillan Report of 1931. According to IFC (2017), the total financing gap for MSMEs in developing countries is estimated to be $5.2 trillion. In line with this, Freeman (2015) viewed that SMEs' limited access to financing is a generic problem across the globe and the differences between countries and regions tend to lie in the degree of intensity of this constraint, which can vary significantly. For example, MEs in less developed countries typically have a much more difficulty in accessing financing than their counterparts in developed countries. This is due to a number of factors ranging from their own risk profiles and suitability for external funding (demand side weaknesses), to the relative strength and capacities of the banking and finance sector (supply side inadequacies).

A number of studies including, Beck (2007), Park, Lim and Koo (2008), Abdulsaleh and Worthington (2013), Waked (2016), Wangmo (2016) and Aleiro and Yusuf (2017), argue that SMEs financing gap can be attributed to the firms and owner-managers characteristics (example, business size/age, sector, ownership type, experience and qualification of the owner-manager and so on). Additionally, other finance related factors that constraint MEs access to external financing include, among others, self-exclusion, information asymmetry, high interest rate, bank loan bureaucracy and collateral requirement, which are discussed from supply and demand perspectives below.

2.3 Islamic Microfinance

Islamic Microfinance (IsMF) is a new area of interest which represent confluence of the two rapidly growing industries; Islamic Finance and Microfinance. The two (2) industries appeared to be compatible, especially, since both of them appear to share many common characteristics like risk sharing, promoting entrepreneurship and striving for economic justice (Sofi, 2012 & Obaidullahi, 2008). The Concept fulfills the unmet demands of microfinance in various developing countries, due to the inherent limitations in the conventional microfinance practices (Muhamamd & Zakaullah, 2013; Sofi, 2012), and also satisfies the Islamic social principle of caring for the less fortunate with microfinance power to provide financial access to the poor (Karim, Tarazi & Reille, 2008).

The concept of Islamic microfinance adheres to the principles of Islam and is a form of socially responsible investment. Islamic finance is based on principles that prohibit risk taking, interest earning, sinful activities, gambling, speculative trade and money lending to customers. It believes in trading based on real goods and services and a reward-sharing contract. Basically, Islamic Microfinance is a system that employs Islamic financial principles in providing financial service to the poor. According to Hamid (2016), Islamic Microfinance is the provision of microfinance products and services (deposits, financing, loans and micro insurance) that are strictly in line with the Shari'ah devoid of *riba*, *gharar*, *maysir* and other things prohibited by Islam. In another word, Islamic microfinance is a financial relationship involving entrepreneurial investment which is based on Shari'ah principles that prohibit uncertainties, interest earning, sinful activities, gambling and speculative trade. It focuses on providing an ethical financial system with a motive of wealth redistribution. It was established on the basis of ethical responsibility, economic justice and social transformation (Hamid, 2016). Investors who use their wealth for Islamic microfinance projects only involve themselves in halal projects which benefit the community at large. Such projects include *zakat*, which is charity based, or trade and industry projects to develop a country's economy (Sofi, 2012).

The basic principles of Islamic finance, which set the main point of departure for Islamic Microfinance from its conventional counterpart, are summarized by Iqbal (1997) as follows: (i)Prohibition of Interest (ii) Care for the poor (iii) Asset Based Financing (iv) Risk Sharing (v)Sanctity of contracts (vi) Financing in *Halal*/Shariah Complaint Activities (vii) Prohibition of speculative behaviour (*Gharar*) (viii) Micro Takaful (Micro Islamic Insurance) (Hamid, 2016; Alsagoff & Surono, 2016; Abdul Manap, 2014).

2.4 The Prospect of Islamic Microfinance in Solving MEs Financing Constraints

Microenterprises (MEs) play a crucial role in the economic development of regions. However, many of these MEs face significant financing constraints that hinder their growth and sustainability. To address these challenges, there is a need for Islamic microfinance to provide appropriate financial services in accordance with Islamic principles. Why the need for Islamic microfinance:

1. **Limited Access to Conventional Finance:** Many microenterprises struggle to access traditional banking services due to their small size, lack of collateral, and limited credit history. Conventional banks often consider them as high-risk clients and may be hesitant to provide them with loans or other financial products.

