**THE IMPACT OF MICROFINANCE BANKS IN RURAL DEVELOPMENT IN NIGERIA**

**Abstract**

This project work examines the bank institution to rural economic in Etsako West Local Government in Edo State. Microfinance bank has long been recognized to play an important role in the economic development of rural area in Etsako West Local Government. The aim of mobilization and allocation of savings for productive, provision of structure for monetary management and serve as the basic for managing liquidity. The descriptive research method was used for this study. Data was collected making use of a structured questionnaire. The findings revealed that there is also absence of security needs to protect the bank properties. Based on the findings, the study recommends that the bank should train manpower and the government should provide infrastructural facilities. This project work concludes that economic policy is important in the rural area in recovery and transition into a competitive economy.

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

The ideal of micro-finance banking become necessary due to the inability of the conventional banking schemes to mobilize the dormant funds in rural area and channel them into needy factor. Besides, small business and the rural farmers needed to inculcate banking culture. Their idle funds needed to be mobilized for onward lending to the productive sector hence the need for micro – finance banks arose.

Much effort have been made in the past by successive government to involve rural dwellers in Nigeria in modern banking practice the extend credit to them in terms that are easily attainable earlier on, in obedience to the Central Bank directive the commercial banks opened braches in many communities.

In spite of opening of such branches, it was not possible to make banking attractive to Rural dwellers. This was because banking operations even in the rural braches have continued to be complex, cumbersome and too complicated for the level of education and enlightenment at the rural people participation therefore, was not just possible.

In Nigeria, according to Ezike (1981) the main objective of rural banking is to effectively mobilize saving in the rural area and bring credit close and within the reach of the long-credit starved farmer.

However, like the previous schemes, aimed at small business in the rural and small business in the rural/urban areas and farmers to mention but a few. The rural banking scheme has failed to accomplish its set objectives of providing for the rural people in particular. Against the background, this study is designed to X-ray the role of micro finance banking in the socio-economic development of Nigeria (Arural) with a focus on Rural micro finance bank Arural Edo State.

**1.2 Statement of Problem**

The banking industry is quite a risky business and a lot of fears is being exercised in establishing bank branches in rural areas because of inadequate security and fear incurring losses in the course of their operations.

There is a problem associated with the non-provision of loans to rural farmers. The problem of rural-urban drift lack of employment opportunities, inaccessibility of infrastructure, road, electricity, potable water, telephone services, among other which for a long time have been denied the rural communication.

**1.3 Research Questions**

How does microfinance bank reduce poverty in the community?

What is the function of microfinance bank toward women and other disadvantaged population groups?

What does microfinance bank does towards the activities of business in the community?

Is micro finance bank a base for the development of the rural infrastructure?

**1.4 Objectives of the Study**

To ascertain how microfinance banks help to reduce poverty in the community.

To find out the function of microfinance bank towards women and other disadvantaged population groups.

To find out what microfinance bank does towards the activities of business in the community.

To find out if microfinance bank serves as a base for the development of the rural infrastructure.

**1.5 Statement of Hypotheses**

In doing this study, the researcher has adopted the following hypothesis designed to accomplish the objective of the study.

**Hypothesis One**

**HI:**Micro finance bank does not provide for the needs of the people.

**Ho:**Micro finance banks provides for the needs of the people.

**Hypothesis Two**

**Ho:**Microfinance bank does not assist in the employment of the people.

**HI:**    Microfinance bank assists in the employment of the people.

**Hypothesis Three**

**Ho:**Microfinance banks are not a base for development of the rural infrastructure.

**HI:**Microfinance bank is a base for the development of the rural infrastructure.

**Hypothesis Four**

**Ho:**Microfinance bank does not help in the provision of soft loan to assist the rural dwellers.

**Hi:**Microfinance banks help in the provision of soft loan to assist the rural dwellers.

**1.6 Significance of the Study**

Microfinance banking service has become relevant instruments for the socio-economic development of our rural areas. Rural Micro-finance banks occupy a pride of place like the economic activities of the rural people.

Significantly, this study will contribute to the existing literature for information and reference.

Also, it will enable management of banks know the problems of rural banking and hence be able to take effective decision about them.

