**AN ASSESSMENT OF THE ROLE OF MICROFINANCE BANK IN NIGERIA**

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**CHAPTER ONE**

**INTRODUCTION**

**1.1 BACKGROUND TO THE STUDY**

It is know fact that banks help to accelerate the growth and development of a developed and developing economy. Consequently, finance becomes an important ingredient in the economic development of a nation and communities alike. Thus, the relevance of microfinance banks (formerly known as community bank) in promoting economic, programmes has become very basic and appreciated. In fact, the banks have the ability to mobilize funds in response to the dynamics of the societal requirements for growth and development. Therefore, there is the need for a proper functioning of microfinance banks as the pre-supposes a partial fulfillment of the requirement for development.

There is no gain saying the fact that at every stage of the state (Edo) effort towards economic development and advancement, the microfinance banks are called upon to assist in their capacities in response to this call, they provide available services in the areas of financing enterprises through small, medium and long term lending without prohibitive collaterals, in addition they equally provide veritable advisory function to assist various individuals engaged in business undertakings. It is worthwhile to mention here that the microfinance banks perform advisory services to our rural dweller on one proper utilization of soft loans granted especially in trading and agricultural production since the fundamental objective of the banks is to bring development close to the people (grass root development).

Edo State which is the focus of the study was created out of the former Bendel State in 1991 as contained in (Edo State Investment Guide). It is surrounded by Kwara State in the North, Benue State in the East, Ondo in the West and Delta State in the South. The State has eighteen (18) local government areas with corresponding headquarters. To state the obvious, funding has been a limiting factor as most of these organizations and enterprises are grossly underfunded. Even the government is almost unable to provide the needed funds to obliterate them from their financial predicament.

The microfinance banks tend to fill this yawing financial gap faced by the industries, organizations and other enterprises within the state. Often times, it is painful to note that the microfinance banks demand collaterals that most of the entrepreneurs are unable to provide apart from poor financial base of the ailing banks. This is in addition to the mismanagement of the resources of the banks by the unwholesome practices of the directors. Most painful is the inexperience investors are often considered on the priority list of the beneficiaries of the banks. These problems tend to mitigate the economic development of most of the micro finance banks, include Afenmai microfinance bank which is the focus of this study. Again, this study is mainly designed to explore the roles of microfinance bank in the economic development of Edo State, with a focus on Afenmai microfinance bank, Uzairue, Etsako West Local Government Area, Edo State.

**1.2   STATEMENT OF THE PROBLEM**

The relevance of microfinance towards achieving the economic development of Edo State cannot be overemphasized until the advent of the microfinance banks in Edo State, on rural dwellers had no access to modern banking facilities; hence they mostly saved their money in pots, holes underneath their mats and rugs. Furthermore, most of the bank lacked standard capital base to sufficiently meet the demand of their customers. It is also disgusting to know that the capital assets of the majority of the banks were and are still being mismanagement by the unscrupulous board chairman and directors. These problems are further compound by the recognition and support given to the bank by financial authorities; Central Bank of Nigeria (CBN), the Mortgage Bank of Nigeria Deposit Insurance Corporation (NDIC) and NICON. The resultant effect is that most of the banks are thus unable to accomplish the fundamental objective of providing credits/loan facilities to their customers. These constitute the statement for the study. Anchored on these problems, the researcher would want to examine the relevance which the microfinance bank play in the following specific areas.

i.   Accessibility of soft loans by small scale industries

ii.  Safe custody of deposits

iii.  Accessibility to soft loan for agricultural production

iv.  Monitoring the usage of loans granted to the rural dwellers

v.   Overdraft facilities and bad debts

**1.3   RESEARCH QUESTIONS**

The following are the research question of this project.

i.   What is the relationship between microfinance banks and small business enterprises in Nigeria?

ii. What are the challenges of microfinance bank in Nigeria?

iii. What are the effects of lack of financial support on small business?

iv. How can microfinance institution be responsive to small business enterprises demands?

**1.4 OBJECTIVES OF THE STUDY**

The main objective of this study is to ascertain the extent to which microfinance banks in Edo State contributed towards the economic development of state. This study is however limited to the Afenmia Microfinance Bank, Uzairue, Etsako West Local Government Area of Edo State.

Other related objective of the study are:

i.  To bring to light areas where microfinance banks in Edo State have not been alive to their function or responsibilities.

ii. To ascertain the problems confronting microfinance bank in the execution of their functions.

iii. To proffer suggestions on how microfinance banks can improve their services.

**1.5 STATEMENT OF HYPOTHESIS**

In order to carryout an in-depth study and to actualize the objective of this research work, the following hypotheses stated in null formal have been adopted.

Hypothesis One

H0: Microfinance banks are not agents for economic development.

H1: Microfinance banks are agents for economic development.

Hypothesis Two

H0: Soft loans and advances to rural community by microfinance banks are not sources of funds for grass-root development.

H1: Soft loans and advances to rural community by microfinance banks are sources of funds for grass-root development.

Hypothesis Three

H0: Services like revenue collection rendered by the microfinance banks are not the source of obstacles to the banks.

H1: Services like revenue collection rendered by the microfinance banks are the source of obstacles to the banks.

**1.6 SIGNIFICANCE OF THE STUDY**

If economic development is a continuous process which we assume it to be, then it is essential that we identify and evaluate factors relating to such development. Therefore, this study is significant in all its ramifications as a basis for economic growth and development. Most significantly, the understanding of the relevant of microfinance banks in Edo State is not only useful for the reconstruction of Edo State, but also other state in the country and the world at large. Significantly too, the study will be a basis for further studies in areas related to scope of this research. Above all, it will be a reference source of information to significantly contributed to the existing literature in the area of the study.

**1.7 SCOPE OF THE STUDY**

This study is limited in scope for the period of 5 years from (2008 – 2012). The relevant of microfinance banks towards the economic development of Edo State. The researcher is developed, using library research and collecting data and information using questionnaire and conducting oral interviews and discussions with some of the bank officials.

**1.8 LIMITATIONS OF THE STUDY**

In the process of carrying out this study, the researcher encountered some difficulties which acted as obvious limitation to the research. First, were the problems of time and money which of course are the essential constraints to students while in school. Therefore, these should be recognized as limitations to the study. Second was the limitation of acceptance especially when dealing with supposedly suspicious group of people like the banks officials and other business people in the society. They often do not vive the desired cooperation needed. This constituted a limitation to this study. It was almost impossible getting the data needed from administrative files and bank transactions as regarded as classified.

Third, was the problem of getting the actual data information from the respondents (bank official and customers) alike. No mater the manner questionnaire are framed and oral interviews conducted, respondents to the as subject to individual bias and selfish judgement. These also constituted limitations to this study. In spite of the pragmatic limitations encountered in the process of this study, the researcher did here best to overcome them. Therefore, the authoritativeness and the reliability of this study should not be under scored by its potential users.

**1.9 DEFINITION OF TERMS**

In carryout out this study, the researcher made use of some technical but related terms. For ease of understanding and application of these terms, the following functional definitions have been given:

Economic Development: This should be regarded as a process and transforms a stagnant society with low average real income into one in which income rises more or less continuously as technology is embodied in accumulated capital. Yet it can also  be defined as mere growth; while others of the opinion that it involves both growth and structural changes.