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2. **Islamic Principles:** North-east, like many regions in Nigeria, has a significant Muslim population. For many of these entrepreneurs, adherence to Islamic principles is important, and they seek financial services that align with their beliefs. Conventional interest-based financing (riba) is prohibited in Islam, making it challenging for Muslim entrepreneurs to access conventional loans.
3. **Risk-sharing Mechanism:** Islamic microfinance offers a risk-sharing mechanism through various financial products such as Mudarabah (profit-sharing) and Musharakah (joint venture). This aligns with the principles of fairness and social justice, as both the financier and the entrepreneur share in the risks and rewards of the business venture.
4. **Interest-Free Financing:** Islamic microfinance institutions provide interest-free financing options, ensuring that MEs can access capital without incurring interest-related burdens. This approach is more inclusive and attractive to entrepreneurs who wish to avoid riba.
5. **Community Development:** Islamic microfinance institutions often have a strong focus on community development and social welfare. They aim to uplift marginalized sections of society and support economic activities that benefit the community as a whole.
6. **Financial Education and Support:** Islamic microfinance institutions often offer financial literacy training and support to micro entrepreneurs. This helps them improve their financial management skills and make better business decisions.
7. **Micro Takaful (Insurance):** Islamic microfinance can also provide micro Takaful (Islamic insurance) products to safeguard MEs against various risks, ensuring their business continuity during unforeseen circumstances.
8. **Non-Discrimination:** Islamic microfinance institutions typically do not discriminate based on religion, ethnicity, or gender, making their services accessible to a broader segment of the population.
9. **Promoting Ethical Business Practices:** Islamic microfinance emphasizes ethical business practices and discourages involvement in activities considered unethical in Islam, such as gambling, alcohol, and speculative trading.

III. METHODOLOGY

In order to assess the financing constraints of MEs, four hundred (440) structured questionnaires were distributed. The study used multiple sampling techniques in order to attain some degree of confidence of adequate representation in the sample size. Purposive sampling was used to select two (2) states from the North-Eastern region. Quota sampling technique was utilized to select three (3) local government areas from each of the two (2) states.

The sample was further stratified proportionately into four (4) stratum of MEs sub-sectors, which, include agriculture (110), manufacturing (110), other services (110) and trading (110) each. The unit elements (individual MEs owner/managers) in each stratum were identified through purposive (convenience) sampling technique. The researchers used their personal judgment to select who can provide the required information to answer the research questions and is ready to share it from the respondents.

Data obtained from respondents was entered into an "SPSS" database application for analysis. Descriptive statistics was used in the presentation and analysis of empirical results.

IV. RESULTS AND DISCUSSION

4.1 Results and Discussion

The aim of this research was to examine the financing constraints faced by micro enterprises in the north-eastern region and assess how Islamic microfinance can improve MEs access to finance. A total of 440 copies of questionnaire were administered in two (2) states of the north-eastern region, Gombe and Yobe states, respectively. Furthermore, three (3) local government areas were selected from each state which include Gombe, Akko and Funekaye from Gombe state. While, Potiskum, Damaturu and Bade were chosen from Yobe state. However, 426 copies of questionnaire were retrieved out of the 440, representing 96% response rate.

In addition, multiple imputation regression (using SPSS 22) was carried out to resolve the cases of missing values. These approach helped the researcher to replace the missing values with a close probability values within the dataset. As a result, all the 426 questionnaires were retained for analysis. Statistical Package for Social Sciences (SPSS v22) was used to analyze the data collected, which was presented in subsections below.

4.2 Discussion of Findings

4.2.1 Demographic Characteristics of MEs Owners/Managers in the Study Area

The descriptive statistical analysis on demographic characteristics of the microenterprises owners/managers in the study area, as shown in Table 4.1, revealed that the 280 (65.7%) of the respondents were male, while, 146 (34.3%) were female. The respondents were classified into four age categories. The age range of the respondents consisted of 233 (54.7%) who were 20-30 years old, 131 (30.7%) were 31-40 years old, 40 (9.4%) were 41-50 years old and 22 (5.2%) were above 50 years old. These imply that majority of the ME owners/managers were within their productive age between the range of 20-40 years old (85.4%). Hence, they are more likely to be in hunt for financing to expand their business enterprises.