The study will also serve as a source of information for those who will embark on a similar research.

**1.7 Scope of the Study**

This study is limited to the services of the micro finance bank in Nigeria with a focus on Rural Micro finance bank, Arural Etsako West Local Government Area of Edo State.

**1.8 Limitation of the Study**

The framework os this study is limited due to time constraints and the financial involvement in carrying out a detailed and thorough extensive work on the impact of microfinance banking in rural development.

Perhaps, the greatest limitation of this work stemmed from the limited available secondary data at the researcher’s disposal.

Ignorance and low literacy level among the Nigerian public, as well as suspicious among them greatly limited my data gathering especially during random sample interview carried out. This low awareness and lack of orientation limited this study.

Also, was the dearth of data in this field, as the library could not supply all data needed, and even most of the books catalogued were not in the shelf, and even if found there irrelevant and pertinent pages have been torn out, and of course most of the books were outdated.

**1.9 Definition of Terms**

In this research, the researcher made use of some technical but related terms for case of understanding and application the following functional definition have been giving.

**Micro Finance Bank:**Bank is seen as self-sustaining finance institution, owned and managed by a community for the purpose providing credit banking and other financial services to its member largely on the basis self-recognition and credit works.

**Deposit:**Money kept in a bank not to be withdrawn without notices on which interest is payable.

**Credit:**A payment made to somebody on trust on the ground that such money will be repaid as at when due.

**DFRRI:**The Directorate of Food, Road and Rural Infrastructure.

**Interest Rate:**This can be defined as the rate at which the commercial banks lend money to the public.

**Savings:**An amount or a sum of money deposited in the bank on which interest is payable which also can be written by depositor at will.

**CBN:**Central banks of Nigerian.

**Interest Risk:**The risk borne by a lender that interest rate an economy will raise causing a fall in capital value of the loan.

**Cash Flow Statement:**It is financial information which shows the cash inflow and out of an enterprise in a give accounting year or a reporting period but include inflow rising for change in cash as a result of the purchasing and liquidation of cash equivalent.

**Discounting Cash Flow Techniques:**This is use to ensure comparability of cash flow accruing at different times.

**Financial Bank:**That part of organization risk that arise from using capital, partly finance by capital financial risk together with business risk made up total risk.

**Coupon Risk:**This is the rate of interest pardon the nominal value of retained securities, unless the securities have a market value capital to their nominal value the actual yield will not equal to coupon rate.

**Bad and Doubtful Debt:**  Portion of loan and advance granted by banks that are considered uncollected because they are not operating to schedule.

**Credit Management:**The whole system of credit control, which aims at ensuring good quality loan asset for bank at all times.

**Classified Balance:**This is the customer is total habit less value of any security held which recoverable and the accumulated interest charges from the time the account was classified or in bad debt category.

**Business Risk:**That part of business organization risk which arises from it commercial activities business risk together with financial risk makes up total risk.

**Correlation:**The extent to which variation in the value of one variable are associated with variation in that of another variable. For example it is generally true that the return from any particular asset are corrected with return from the generally.

**Annuity:**A series of constant cash flows receivable for a specified number of years.

**Accounting Rate of Return:**The net accounting profit from a particular project expressed as percentage of the book value of the asset invested in the project.

**Equity:**    The risk bearing portion of the long-term capital of a business organization for a company it is the share capital and reserve.