From the foregoing definitions of economic development, it can be rightly deduced that the general problem encountered by the research in trying to evolve a concrete definition is the representation of economic development as either one or a combination of any of these factors.

-   Economic progress

-  Economic growth

-  Economic change

-  Economic advancement

-  Structural transformation of the society

Therefore, in this study, economic development should be taken to constitute and hence consist of factors identified above.

2.Bank: This is a depot that deals on monetary and other precious deposits for economic transaction. It is of many types, but in this work, it means the microfinance bank, selected, unless otherwise stated.

3.Indigenous Bank: These are banks set up by Nigerians and government. In this study, the Afenmai Microfinance Bank, Uzairue (focus of this study), Uchi Microfinance Bank, Auchi, Ogida Microfinance Bank and Okogbo Microfinance Bank (both in Oredo Local Government Area) are examples of the banks.

4.Rural Banking: This includes all banking taking place in area distant from the urban centres.

5.Urban Banking: This is the act of collecting savings (money) and other valuables from people and facilitating their subsequent transactions. This is intended to promote their living standards and enhancing their economic growth.

6.Expatriate Banks: These are financial organization (banks) set up an expatriate or foreigners. These banks/organizations since 1970 have been indigenized. A good example is United Bank for Africa (UBA).

7.Cooperatives: These are organizations owned by and operated for the benefit of those using their services.

8.Micro Credit: This simply refers to small loan made to low income individuals to sustain self employment or to start up very small businesses.

9.Micro Finance: This is the act of providing financial services to the poor who are traditionally not served by the conventional financial institutions. It is the provision of small loans (micro credit) to the poor, to help them engage in new productive business activities.

10.Micro Finance Bank: This is a financial institution licensed to provide credit banking and other financial services to a designated “catchments area” or community.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.1 INTRODUCTION**

This chapter gives an insight into various studies conducted by outstanding researchers, as well as explained an assessment of the role of microfinance bank in Nigeria. The chapter also gives a resume of the history and present status of the problem delineated by a concise review of previous studies into closely related problems.

**2.2 CONCEPTUALFRAMEWORK**

**Microfinance Concept**

The discourse on microfinance has attracted many arguments among policy analysts and researchers with divergent perspectives on its impact, outreach and sustainability. Proponents of microfinance describe it as the bedrock of economic empowerment and poverty alleviation which supports and sustains economic growth and development. Microfinance has attracted global attentions and international organizations like the European Union, United Nations and the World Bank commit huge resources to support its programmes (Miled & Rejeb, 2015). Microfinance has many definitions and models but microcredit and provision of other financial services at micro level are its dominant features. Poverty alleviation, financial inclusion and socio-economic empowerment for the poor are its cardinal objectives. It is also a terminology used broadly to describe financial products designed for the low income segment of the population by not only NGOs but also commercial banks, development banks, financial cooperatives, and other registered and unregistered non-bank institutions (Christen, Lyman, & Rosenberg, 2003, p. 6). Microfinance has been promoted for advancing women empowerment through the provision of financial and non-financial services. Its services are provided by informal, semi-formal and formal institutions with varying degrees of regulation and organizational structures (Seibel & Parhusip, 2003). The informal institutions comprise of selfhelp groups, credit associations, families and money lenders who are into the business of lending money, collecting deposits/savings and financial activities related to crops, land and trade. They have no institutional or legal status and are not subject to regulation, even though some of them have organisational structures to govern their affairs, having rules and regulations, and keeping records of their members (Seibel & Parhusip, 2003; Torre, 2006).

The target beneficiaries of microfinance are the poor and victims of financial exclusion. Financial exclusion encompasses processes that hinder poor and disadvantaged social groups from gaining access to the financial system (Leyshon & Thrift, 1995, p. 312). It manifests in different ways- self-exclusion (an individual’s feeling of inadequacy to access conventional banking services), access exclusion (proximity to banks which affects rural dwellers), sociopolitical exclusion (exclusion on the basis of social status e.g. immigrants, ex-convicts), condition exclusion (inability to bear the cost of bank products and services and market exclusion (being economically under-valued to be targeted by banks) (Torre, 2006). These categories of people are considered un-bankable, disadvantaged, marginalized and generally not credit worthy to be profitable clients to banks.

Despite the many perceived benefits of microfinance, critics believe it is largely incompatible with sustainable economic and social development based on ideology and lack of sufficient evidence to prove its claims (Bateman, 2010; Van Rooyen, Stewart, & De Wet, 2012). Evaluating the impact of microfinance has also been challenging due to biases and costs associated with empirical research (Becchetti & Castriota, 2011; Hermes & Lensink, 2011; Hulme, 2000). Scholars disagree on the efficacy of microfinance for poverty reduction and its acclaimed impact on various indices of development are still being contested (Bauchet, Marshall, Starita, Thomas, & Yalouris, 2011; Copestake, 2007; Hermes & Lensink, 2011; Roodman, 2012). The provision of microcredit to the poor with the assumption that the poor always take advantage of business opportunities without consideration of factors that make people susceptible to poverty, has been criticised by some scholars (Harper, 2003; Hulme, 2007; Roodman, 2012).

The Emergence of Microfinance as a Financial Innovation

Every part of the world has its own history of how economic and financial activities have been organised along informal lines. The credit unions and building societies in the United Kingdom and Ireland and the Rotating Savings and Credit Associations (ROSCAs) popular in developing countries are common examples of microfinance schemes that provided credit and other financial services to the poor who were often avoided by commercial banks because of the risks associated with their businesses (Torre, 2006). However, the prominence of microfinance banking is often associated with Muhammad Yunus, a professor of Economics who founded the Grameen Bank to offer financial services to the poor in Bangladesh.

In their various narrations, Armendariz and Morduch (2005) and Bateman (2010) reveal that Yunus, as head of the Economics faculty at Chittagong University was concerned about the high poverty level and human suffering caused by devastation of war, flooding and famine experienced in his country. Yunus resolved to find a solution to reverse the trend following the path of Akhter Hameed Khan who, in the 1950s, developed the Comilla model, a poverty alleviation initiative in East Pakistan (which later became Bangladesh) through micro credit. Yunus was touched by the plight of the poor, especially women, who were continuously in a poverty trap He started the programme in the village of Jobra by paying off the collective debt of 42 persons, an equivalent of $27. He began giving small low-interest loans from his personal resources to poor households to expand their businesses with the expectation that through the micro credit programme, the beneficiaries would be free from the trap of the moneylenders, earn a little income for consumption and have little savings, thus overcoming poverty. Armendariz and Morduch (2005) recount that he was impressed that his little effort yielded income to the beneficiaries and enabled them to repay their loans even without collateral, but sad that his resources could not sustain the flow of his vision. Yunus, therefore, approached and convinced the Central Bank of Bangladesh to support his initiative in empowering the poor through micro credit. The bank was supported with funding by the International Fund for Agriculture and Development, Ford Foundation and the governments of Bangladesh, Sweden, Norway and the Netherlands. His decision to solicit the support of willing donors brought into prominence the role of subsidies and social investment, which are prominent, features of microfinance.

Grameen Bank was formally established as a Non-Governmental Organisation and managed by Yunus and a team of senior managers in 1983. The ownership structure of the bank was shared with 40% of the authorized capital contributed by members, 40% by the government of Bangladesh and 10% each by two state banks. The primary objective of the bank was to provide microcredit to the poor especially women at affordable interest rates to support the establishment or expansion of income generating microenterprises. Its customers were the very poor who had less than a half hectare of land (Bateman, 2010). The number of its clients grew rapidly, and repayment rates were extremely high, up to 98% compared with the 40% to 60% achieved by the government banks (Bateman, 2010).