The respondents were also categorized into three marital statuses. Among the options given were single, married and divorced. It shows that 237 (55.6%) of the ME owners/managers were married. The survey also indicated that 153 (35.9%) of the respondents were single and 36 (8.5%) were divorced. This suggests that vast majority of the MEs owners are married people with responsibilities to cater for and, so, will require more support (especially financial) to boost their businesses.

Table 4.1: Descriptive Statistics for Demographic Characteristics of the Respondents

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	280	65.7
	Female	146	34.3
Age	20-30years	233	54.7
	31-40years	131	30.7
	41-50years	40	9.4
	Above 50years	22	5.2
Marital Status	Single	153	35.9
	Married	237	55.6
	Divorced	36	8.5
Education Level	No Formal Education	38	8.9
	Primary/Secondary	119	27.9
	Diploma/NCE	187	43.9
	Degree/Masters/Ph.D.	82	19.3

Source: Field survey data

In terms of their education level, the distribution of the respondents consisted of 38 (8.9%) with no formal education, 119 (27.9%) had primary/secondary education, while, 187 (43.9%) possessed Diploma/NCE and 82 (19.3%) completed Degree/Masters/Ph.D. This implies that most of the ME owners/managers have educational exposure, which will have influence in the management of their businesses.

4.2.2 Business Characteristics of the Respondents

Meanwhile, Table 4.2 shows the descriptive analysis on the business characteristics of the respondents. The results revealed that 169 (44.9%) of the microenterprises were in Trading businesses, followed by Agriculture 88 (23.4%), Services 82 (21.8%) and 37 (9.8%) which, were involved in Manufacturing businesses, respectively. Moreover, in terms of years of experience in business, 219 (58.2%) have 0 - 5years in business, while, 87 (23.1%) had 6-10years and only 70 (18.6%) have more than 10years experience in business. The survey also shows that most of the microenterprises have less than 5 employees with 294 (78.2%) and only few among microenterprises 82 (21.8%) employed 5 – 9 staff.

Table 4.2: Descriptive Statistics for Business Characteristics of the Respondents

Variable	Category	Frequency	Percentage (%)
Business Category	Trading	181	42.4
	Agriculture	103	24.2
	Services	103	24.2
	Manufacturing	39	9.2
Number of Years in Business	0 – 5years	243	57.0
	6 – 10years	105	24.7
	Above 10years	78	18.3
Number of Employees	Less than 5staff	313	73.4
	5 – 9 staff	113	26.6

Source: Field Survey Data

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4.2.3 Microenterprises Sources of Business Capital

Furthermore, as depicted in Table 4.3, most of the respondents sourced their business capital from personal savings representing 182 (42.7%). Followed by microfinance/ bank loan 71 (16.7%) and Government Support Fund 59 (13.8%). Other sources include, friends/ relatives 46 (10.8%), cooperative societies 36 (8.5%) and private sector fund 32 (7.5%). This implies that micro-entrepreneurs in the study area rely heavily on personal savings and this is in line with Gololo (2017), Alhabashi (2015), Oladele, et al. (2014), Abdulsaleh and Worthington (2013), Berger and Udell (1998) and so on, that microenterprises prepare personal saving than any other external source. However, it also revealed that microfinance/bank loan forms the major source of their business capital after personal savings. This is in support of the findings of many researches (Salim Ullah et al, 2016; Waked, 2016;Alhabashi, 2015; Abdesamed & Abd Wahab, 2014; Ghandi & Amissah, 2014; Oladele et al, 2014; IOSCO, 2014; Abdulsaleh & Worthington, 2013).

Table 4.3: Descriptive Statistics for MEs' Sources of Business Capital.

Item	**Category**	**Frequency**	**Percentage (%)**
How do you finance your business?	Microfinance/Banks	71	16.7
	Cooperative	36	8.5
	Friends/Relatives	46	10.8
	Personal Savings	182	42.7
	Government Support Fund	59	13.8
	Private Sector Fund	32	7.5

Source: Field Survey Data

4.2.4 Awareness of Various MSMEs Financing Scheme

Table 4.4 below indicated that 264 (62%) of the microenterprise owners were not aware of MSMEs financing schemes offered in the country. Similarly, 159 (37.3) have benefited from various financing schemes, which include, tradermoni, NIRSAL Covid '19 and BOI among others.