**1.10 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Introduction**

The condition of the rural dwellers remained deplorable in spite of the federal government’s rural development programmes. Some researchers believe that government’s centralist approach to this was the main reason why the programmes did not achieve much of the desired results. A more participatory and decentralized approach, which paves the way for the active involvement of these rural dwellers in their development quest, was advocated. The success of the participatory and rural development was predicated on the fact that 70% of the nation’s population lives in the rural areas where potentials for agricultural production abound. Development of local arts, crafts and technology has also been described as a veritable means of laying a solid technological base for this country. These small scale industries are more labour intensive and hence generate more employment. Their capital ratio is very low. They seem better suited to the development of home grown technology. They are more suited to the next stage of industrialization with its emphasis on local production of myriad components for use by larger scale assembly type enterprises with each of such component being the special of one small scale enterprise providing potential vehicle for mass involvement in the development effort (National Institute for Policy and Strategic Studies, 1986). While the potentials to mass-produce food and open up small-scale industries abound in the rural areas, the major difficulty for the rural producers is capital or loanable fund. Jega and Nkom (1995) write that a very critical factor in the struggle to reverse rural decline and to achieve a significant breakthrough in the productivity and living standards of Nigeria’s rural population lies in improving the availability of credit and banking facilities in the rural areas. As they rightly pointed out, enhanced access to institutional credit is very important element in the transformation of the economic base of rural society. Institutional credit will enable the farmer to acquire more productive assets to employ more labour and to expand their scale of production. Credit facilitates the adoption of those modern out-put enhancing technologies and inputs which enables the farmer to break-out of the stranglehold of the money lender, the exploitative produce buyer and the shylock merchant, all of whom have survived and continued to prosper on usurious credit, extended to the farmer on highly unfavourable terms. Peasant farmers and rural small-scale industrialists to meet their credit need (First Bank Monthly Business and Economic Report, 1996). To a great extent, such informed credit institutions have relieved these rural dwellers of credit and other sundry needs and problems but they have certain constraints. They have limited ability to provide terms for finance and large loans or to mobilize savings. According to Bailey (1999), they have difficulty coping with inflation. They cannot control the money in circulation or regulate people’s preferences. It is equally unfortunate that the obnoxious practice of the rural dwellers burying their money in the ground, hiding them under their pillows or keeping them in calabashes will continue. A part from not helping the rural dwellers inculcate banking habits, such monies outside the banking sector are not capitalized (Mabogunje, 1995) i.e. converted into a factor of production through credit route. Therefore, the federal government deemed it expedient to provide institutions to provide the means to credit facilities at the grassroots.

**2.2 CONCEPT OF MICROFINANCE**

There are various definitions of the term “microfinance” that have been provided by scholars, academics as well as various organizations. According to Opportunity International, Microfinance can be defined as the stipulation of monetary services such as credit, funds, assurance and guidance to persons dwelling in poverty. In the view of Chad Brooks (2013), Microfinance refers to a collection of financial services, including credit, advance, money and insurance cover, accessible by poverty stricken industrialists and small commercial proprietors who have no security and wouldn't otherwise meet the requirements for an average bank loan. A non-governmental organization (The Consultative Group to assist the poor, CGAP), views the term "microfinance," as a wide range of products (including spending, disbursements, investments, and insurance cover) modified to meet the specific needs of low-income persons. In the view of the Central Bank of Nigeria, microfinance is about offering financial services to the poor who are usually not served by the typical financial and monetary institutions (CBN Report, 2005). According to the report, three characteristics differentiate microfinance from other official monetary and financial products. These are: the compactness of highly developed loans and or funds collected; the non-existence of asset based securities; and ease of procedures.