The success of Grameen Bank was attributed to its adoption of a system of group lending, joint liability and short repayment schedule. These which served as social collateral leveraging on family and community inter-relationships because the individual customers were often too poor to provide collateral for the loans. Its operations involved groups of customers who came together voluntarily, not individuals acting on their own. Loans were disbursed to individuals within groups such that in the event of any difficulty, other group members would offer support in repayment. This guaranteed the groups’ eligibility to access subsequent loans. Repayments started one week after disbursement and continued weekly to serve as a monitoring mechanism. These strategies led to reduction of costs in loan disbursements by helping the bank to assess eligibility, disburse, monitor, guarantee and then recover loans. The system of peer monitoring enhanced economies of scale and reduced credit risk as an individual with a habit of defaulting found it difficult to be accepted into a group (Carpenter & Williams, 2014; Harper, 2007). Grameen also adopted dynamic incentives to enhance loan repayments by starting with very small loans and gradually increasing the amount as groups demonstrated credit worthiness.

The Grameen model of microfinance was soon replicated in different parts of the globe. It was celebrated with global awards such as US Presidential Medal of Freedom, the 2006 Nobel Peace Prize for pioneering a financial sector innovation which has empowered millions of the world’s poor. The United Nations declared year 2005 as ‘International Year of Microcredit’ and microfinance studies have been incorporated in business, economics and management courses by institutions of higher learning. MFIs have enjoyed increased commercial funding by mega rich philanthropists like Bill and Melinda Gates, Pierre Omidyar and Michael Dell (Bateman, 2010). Pierre Omidyar, the founder of eBay donated $100 million to Tuft University (his alma mater) to promote research in microfinance (Roodman, 2012). Flynn (2007) reveals that many large financial institutions found their way into the business of small-scale banking and credit services in emerging markets.

The momentum of the microfinance industry came to a halt from the late 1990s with series of challenges and exposure of abuses ranging from mismanagement, over-bloated salaries and bonuses to managers, extortion from the poor through unreasonably high interest rates in order to declare huge profits, exaggerating and falsifying repayment rates (Bateman, 2010). The situation was worsened by the global credit crisis of the early 2000s and affected some of the industry’s high-profile MFIs including Compartamos, Mexico’s largest microfinance bank and Colombia’s Corposol. The sector witnessed a high rate of default and collapse of many MFIs in Bosnia, Morocco, Nicaragua, Pakistan and Nigeria. The results of research undertaken by academics in mid-2009 did not show a positive impact of microfinance on poverty indices such as household expenditure and school enrolment. These developments brought to question the many achievements of microfinance and its icons like Yunus who received accolades were criticised (Roodman, 2012). The initial applause and the eventual criticisms of microfinance reveal the transient nature of public opinion and how risk issues become subjects of debates influenced by forces such as the mass media or the views of experts (U. Beck, 1992).

***The Modernity of Microfinance***

The rise of neo-liberalism in the mid-1970s promoted the tenets financial self- sustainability with the assumption that financial intervention by government weakens institutions, making them inefficient. Many MFIs became transformed to profit maximizing private financial businesses adopting market-based interest rates and mobilization of savings (Bateman, 2010). The emergence of the ‘new economy’ spearheaded by the developed western countries led to transformation of global socio-political relations. The prominence of the microcredit approach to poverty reduction is strategically embedded in the global political economy to strengthen the liberalization of the financial sector (Weber, 2004, p. 356). The crises experienced in transiting from the ‘poverty lending approach’ to ‘financial systems approach’ were responses to shifts in priority of external funders occasioned by the reforms adopted in the implementation of the Washington Consensus (WC) of the late 1980s. The consensus promoted the deregulation of domestic markets, privatisation of public enterprises, liberalization of trade and financial flows aimed at expanding investment opportunities in the emerging markets of poor developing countries (Khoudour-Castéras, 2010). New innovations to facilitate comprehensive financial sector development are promoted by foreign donors and investors with the drive for market expansion with campaigns for access to finance and making market work for the poor (M4P) (CGAP, 2014; S. Johnson, 2013). These phenomena described as the marketization of development have multiplier effects and tremendous implications on the activities of MFIs in the underdeveloped world constituting risks as a result of their dependence on external funding (Carroll, 2015).

The promotion of Information and Communication Technology (ICT) and provision of digital payment systems to facilitate the flow of capital to poor countries also reflects the influence of global politics. It is pursued to encourage the use of digital channel to provide services to the unbanked and reduce the operational costs of banks on buildings, manpower, security and cost of travelling to access services for users (Singh & Padhi, 2015). Digital payment systems are acclaimed for enhancing operational efficiency, managing risk and expanding outreach (Kauffman & Riggins, 2012). MFIs in Nigeria are striving to adopt the use of ICT in order to remain viable in a more competitive environment and enhance financial inclusion. However, this drive is hampered by some infrastructural and deep-rooted social challenges-epileptic power supply, poor rural mobile network connectivity, low rate of mobile literacy, prevalence of e-fraud and lack of access to facilities such as the internet, smart phones (Agboola, 2015; Agwu & Carter, 2014; Efobi, Beecroft, & Osabuohien, 2014; Nwaolisa & Kasie, 2012; Yaqub, Bello, Adenuga, & Ogundeji, 2013). Yaqub et al. (2013, p. 205) further explains that the Nigerian economy is largely cash-based and ‘characterized by the psychology to physically hold and touch cash (a culture informed by ignorance, illiteracy, and lack of security consciousness and appreciation of the merit of digital payment)’. This is a source of risk especially to MFIs because it indicates a disconnection between promoters of ICT who are desirous of developing digital payments (and possibly expand their markets) and an environment which has challenges in adapting to innovations.

The survival of MFIs in recent times has also been threatened with the changing pattern of funding from poverty and development goals to security concerns following the threats of terrorism. McConnon (2014) observes that this is obvious in the status of Iraq, Afghanistan and Pakistan as DFID’s top recipients, whereas, they were not among the top 20 recipients previously. The policies are changing because these countries pose serious security threats to the developed world. In their cross-border funder survey of 2014, CGAP, in collaboration with Microfinance Information eXchange (MIX), reports that funding for financial inclusion remained unchanged for years 2013 and 2014 at $31 Billion, and the weaker Euro (significant investment comes from the euro-zone) even caused a slight decrease in dollar value. It also reported an increasing interest in funding to the Middle East and North Africa to further confirm the shift in focus (Soursourian & Dashi, 2015). This development has implications on perceptions of risks especially in analysing the relationship between foreign aid, politics and conflict.