Table 4.4: Descriptive Statistics for Awareness of various MSMEs Financing Schemes

Item	**Category**	**Frequency**	**Percentage (%)**
Are you aware of various MSMEs financing schemes?	Yes	162	38.0
	No	264	62.0
Which MSMEs financing Scheme have you accessed?	Tradermoni Scheme	2	0.5
	Youth With Innovation in Nigeria (YOUWIN)	4	0.9
	Nigerian Industrial Development Bank (NIDB)	5	1.2
	NIRSAL Covid' 19	6	1.4
	Bank of Industry (BOI)	15	3.5
	Subsidy Reinvestment and Empowerment Programme (SURE-P)	18	4.2
	National Economics Reconstruction Fund (NERFUND)	26	6.1
	National Poverty Eradication Programme (NAPEP)	27	6.3
	Nigerian Bank for Commerce and Industries (NBCI)	56	13.1
	None of the above	267	62.7

Source: Field Survey Data

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4.2.5 Challenges Constraining MEs Access to External Financing

Table 4.5 also shows that 298 (70%) of the respondents did not apply for external loan during the last 6 months to 1year. While, only 128 (30%) indicated that they had applied. This revealed that microenterprises may eventually succeed in accessing external financing, but they might encounter difficulties in the process of obtaining these loans. Consequently, the respondents were asked about the challenges they faced in the process of applying for and obtaining external financing.

Table 4.5: Descriptive Statistics on Challenges faced during accessing external financing

Item	Category	Frequency	Percentage (%)
Did you apply for bank loan during the 6 months to 1year?	Yes	128	30
	No	298	70
What are the challenges of MEs' access to loan?	Complexity of application and loan procedures	6	1.4
	Insufficient amount of loan	13	3.1
	Short loan duration	23	5.4
	All of the above	29	6.8
	High collateral	35	8.2
	Strict documentation requirement	94	22.1
	Religious issue	105	24.6
	High interest rate	121	28.4

As shown in table 4.5, 105 (24.6%) of the respondents stated that religious prohibition is their major setback from obtaining external loans. High interest rate was revealed to be the major impediment to access to external financing by 121(28.4%) of the respondents. Other problems include, strict documentation requirement 94 (22.1%), high collateral 35 (8.2%), short loan duration 23 (5.4%), insufficient amount of loan 13 (3.1%) and complexity of loan application and procedure 6 (1.4%). A further 29 (6.8%) of the respondents consider all the aforementioned issues as their obstacle to access to external financing. The results depicted that religious prohibition and high interest rate constitute the main challenges constraining MEs' access to external financing, this confirmed the findings of Aleiro (2017), Gololo (2017), Waked (2016), Wangmo (2016), Adamu (2015), Abdesamed and Abd Wahab (2014), IFC (2014), and so on. Hence, need for innovative measures to enhance their access to external financing and thereby foster their growth and expansion.

4.2.6 Prospect of Islamic Microfinance in Solving MEs Access Finance

Finally, as depicted in table 4.6 below, 292 (68.5%) of the respondents were aware of Islamic microfinance products; while 357 (83.8%) showed their willingness to patronize Islamic microfinance if offered. This indicted the high prospect of Islamic microfinance in enhancing microenterprise accessed to finance in the study area.

Table 4.6: Prospect of Islamic Microfinance in Solving MEs Access Finance

Item	Category	Frequency	Percentage (%)
Are you aware of Islamic Microfinance products?	Not Indicated	23	5.4
	Not Aware	111	26.1
	I am Aware	292	68.5
Are willing to patronize Islamic Microfinance if offered?	Not Indicated	56	13.1
	Not willing	13	3.1
	I'm willing	357	83.8

V. CONCLUSION

As observed, access to finance remained an impediment to the growth of MEs in developing countries and in particular Nigeria. Microenterprises are considered to have high risk investment profile, as such, the conventional bank attached a stringent stiff conditions: High interest rates and collateral in other to safeguard the loan going to MEs. These conditions further increased the chance of MEs to fail. High interest rates extremely reduce the profit that could have been used

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for innovation needed for expansion and growth. Similarly, religious prohibition on lending with interest further compounds the challenge of access to finance among micro businesses.

Assessing MEs financing constraints from these; high interest rate and religious prohibition, the best alternative for financing MEs should be Islamic microfinance; as its principles and practice are interest-free and Sharia-compliant. Islamic microfinance institutions can also promote financial inclusion, economic growth, and social development while respecting the values and beliefs of the local population.

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