**2.2.1 CONCEPT OF POVERTY**

Several definitions have been provided in several contexts for the term poverty. In the 1960s poverty was defined based on the level of income reflected in the macroeconomic markers like GDP per head although this changed overtime in the 1970s as the definition was directed to focus on redistribution of growth. Poverty was not only described in terms of shortage of income during the middle of the 70s but also as a deprivation of access to education, health and various services succeeding the international labour organization (ILO) original work. However the definition of poverty evolved into a more complex concept in the 1980s as it featured non financial features (World Bank Reports, 1996). Chambers (1993) described poverty as a multidimensional occurrence with complicated origins. He furthermore went on to describe it as a living standard below the UNESCO accepted standard of living that should include the provision of the basic necessities of life (food, shelter and clothing). Yet poverty extends beyond expenditure or wages shortages; it also comprises of susceptibility, lack of confidence, segregation, rejection, be short of authority and control. In addition, (Garuba 2001) stressed that being poor is a challenge between an individual’s available income and his/her environmental demand. It is the inability of individuals to sustain a minimum level of reasonable living and individuals may also have the tendency to be constricted from socio-economic opportunities. (Onibokun & Kumuyi 1996) threw more highlight into this point when they described being poor as “a means of existence characterized by depleted ingestion of calorie, healthcare facilities that are not easily accessible, poor educational value or worth, isolation to a variety of accommodation and societal amenities” (P 3). The term poverty is also perceived by (Ogwumike 2001) like a domestic family occurrences; the incapability of affording adequate earnings to support daily essential things for survival including shelter, education, clothing and transportation. His specifications for minimum standard of living were based on the grounds of food and its required nutritional requirements in relations to protein and calories. Physical, emotional and moral pains are experienced by the poor (Obayelu et al, 2006), its victims live lacking primary liberties of activities and options in which the rich does not take seriously (Sen, 1999). According to the United Nations Development Program (UNDP, 1998), those who are poor are uneducated, untrained and cannot be employed. They are completely reliant on others in order to meet with their everyday requirements, due to inadequate earnings or income shortages. According to UNDP Report in 2001, poor and underprivileged countries are denoted generally by low level of productivity, disturbing high rate of population growth, high level of unemployment, low income levels, inadequate social and infrastructural amenities, inequitable distribution of income, poor economic growth etc (UNDP). The consequences of poverty are enormous. Depriving those suffering from it of portable drinking water, sufficient food, clothing and shelter, but also proper health care and standard education are some of its defects. It robs people of their rights, freedom, dignity and peace of mind. Poverty also endangers the lives of those experiencing it hence killing all hopes for future. Poverty is, indeed, painful.

**2.3 CONTEXT OF THE NIGERIAN MICROFINANCE**

Microfinance is often advocated as a solution to multiple social problems in Nigeria. Poor persons with access to credit can make investments in enterprises that could bring them out of poverty. By the understanding of the level of poverty in Nigeria, Government attempted with several 3micro-credit programs to alleviate poverty programs/projects such as Agricultural Development Programs (ADPs), National Directorate of Employment (NDE), Better Life for Rural Dwellers (Later named Family Support Programs), the Directorate of Food, Roads and Rural Infrastructure (DFRRI), which were pursued during 1986 to 1999. Other institutions that have also attempted purveying micro-credit were the rural banking scheme (1977-1990); People’s Bank (1987-1990); Community Bank (1990-2007). It would be good to note that, according to the Microfinance Policy Framework that was launched in 2005, the erstwhile community banks that met the requirement of increasing their capital base to N20 million by the end of the year 2007, were converted into microfinance banks. Although all the programs were directed at improving the productive base for sustainable growth, most of the efforts at purveying micro credit to alleviate poverty were largely irrelevant, urban-structured from the standpoint of the realities of (who is the poor?)- understanding the poor (Akanji, 2006). There are basically 4 formal and 5 informal models of purveying microcredit to the target group. The most successful had been the informal model because in Nigeria and several developing economies where poverty is high, some individuals, households and regions remain isolated from markets and from mechanisms for borrowing and lending or insuring against risk (Aryeety, 2005). Consequently, informal lenders tend to target the poor (including women), although not always successful; attempts by better financed innovative schemes to target the same poor people have not been more successful (Akanji, 2006). The issue there is no longer a simple one of targeting or not targeting, but of how to equip institutions that can reach the poor at least cost (that is, informal lenders) to extend their reach.

Most of the formal institutions that purvey credit to the poor had not been successful. The reasons adduced for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institutions. The framework for linking informal savings collectors to the formal institutions is a welcomed development. The banks’ readiness to acquire more information about the informal sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programmes in Nigeria. An example is the merger of the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria and Family Economic Advancement Program (FEAP), to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2001. Income in Nigeria is closely linked to social and economic status: whilst the upper and middle classes inhabit the ‘formal income from their formal ventures and employment, on the other hand, the poorest and low income status are largely ‘informally’ employed. Low income households are not usually involved in regular income occupations and therefore wait for job creation strategies to absorb them; they ‘permanently inhabit’ a dependent segment of the so called developing Nigerian economy, in which opportunities for jobs, or for independent and self-sustaining entrepreneurial capital accumulation, are minimal. Though poverty reduction has long been a high priority for the Government of Nigeria, microfinance is still an experimental tool in its overall strategies. The Federal Government of Nigeria has over the years demonstrated strong commitment to the provision of financial services and economic empowerment of the poor and low income groups. The critical role of finance in the realization of the goals motivated the government, in collaboration with the Central Bank of Nigeria, to formulate the Financial System Strategy (FSS) 2020 in 2007, as part of an overall National vision, which aims to make Nigeria one of the 20 largest economies in the world by 2020.