The bilateral relations between countries have important impact on MFIs. Garmaise and Natividad (2013) explain that political proximity and affinity between the host country of the MFI and the country of its lenders influence the volume of capital flow and the provision of low-priced credit from foreign investors. Microfinance cannot be disconnected from global politics. Its development has been shaped by policies that emanate from the global scene. Its emergence stemmed from the failure of governments through state-owned development banks and institutions to manage resources provided by international donors for development goals (Armendariz & Morduch, 2005). It was conceived as a direct intervention targeted at the poor themselves to evade government interference and inefficiency. External donors and investors commit considerable resources to establish and support microfinance institutions. While donors such as developed nations, bilateral agencies, multilateral organizations and foundations are largely driven by developmental goals, public and private investors bring in capital to fund the lending activities of MFIs. Chakravarty and Pylypiv (2015, p. 737) notes that the investments of foreign donors have direct bearing on the organizational structure, performance and survival of MFIs but unfortunately, there is uncertainty because their dependence on external funding makes them vulnerable to external shocks. The 2008 global financial crisis was ignited by the collapse of Lehman brothers in the USA but led to the fall of many financial institutions across the globe (Christopoulos, Mylonakis, & Diktapanidis, 2011; De Haas & Van Horen, 2012; Vuillemey, 2014). The influence of the global political economy on the development of microfinance can be seen in the increasing exposure of MFIs to risks due the medium and long-term effects of the global financial crisis. S. Khan and Ashta (2013) have established that the impact of the global recession can have negative multiplier effects not only MFIs but also the poor populations they serve, in many unexpected ways. This implies that MFIs are expected to step in to close the development gaps created by the failure of formal financial institutions given that public confidence in them have diminished. Their paper shows that it was assumed that developing countries are immune from the effects of lingering financial crisis, but there is greater consciousness that developing countries are likely to face even greater challenges which will create more risks for MFIs in their efforts to reduce poverty.

In the long run, it is expected that foreign investments will likely reduce as the credit squeeze takes hold and foreign aid, which is important for a number of poorer countries, is likely to diminish as richer countries struggle to revive their domestic economies. Developing countries could face increasing pressure to repay their debt as the international institutions and banks that have lent them money feel the need to shore up their own reserves. This pressure to service external debt obligations could see poorer countries make deeper cuts in basic social services, eroding social safety nets and reducing the number of development projects undertaken. These cuts in development spending would certainly deteriorate the quality of life of an already vulnerable population (S. Khan & Ashta, 2013, p. 2).

Given this scenario, it is obvious that the global economy is shaping the modern face of microfinance given the interests of international stakeholders.

Microfinance is widely believed to be in the domain of women which accounts for the success it has so far attained. It is not just a business in which women are major beneficiaries, but a business largely managed by them. Apart from the Nobel Laureate, Mohammad Yunus, notable women like Pilar Ramirez of Banco FIE, Bolivia and Ingrid Munro in Jamii Bora, Kenya are top female executives running notable MFIs. A study has established that female leadership in microfinance is positively related to financial performance as female administrators are better able to tap into the female information network and design products that suit women’s needs (Strøm, D’Espallier, & Mersland, 2014). Microfinance increases access to finance for female entrepreneurs who tend to be disadvantaged in dealing with conventional banks (Jayawarna, Woodhams, & Jones, 2012). Ogunleye (2017) reveals that higher proportion of female clients is associated with a greater repayment rate and with fewer loan provisions.

The affiliation of microfinance to the female gender may be influenced by the vision and focus of Grameen Bank which pioneered the global microfinance movement. At its initial stage, Grameen’s customer base comprised of both men and women but its focus shifted to the female borrowers who made up 95% of its customers (Armendariz & Morduch, 2005) because it experienced higher repayments rates among the women credits groups than those of men. Many empirical studies support the claim that women out-perform men in terms of loan repayment. In their study of Microfinance Institutions (MFIs), gender focus and repayment performance, D’Espallier, Guérin, and Mersland (2011) carried out a survey and empirical analysis using a data set of 350 MFIs in 70 countries over a period of 11 years. Their results showed that MFIs with higher proportions of female borrowers have lower portfolio at risk, lower write-off rates and lower provision expenses. They cited several reports supporting the claim that women are better at paying off loans from results of studies carried out in Bangladesh, Malawi and Guatemala.

While it remains a contested issue as there are divergent voices on different topics on women in microfinance, some scholars have advanced reasons for better repayment rates among the women are varied. In their analysis, Armendariz and Morduch (2005) show that women make up 70% or about 900 million of the world’s poor making them easy targets for MFIs. Also, the conservative nature of their investments and low moral hazard risk associated with their businesses (given that women mostly engage in low risk income generating activities which have high turnover) make loan repayment easier for them. They also have limited opportunities to credit and so they tend to be reliable in repaying their loans to ensure continued access to credit (D’Espallier et al., 2011). They are less mobile and can easily be monitored by the MFI at a lower cost. They are generally unadventurous and risk-averse and would not want to bring shame to their families by defaulting in their loan obligations (Armendariz & Morduch, 2005). They are committed and attracted to MFIs because of the opportunities of non-financial services which improve their welfare. Lending to women has a potential impact of enhancing their bargaining power and empowering them to increase their spending on the health, education and housing needs of their families. These benefits tend to make women reciprocate by keeping to their loan terms. The adoption of group lending enhances the provision of microfinance services to women when they are mobilized in groups (Armendariz & Morduch, 2005; Cheston & Kuhn, 2002).

However, opposing views fault the claim on the basis that loans obtained by women are generally controlled by men (D’Espallier et al., 2011). Therefore, gender does not influence repayment rates as widely acclaimed. On women empowerment which relates to expansion of assets and capacity to negotiate and influence choices that affect them, critics argue that with the loans outside their control, empowerment cannot be guaranteed. This is because the men may divert the resources to other non-productive activities and in the end, the women are left more impoverished with huge debts to repay(Van Rooyen et al., 2012). However, Mukherjee (2015) argues that even in such circumstances, adding value to their family income increases their self-worth and makes their opinions count in household decision making. Their recognition as contributors to family income is advantageous. J. Hunt and Kasynathan (2001, p. 44) confirms that ‘husbands are getting the money and seeing the loans as an income source for themselves, so they are now showing respect to their wives’. Kalpana (2016) and ThomasCanfield (2016) argue that empowerment of women by MFIs leads to reduction in marginalisation of women especially through domestic violence and abuse. This contributes to societal benefits and growth of MFIs which target them. Bee (2011, p. 23) however, demonstrates that ‘microfinance weakens social networks and perpetuates systems of power and oppression’. In some societies, certain religious and cultural barriers limit access of MFIs to women such as the Purdah Islamic culture that restricts women’s interaction with the opposite sex and prevents them from engaging in income generating activities or obtaining interest-based loans (Armendariz & Morduch, 2005; El-Komi & Croson, 2013). These debates reflect the diversity in the perspectives informed by contextual differences and interpretations based on the perceptions about the role of women.

The perceptions about the role of women in microfinance relate to this thesis in the sense that there is link between the risk perceptions of the pioneers of microfinance and the behaviour of the early clients of microfinance. Armendariz and Morduch (2005) reveal that the focus of Yunus shifted from gender-neutrality to gender bias in favour of female clients because he perceived and experienced that his female clients were more creditworthy than the male clients. While there is a high possibility that this is not a characteristic trait of female borrowers in every context, this risk perception became the foundation and basis for the preference of gender bias in microfinance globally. This reflect the notions of the social theories of risk because the practice of microfinance as the provision of microcredit to the economically active poor (particularly women) has been shaped by the experiences and risk perceptions of Yunus in dealing with members of his community. The narratives would definitely have been different if Yunus encountered a different context or clients with a different orientation. Despite the modification and replication of microfinance in different context through globalization (cf Giddens, 1991, 2013), some features from the early beginning of the Grameen-model of microfinance have been preserved because they define the uniqueness of the innovation.

***Impacts of the Roles of Banks in Financing SMEs in Nigeria***

Anyawu (2001) said some of the effects were manifested in which available evidence based on cross -.country studies indicate the important of SMEs in economic development. Report show that viable: SMEs can meaningfully contribute to the attainment of many socio - ; economic growth objective such as output expansion, employee generation, income redistribution, promotion of indigenous entrepreneurship and technology as well as production of intermediate good to strengthen inter industrial linkages. Valentine (2014) and (Akinsulure, 2005) affirms that the impact were manifested in the area of employment generation, rural development, economic growth and industrialization, better utilization of indigenous resources, other impacts include stimulation of indigenous entrepreneurship, development of local technology, provision of good value chain for poverty alleviation and mobilization and utilization of domestic saving. Anigbogu, et al (2014) opined that economic growth and development in Africa can be achieved through the emergence of strong SMEs, which will later grow to become major players in the developing economy. SMEs help to diversify economic activities that have significant contributions to imports and exports, they are flexible and can adapt quickly to changing market demands. Thus, SMEs contribute more and more to the national and international economies of the world

**2.3 THEORETICAL FRAMEWORK**

***Microfinance Profile of Nigeria: Prospects and Challenges***

The notion of Microfinance is not entirely new in Nigeria, local financial arrangements such as ‘Esusu’ (Yoruba), ‘Adashi’ (Hausa), ‘Otataje’(Igala),etc, have been in practice by peasant farmers, traders and artisans to encourage savings and provide funds for producers in rural communities (Iganiga, 2008; Nwanyanwu, 2011; Olukotun, 2008). These operate largely as savings or credit clubs where members contribute or save fixed sums of money and are either given the lump sum of their savings after an agreed period of time (sometimes at the end of the year or during communal festivities), or members take turns to collect the total contribution of members at the end of each cycle (Bascom, 1952; Olukotun, 2008). They are sometimes engaged in microcredit to assist members and non-members access credit with the profitmaking motive. Risk management is practiced even in these informal settings because care is taken to ensure that funds are kept in the custody of members with proven integrity and loans are disbursed prudently to avoid losses. The processes of risk management and decision making by members reflect how they perceive risks.

The microfinance policy operational in Nigeria is an attempt by the government through the CBN to remodel and regulate the delivery of financial services to enhance the productive capacity of the rural and urban poor (Iganiga, 2008). Since its establishment in 1958, The CBN has the pursuance of ‘developmental-complimentary functions to support real sector development and enhance the effectiveness of monetary policy’ as one of its cardinal mandates (CBN, 2014b, p. 3). To actualise this mandate, the Agricultural Finance Department was created in 1977 and later renamed the Development Finance Department in 2002 to design policies and programmes targeted at expanding access to capital to support the growth and development of the real sector. Prior to the launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in 2005, there were experiments with several programmes - such as the Agricultural Credit Guarantee Scheme (ACGS) Directorate of Food, Road and Rural Infrastructure (DFRRI), Rural Banking by commercial Banks, People’s Bank of Nigeria (PBN) and Community Banks (CB) (which metamorphosed into MFIs) aimed at fast-tracking the economic and social development of Nigeria (Audu & Achegbulu, 2011; CBN, 2011; Nwanyanwu, 2011). These were pursued with the realisation of the significant role of MSMEs play in accelerating development and alleviating poverty.

The CBN plays a crucial role as a regulatory authority in undertaking risk-based supervision of licenced financial institutions. Its code of corporate governance provides a set of best practices covering the appointment of boards of directors to enhance transparency and accountability, and has legal consequences for non-compliance (Paul et al., 2015). The CBN oversees the licencing of MFIs, it monitors and enforces the rendition of daily, weekly and monthly returns. It carries out reforms and assists MFIs to attain capital adequacy by providing access to credit through various intervention and bailout funds (CBN, 2014a, 2014b; Daud, Yussof, & Abideen, 2011; S. L. Sanusi & Governor, 2013; Charles Chukwuma Soludo, 2004). Based on the assessment of its performance indicators, the Nigerian banking sector has been lauded for recording increased credit flow, capacity utilization, job creation, income growth and agricultural value chain development in recent years (CBN, 2014b). However, the report acknowledges that a wide gap still exists especially in the addressing the crisis of unemployment and poverty despite numerous interventions. Some inconsistencies can be noted in the above assertions given that credit flow, capacity utilization, job creation, income growth and agricultural value chain development have increased simultaneously with unemployment and poverty resulting into economic recession in 2016 (Eboh, 2016; Kottasova, 2016). This implies that the recorded increase in the indices evaluated and the various intervention schemes designed by the CBN have not had significant impact on the economy. Similarly, the rising incidence of corporate fraud in the sector indicate the limitations of the risk management framework (Idowu Abiola, 2009; Akinyomi, 2012; Paul et al., 2015). Dauda (2017) notes that poverty in Nigeria differs with the pattern in many other countries given that even with the economic growth recorded, poverty is still on the increase with the North- West and North – East geopolitical zones leading in the poverty indices. This situation is at variance with the experiences of developing countries in Europe, America and Asia where economic growth results in poverty alleviation. This analysis underscores the importance of having a holistic view of issues by examining the social interactions within a context.

Since the launch of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on December 15, 2005 and revised in April 2011 which provided the blue-print for the operations of MFB, there has been rapid growth in the number of MFBs. Tawney et al. (2014) observe that the microfinance sector in Nigeria is distinct from the setting in other countries. Even though formal microfinance is relatively new (i.e. the policy was launched in 2005), there are many regulated and deposit-taking MFBs than the non-bank MFIs. Many NGOs involved in microfinance are being transformed to MFBs, indicating that there may be a fertile ground for microfinance in the Nigerian financial market. This however raises some questions- Why are there more commercially-inclined MFBs than the non-bank MFIs in Nigeria? Could the Nigerian MFIs be having a different goal other than empowering the economically active poor? What is really the reason for the current numerical growth of MFIs in Nigeria? Answers to these questions may reveal something about how investors perceive risks in their involvement in microfinance or about the motivating forces behind the increasing interest in microfinance now. The approach being adopted by CBN in regulating the activities of MFIs and undertaking risk-based supervision would also reveal the factors that inform its conceptualization of risks. The interest of clients and communities in MFIs and how microfinance services are adopted would also reveal how risks are perceived in relation to microfinance. These conceptualizations of risks would ultimately showcase the unique identities and interests of various stakeholders as they strive to maximise benefits and minimise losses in their involvement in microfinance. A possible explanation for the pattern and dimension of the microfinance sector in the Nigeria can be linked to the interest of the government. Dayson and Quach (2006) established that there is a sharp contrast in the motives for government funding of MFIs in developed countries and those of developing countries. They note that while governments in the developed countries are likely to support MFIs to promote entrepreneurship among disadvantaged populations and enhance financial inclusion, their counterparts in developing nations like Nigeria may be interested in aligning the activities of MFIs to the mainstream financial institutions. This may be the likely reason for the support and promotion of the commercial model of microfinance (MFBs) above the NGO model of microfinance (NMFI).