**2.5 EFFECTIVENESS AND CONTRIBUTIONS OF MICROFINANCE BANKS**

Thomas Dichter admits that microfinance can help the poor smooth consumption over periods of cyclical downturns or unexpected crises. This positive role of microfinance should not be dismissed altogether. If this consumption smoothing means parents can send their children to school, or buy essential medications, and maintain nutritional in-takes of their children then microfinance is likely to have positive long-term impacts on productivity. Dasgupta (1995) noted that at low levels of nutrition and health care, increase in current consumption improves future labour productivity: if nothing else, morbidity is reduced. For example, Pitt and Rozenweig (1985) observed from Indonesian data that an increase in the consumption of fish, fruit, or vegetables by 10 percent reduces the chances of illness there by 9, 3 and 6 percent respectively. Microfinance, thus, fulfils an important safety-net task, especially in countries where there is no state-sponsored social security system. In difficult times, the poor can first turn to family and neighbors. But in a situation of generalized poverty or economy-wide crisis, the poor will have to go to money lenders or to the employer/landlord for whom she or he works. If microfinance institutions (MFIs) extend lending to the very poor in these circumstances then they can help break the power and hold of such creditors who operate in the inter-locking credit and factor markets. Although high, the interest rates charged by the MFIs are lower than the rates charged by informal creditors (Chowdhury 2009).

1. Microfinance is a way of reducing poverty: accessing small amount of credit at a reasonable interest rate gives the economically active poor an opportunity to set up their own business. Many studies have shown that poor people are trustworthy with the repayment of loans.
2. Microfinance is established to provide financial services to the economically active poor and low income earners to help them engage in income generating activities or expand their small business.
3. Microfinance banks help in providing services that sustain entrepreneurs in their self-employment and also assist in generating employment.
4. A noticeable economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to microfinance which is aimed at providing credit to the economically active poor.
5. There are main features that distinguish microfinance banks from other types of banks, which are smallness of loans advanced and or savings collected, the absence of asset based collateral and simplicity of operations.
6. Microfinance banks are also established to replace the community banks because of the weak capital base of the community banks coupled with weak institutional capacity.
7. Efforts ranging from traditional, governmental, nongovernmental, formal and informal have over the years been directed at the development of sustainable microfinance in Nigeria but due to one problem or the other, these efforts have been futile and have led to the establishment of microfinance banks.

**2.5 MICROFINANCE IN NIGERIA**

The importance of microcredit to the growth of any economy can never be overemphasized, as it is the solution to helping the poor. Micro-enterprises or small businesses are important in situations where economic and social environments have had a disappointing effect on the people, so that the poor can survive under micro-financing. Yet these small businesses play a great role in providing jobs thereby contributing positively to the GNP. Despite this, the enabling environment is still lacking in Africa to make this function well. The weakness of the enabling environment has caused untold hardship on the people. Lack of infrastructural facilities has stood on the way of small business owners. Part of the fallouts of the implications of SAP in Nigeria was that it caused varying degrees of hardship to different vulnerable groups of the population. Therefore, to give relief, improve earnings opportunities, alleviate poverty and ignorance among the poverty stricken, Better Life Programme (BLP) was launched in 1987 but later changed to Family Support Programme (FS P)/Family Economic Advancement Programme (FEAP) under Abacha in 1993. To benefit from microcredit scheme of BLP/FSP/FEAP, individuals must be members of cooperative societies. Since 1987, the efficacy of microcredit through the cooperative regime to alleviate poverty has come under a paucity of loanable funds, absence of support institutions in the sector, unwillingness of conventional banks to support micro enterprises, weak internal control, poor credit administration and asset quality, low management capacity and unavailability of clients. This is an important test since poverty alleviation has turned out to be a key policy debate in recent development literature and Nigerian Government is fully committed to alleviating poverty among its citizens. The Nigerian economy is full of attempts at alleviating poverty especially among vulnerable groups based on cooperative ideals with large degrees of failure. According to the World Bank (1995) the Peoples Bank and Community Bank failed in achieving their goals and objectives. The failure experienced through these approaches (i.e. Peoples Bank and Community Bank) were as a result of the wrong perception by members of the unique framework of cooperatives due to poor financial management by some cooperatives, lack of understanding of the status of cooperatives by a large number of beneficiaries, among others. The view of these authors is that micro credit through cooperative does not automatically guarantee poverty alleviation. They maintained that for success to be achieved by such cooperatives they need to depend largely on loan administration, efficient cooperative management, and on whether the organized cooperative is routed on felt needs of the citizenry rather than on undue emphasis on business orientation and profitability. In the case of Nigeria, over 80 million people (65% of the active population) remain unserved by the formal financial institutions (Central Bank of Nigeria (CBN), 2006). Hence there is a need for MFIs to reach the unreached and serve the unserved.