MFBs in Nigeria operate in three categories; Unit MFBs which operate in a single location (a one-branch Bank) and have a capital requirement of N20 Million, State MFBs with branches and cash centres within the geographical confines of a state and have a capital requirement of N100M and National MFB which are licenced to establish branches across states in Nigeria and have a capital requirement of N2Billion (CBN, 2014b; Iganiga, 2008). As at the end of June 2014, there were 3 National MFBs, 56 State MFBs and 793 Unit MFBs operating in Nigeria and altogether having 900 branches, 113 cash centres and 36, 263 meeting points. The MFBs have a deposit customer base of 7.4 million comprising 3.6 million males and 3.7million females. Their total deposit liability stood at N137.5 Billion and the total number of borrowers was 2.2 million comprising 1.0 males and 1.2 females (CBN, 2014b). The South-Western geopolitical zone has the highest concentration of MFBs with 40% of the licenced MFB domiciled in the region (Kasali et al., 2015). The disparity in structure and distribution of MFIs on the basis of geographical location and gender could be accounted for by some underlying sociocultural factors which demonstrate how risk perceptions on contextual basis. Ekanem (2015) argues that gender influences entrepreneurial capabilities as females tend to engage more in smaller businesses with fewer risks than males.

There is an increasing interest in the activities of MFIs in Nigeria due to the growing entrepreneurial awareness and expectation that MFIs assist the poor by providing access to finance for business expansion which can boost household incomes and enhance sustainable livelihood and productivity (Nwanyanwu, 2011). There is also wide market for their services as a large segment of the population is unbanked and poor (Acha Ikechukwu, 2012). The contributions of international development partners such as the UNDP, IFAD, GIZ and USAID in terms of provision of access to finance has helped to boost the industry (CBN, 2014b). In spite of these opportunities, Iganiga (2008) identifies the obstacles of high operating costs, loan delinquency, inadequate experienced staff and lack of sufficient funding as challenges confronting MFIs in Nigeria. The poor banking culture especially among rural dwellers and the urban poor hinders the growth of MFIs. Acha Ikechukwu (2012, p. 108) observes that because people are accustomed to borrowing money from friends and relatives and repaying the same amount of money irrespective of the tenure of such loans, it is difficult to accept the payment of interest on bank loans.

Some challenges of MFIs Include misappropriation of microfinance funds, inconsistencies in government policies and lack of sufficient infrastructural support (Agbaeze & Onwuka, 2014; Nwanyanwu, 2011). Other factors limiting the sustainability and outreach of MFIs are; the high rate of loan default among the SMEs, which poses serious consequences for microfinance bank, poor loan quality, high transaction costs, management deficiencies, poor documentation of credit process, wrong information, identity of the loan applicant, and unstable economic situation in the country (Noruwa & Emeka, 2012; Ogujiuba, Jumare, & Stiegler, 2013). Ogujiuba et al. (2013, p. 611) point out that MFIs ‘cannot be financially viable because small loans are too costly to administer and the profits from such lending too meagre to permit profitability’.

In the Nigerian context, impact assessment of MFIs has generated diverse views by researchers. The challenges of poverty and financial exclusion in Nigeria indicate that MFIs have not reached an appreciable level of performance and outreach. Olu (2009) reveals that there is a significant difference in the number of entrepreneurs who patronise MFIs and those who do not, and Efobi et al. (2014) confirm that access to financial services in Nigeria is generally low and hampered by factors such as income levels, age and inclination to ICT. The results from different studies on the impact of MFIs in Nigeria show that MFIs have positive impact on isolated variables but have no overall significant impact on the poverty level in the country which is of paramount interest. For instance, Babajide (2011) establishes that MFIs alleviate the financing constraints of microenterprises which patronise them, Olu (2009) maintains that MFIs generate significant impact in predicting entrepreneurial productivity and Ebomuche et al. (2014) show that MFIs contribute significantly in innovative management and business strategies, but all agree that their impact in poverty alleviation is in doubt. This indicates that there is no synergy in the poverty reduction capabilities of MFIs and brings to question their acclaimed impact

**2.4 EMPIRICAL REVIEW**

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included.  According to our estimates, [600 million jobs](https://www.worldbank.org/en/topic/jobsanddevelopment/overview) will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia And Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don’t have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account.

***What We Do***

A key area of the World Bank Group’s work is to improve SMEs’ access to finance and find innovative solutions to unlock sources of capital.

Our approach is holistic, combining advisory and lending services to clients to increase the contribution that SMEs can make to the economy including underserved segments such as women owned SMEs.

Advisory and Policy Support for SME finance mainly includes diagnostics, implementation support, global advocacy and knowledge sharing of good practice. For example we provide;

* Financial sector assessments to determine areas of improvement in regulatory and policy aspects enabling increased responsible SME access to finance
* Implementation support of initiatives such as development of enabling environment, design and set up of credit guarantee schemes
* Improving credit infrastructure (credit reporting systems, secured transactions and collateral registries, and insolvency regimes) which can lead to greater SME access to finance.
* Introducing innovation in SME finance such as e-lending platforms, use of alternative data for credit decisioning, e-invoicing, e-factoring and supply chain financing.
* Policy work, analytical work, and other Advisory Services can also be provided in support of SME finance activities.
* Advocacy for SME finance at global level through participating and supporting G20 Global Partnership for Financial Inclusion, Financial Stability Board, International Credit Committee for Credit Reporting on SME Finance related issues.
* Knowledge management tools and flagship publications on good practice, successful models and policy frameworks

**2.5 SUMMARY OF LITERATURE REVIEW**

The review was done under the following: theoretical framework conceptual framework and review of empirical studies.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

This chapter covers the description and discussion on the various techniques and procedures used in the study to collect and analyze the data as it is deemed appropriate

**3.2 Research Design**

For this study, the survey research design was adopted. The choice of the design was informed by the objectives of the study as outlined in chapter one. This research design provides a quickly efficient and accurate means of assessing information about a population of interest. It intends to study an assessment of the role of microfinance bank in Nigeria. The study will be conducted in Edo State.

**3.3 Population of the Study**

The population for this study were staff of selected microfinance banks in Edo State, Nigeria. A total of 134 respondents were selected from the population figure out of which the sample size was determined. The reason for choosing Edo State is because of its proximity to the researcher.

**3.4 Sample and Sampling Techniques**

The researcher used Taro Yamane’s formula to determine the sample size from the population.

Taro Yamane’s formula is given as;

n = N

1+N (e)2

Where N = Population of study (134)

n = Sample size (?)

e = Level of significance at 5% (0.05)

1 = Constant

**.:** n **=** 134 = 134 = 134

1 + 134 (0.05)2  1+134(0.0025) 1+0.335

n = 134 = 100

1.335

The sample size therefore is 100 respondents.

**3.5 Research Instrument and Instrumentation**

Data for this study was collected from primary and secondary sources. The primary source of data collected was mainly the use of a structured questionnaire which was designed to elicit information on an assessment of the role of microfinance bank in Nigeria. The secondary source of data collections were textbooks, journals and scholarly materials.

**3.6 Validity of Instrument**

The instrument of this study was subjected to face validation. Face validation tests the appropriateness of the questionnaire items. This is because face validation is often used to indicate whether an instrument on the face of it appears to measures what it contains. Face validations therefore aims at determining the extent to which the questionnaire is relevant to the objectives of the study.

In subjecting the instrument for face validation, copies of the initial draft of the questionnaire will be validated by supervisor. The supervisor is expected to critically examine the items of the instrument with specific objectives of the study and make useful suggestions to improve the quality of the instrument. Based on his recommendations the instrument will be adjusted and re-adjusted before being administered for the study.

**3.7 Reliability of Instrument**

The coefficient of 0.81 was considered a reliability coefficient because according to Etuk (1990), a test-retest coefficient of 0.5 will be enough to justify the use of a research instrument.

**3.8 Method of Data Collection**

This study is based on the two possible sources of data which are the primary and secondary source.

1. **Primary Source of Data:** The primary data for this study consist of raw data generated from responses to questionnaires and interview by the respondents.
2. **Secondary Source of Data:** The secondary data includes information obtained through the review of literature that is journals, monographs, textbooks and other periodicals.

**3.9 Method of Data Analysis**

Data collected will be analyzed using frequency table, percentage and mean score analysis while the nonparametric statistical test (Chi- square) was used to test the formulated hypothesis using SPSS (statistical package for social sciences). Haven gathered the data through the administration of questionnaire, the collected data will be coded, tabulated and analyzed using SPSS statistical software according to the research question and hypothesis. In order to effectively analyze the data collected for easy management and accuracy, the chi square method will be used for test of independence. Chi square is given as

X2 = ∑ (o-e)2

e

Where X2 = chi square

o = observed frequency

e = expected frequency

Level of confidence / degree of freedom

When employing the chi – square test, a certain level of confidence or margin of error has to be assumed. More also, the degree of freedom in the table has to be determined in simple variable, row and column distribution, degree of freedom is: df = (r-1) (c-1)

Where; df = degree of freedom

r = number of rows

c = number of columns.

In determining the critical chi \_ square value, the value of confidence is assumed to be at 95% or 0.95. a margin of 5% or 0.05 is allowed for judgment error.

**CHAPTER FOUR**

**DATA ANALYSIS AND INTERPRETATION**

* 1. **Introduction**

This chapter deals with the presentation and analysis of the result obtained from questionnaires. The data gathered were presented according to the order in which they were arranged in the research questions and simple percentage were used to analyze the demographic information of the respondents while the chi square test was adopted to test the research hypothesis.

* 1. **Analysis of Demographic Data of Respondents**

**Table 1: Gender of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Male | 65 | 65.0 | 65.0 |
| Female | 35 | 35.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table1 above shows the gender distribution of the respondents used for this study. Out of the total number of 100 respondents, 65respondents which represent 65.0percent of the population are male. 35 which represent 35.0 percent of the population are female.

**Table 2: Age range of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | 20-30years | 15 | 15.0 | 15.0 |
| 31-40years | 10 | 10.0 | 25.0 |
| 41-50years | 25 | 25.0 | 50.0 |
| 51-60years | 20 | 20.0 | 70.0 |
| above 60years | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 2 above shows the age grade of the respondents used for this study. Out of the total number of 100 respondents, 15 respondents which represent 15.0percent of the population are between 20-30years. 10respondents which represent 10.0percent of the population are between 31-40years. 25respondents which represent 25.0percent of the population are between 41-50years. 20respondents which represent 20.0percent of the population are between 51-60years. 30respondents which represent 30.0percent of the population are above 60years.

**Table 3: Educational Background of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | FSLC | 20 | 20.0 | 20.0 |
| WASSCE/GCE/NECO | 25 | 25.0 | 45.0 |
| OND/HND/BSC | 35 | 35.0 | 80.0 |
| MSC/PGD/PHD | 15 | 15.0 | 95.0 |
| OTHERS | 5 | 5.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 3 above shows the educational background of the respondents used for this study. Out of the total number of 100 respondents, 20 respondents which represent 20.0percent of the population are FSLC holders. 25 which represent 25.0percent of the population are SSCE/GCE/WASSCE holders. 35 which represent 35.0percent of the population are OND/HND/BSC holders. 15 which represent 15.0percent of the population are MSC/PGD/PHD holders. 5 which represent 5.0percent of the population had other type of educational qualifications.

**Table 4: Marital Status**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Single | 30 | 30.0 | 30.0 |
| Married | 55 | 15.0 | 45.0 |
| Divorced | 5 | 20.0 | 65.0 |
| Widowed | 10 | 15.0 | 80.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 4 above shows the marital status of the respondents used for this study. 30 which represent 30.0percent of the population are single. 55 which represent 55.0percent of the population are married. 5 which represent 5.0percent of the population are divorced. 10 which represent 10.0percent of the population are widowed.

**Table 5: Category of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Senior staff | 25 | 25.0 | 25.0 |
| Middle staff | 45 | 45.0 | 70.0 |
| Junior staff | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 5 shows the category of respondents used for the study. 25 respondents representing 25.0perrcent of the population under study are senior staff. 45 respondents representing 45.0perrcent of the population under study are middle staff. 30 respondents representing 30.0perrcent of the population under study are junior staff.

**4.3 Analysis of Psychographic Data**

**Table 6: Microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agree | 30 | 30.0 | 30.0 |
| Agree | 42 | 42.0 | 72.0 |
| Undecided | 10 | 10.0 | 82.0 |
| Disagree | 10 | 10.0 | 92.0 |
| Strongly disagree | 8 | 8.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 6 shows the responses of respondents if microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.30 respondents representing 30.0percent strongly agreed that microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.42 respondents representing 42.0percent agreed that microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas. 10 respondents representing 10.0 percent were undecided. 10 respondents representing 10.0percent disagreed that microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.8 respondents representing 8.0percent strongly disagreed that microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.

**Table 7: Inadequate funds available to microfinance banks hinders their effectiveness in the area.**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agree | 10 | 10.0 | 10.0 |
| Agree | 15 | 15.0 | 25.0 |
| Undecided | 5 | 5.0 | 30.0 |
| Disagree | 40 | 40.0 | 70.0 |
| Strongly disagree | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 7 show the responses of respondents if inadequate funds available to microfinance banks hinders their effectiveness in the area.10 of the respondents representing 10.0percent strongly agree that inadequate funds available to microfinance banks hinders their effectiveness in the area.15 of the respondents representing 15.0percent agree that inadequate funds available to microfinance banks hinders their effectiveness in the area.5 of them representing 5.0percent were undecided. 40 of the respondents representing 40.0percent disagree that inadequate funds available to microfinance banks hinders their effectiveness in the area.30 of the respondents representing 30.0percent strongly disagree that inadequate funds available to microfinance banks hinders their effectiveness in the area.

**Table 8: The government can easily reach out to SMEs through the micro finance.**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agree | 60 | 60.0 | 60.0 |
| Agree | 25 | 25.0 | 85.0 |
| Undecided | 10 | 10.0 | 95.0 |
| Disagree | 5 | 5.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 8 show the responses of respondents if the government can easily reach out to SMEs through the micro finance.60 of the respondents representing 60.0percent strongly agree that the government can easily reach out to SMEs through the micro finance.25 of the respondents representing 25.0percent agree that the government can easily reach out to SMEs through the micro finance.10 of them representing 10.0percent were undecided. 5 of the respondents representing 5.0percent disagree that the government can easily reach out to SMEs through the micro finance.

1. **Table 9: The micro finance charges high interest rate for their loans which make it unrealistic to apply for.**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agree | 25 | 25.0 | 25.0 |
| Agree | 32 | 32.0 | 57.0 |
| Undecided | 13 | 13.0 | 70.0 |
| Disagree | 15 | 15.0 | 85.0 |
| Strongly disagree | 15 | 15.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 9 shows the responses of respondents if the micro finance charges high interest rate for their loans which make it unrealistic to apply for. 25 of the respondents representing 25.0percent strongly agree that the micro finance charges high interest rate for their loans which make it unrealistic to apply for.32 of the respondents representing 32.0percent agree that the micro finance charges high interest rate for their loans which make it unrealistic to apply for. 13 of the respondents representing 13.0percent were undecided. 15 of the respondents representing 15.0percent disagree that the micro finance charges high interest rate for their loans which make it unrealistic to apply for.15 of the respondents representing 15.0percent strongly disagree that the micro finance charges high interest rate for their loans which make it unrealistic to apply for.

**Table 10: The procedures to access the loans are rigorous and there is no guarantee of getting it.**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agree | 65 | 65.0 | 65.0 |
| Agree | 30 | 30.0 | 95.0 |
| Disagree | 3 | 3.0 | 98.0 |
| Strongly disagree | 2 | 2.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 10 show the responses of respondents if the procedures to access the loans are rigorous and there is no guarantee of getting it.65 of the respondents representing 65.0percent strongly agree that the procedures to access the loans are rigorous and there is no guarantee of getting it. 30 of the respondents representing 30.0percent agree that the procedures to access the loans are rigorous and there is no guarantee of getting it. 3 respondents representing 3.0percent were undecided. 3 of the respondents representing 3.0percent disagree that the procedures to access the loans are rigorous and there is no guarantee of getting it. 2 of the respondents representing 2.0percent strongly disagree that the procedures to access the loans are rigorous and there is no guarantee of getting it.

**4.4 Test of Hypotheses**

**Hypothesis I**

H0: Microfinance banks are not agents for economic development.

H1: Microfinance banks are agents for economic development.

**Level of significance**: 0.05

**Decision rule**: reject the null hypothesis H0 if the p value is less than the level of significance. Accept the null hypothesis if otherwise.

| **Table 11 Test Statistics** | |
| --- | --- |
|  | Microfinance banks are agents for economic development. |
| Chi-Square | 105.520a |
| Df | 3 |
| **Asymp. Sig.** | **.000** |
| a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0. | |

Conclusions based on decision rule:

Since the p-value= 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that microfinance banks are agents for economic development.

**Hypothesis II**

H0: Soft loans and advances to rural community by microfinance banks are not sources of funds for grass-root development.

H1: Soft loans and advances to rural community by microfinance banks are sources of funds for grass-root development.

**Level of significance**: 0.05

**Decision rule**: reject the null hypothesis H0 if the p value is less than the level of significance. Accept the null hypothesis if otherwise.

| **Table 12 Test Statistics** | |
| --- | --- |
|  | Soft loans and advances to rural community by microfinance banks are sources of funds for grass-root development. |
| Chi-Square | 70.347a |
| Df | 2 |
| **Asymp. Sig.** | **.000** |
| a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0. | |

Conclusions based on decision rule:

Since the p-value= 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that soft loans and advances to rural community by microfinance banks are sources of funds for grass-root development.

**CHAPTER FIVE**

**CONCLUSION AND RECOMMENDATION**

**CONCLUSION**

Considering the present economic hardship in the country there is the urgent need for microfinance in the country in order to provide for those entrepreneurs who are able and capable of turning small amount of capital to fortune at lower rate of interest.

The Government of Nigeria has identified microfinance as an effective tool for promoting better access of the poor, low income population and vulnerable groups, to financial and social services, and broad based/strong economic growth. Microfinance enables poor people to expand their businesses, increase their revenues, and create employment. To put micro- finance in proper perspective, the Nigerian Government launched the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on 15th December, 2005.

In the other way SMEs constitute large numbers of small business that are found in all the nook and crannies of the country which constitute about 92% of all business in the country contributing to the GDP growth and are practically the bedrock of the economy and the highest employer of labour. They are located in almost all sectors of the economy ranging from agriculture to manufacturing and are also sources of income to most families in the country.

This research found that one of the biggest problem faced by the SMEs is that of financing which if the Microfinance polices are adhered to properly will provide solution and enhance economic growth and development of the country.

**RECOMMENDATIONS**

The following recommendations need to be considered seriously:

* 1. The government needs to review policies on microfinance to include all embracing prerequisite with the intention of removing all bottlenecks that serves as impediment to the efficiency and effectiveness of microfinance policies in the country, to pave way for effective microfinance policy that will bring the desired economic growth and development.
  2. Public policies should include institutional capacity building such that microfinance institutions can match people‟s capacity with opportunities in order to link the demand and supply of capital to the requirements of the SMEs to boost the accessibility to financing which will lead to economic growth and development in the country.
  3. The challenge of policy streamlining is to combine growth promoting policies with the right policies in assuring the poor fully participate in economic development. However, the challenges for this research is to improve knowledge and understanding of what policies, technologies and investment matter for sustained and inclusive growth in the country (Kuznets, 1971).
  4. Poverty in any economy deter economic growth and development. To reduce poverty and improve the quality of life in Nigeria will require sustained economic growth. However, the extent of poverty reduction will depend on the degree to which the poor participate in the growth process and share in its proceed. Repositioning microfinance institutions will go a long way towards achieving these.
  5. Microfinance institutions should be adequately equipped, repositioned and be given adequate attention by the government in order to serve as a source of finances to SMEs in the state. This will go a long way in minimizing unemployment as the SMEs are major employers of labour, which will boost economic growth and development.
  6. Microfinance Institutions need to put more efforts towards financing SMEs, their roles need to be felt by the SMEs in terms of growth and development.
  7. The guidelines for microfinance institutions to finance SMEs need to be flexible to accommodate the SMEs needs.

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**APPENDIX I**

**QUESTIONNAIRE**

**INSTRUCTION:** Please endeavor to complete the questionnaire by ticking the correct answer (s) from the options or supply the information where necessary.

1. Gender
2. Male
3. Female
4. Age range
5. 20-30
6. 31-40
7. 41-50
8. 51-60

e. Above 60

1. Educational qualification
2. FSLC
3. WASSCE/GCE/NECO
4. OND/HND/BSC
5. MSC/PGD/MBA/PHD
6. Others
7. Marital Status
8. Single
9. Married
10. Divorced
11. Widowed
12. Category of Respondent
13. Senior staff
14. Middle staff
15. Junior staff

**SECTION B**

**QUESTIONS ON AN ASSESSMENT OF THE ROLE OF MICROFINANCE BANK IN NIGERIA.**

1. Microfinance banks plays a vital role in the financing of small and medium enterprises in rural areas.
2. Strongly agreed
3. Agreed
4. Undecided
5. Disagreed
6. Strongly disagreed
7. Inadequate funds available to microfinance banks hinders their effectiveness in the area.
8. Strongly agreed
9. Agreed
10. Undecided
11. Disagreed
12. Strongly disagreed
13. The government can easily reach out to SMEs through the micro finance.
14. Strongly agreed
15. Agreed
16. Undecided
17. Disagreed
18. Strongly disagreed
19. The micro finance charges high interest rate for their loans which make it unrealistic to apply for.
20. Strongly agreed
21. Agreed
22. Undecided
23. Disagreed
24. Strongly disagreed
25. The procedures to access the loans are rigorous and there is no guarantee of getting it.
26. Strongly agreed
27. Agreed
28. Undecided
29. Disagreed