**2.6 THEORETICAL REVIEW**

The systems theory is an analysis that originated from Biology to the social sciences through the instrument of anthropology. Its application to political science was developed mainly by David Easton, using the political system as a unit of analysis. He defined the political system as “that system of interactions in any society through which binding or authoritative allocation is made and implemented” (Varma, 1975:174). Easton believed that the political is constantly receiving a stream of events and influences from its environment, and so concentrated his study on the nature of these interactions. According to this exponent, the political systems also use these mechanisms to regulate their own structure and behaviour. This concept of a systematic persistence was emphasized by Easton. Easton was primarily concerned with the sources of stress and the process of regulating stress. The political receives challenges as well as support from the society. The demands and supports from the environment go through conversion process and become outputs. The effects and consequences of the outputs are put back not the system as inputs through the process called FEEDBACK. The outputs are not terminal points as they are put back into the system thus, initiating another round of the complex cyclical process. What this reveals is that any organized system that is unable to sustain itself, regulate its needs and manages its conflicts to the minimal level will likely crash.

**2.7 THE RELEVANCE OF SYSTEM THEORY**

The systems theory is relevant to the topic under discussion in that the theory sees organisation as a system interacting with the environment within which is composed of interdependent parts or subsystems and with boundaries separating it from its environment and other systems. This implies that the Micro Finance Bank if well managed will play vital roles in determining the effects on the indigenes of Atabaka people. Secondly, it shows the responses of micro finance Bank to her citizens in terms of credit availability to her citizens. The theory further boosts the change and dynamism and facilities arising from the existence and proximity of microfinance banks to citizens of the country. Furthermore, for a functional and operational Micro Finance Bank, all the departments must be transparent, interdependent and work in cooperative manner. The theory also explains the relationship between the parts on one hand and between the parts and the whole system on the other hand. Applicably, the Micro Finance Banking has been a unifying factor with all sense of purpose amongst the Atabaka people. From the foregoing, the application of system theory to Micro Finance Banking as agent of Rural Development cannot be belittled. Access by the poor to financial services enables them to have control over factors of production, be more self-reliant, generate employment, enhance household income and create wealth. Microfinance is the provision of financial services to the poor who are traditionally not served by the conventional financial institutions. In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are (Nwanyanwu, n.d) served by the unregulated financial sector. Microfinance specific institutions in Nigeria have not been able to adequately address the gap in terms of credit (http://www.businessdayonline.com/NG/index.php/entrepreneur/entrepreneur-news/19604- travails-of-small-enterprises-\_br),, deposit mobilization and other services. Thus, the need for a microfinance policy framework in Nigeria. Microfinance bank remains one of the most regulated enterprises in the world. This is not surprising as every human activity revolves around the issue money-Its availability, its real term value and the quantity of its supply to the individual as well as corporate entities. The history of banking in Nigeria is replete with several ordinances, laws and decrees which are constantly subjected to further reviews and amendments as circumstances dictate. Banking in contemporary Nigeria has become very complex with all the attendant problems of a depressed economy, the negative exchange rate, the severe competition for an inelastic and over cautious clientele, the increasing volume of problem loans, the astronomically rising cost of funds and interest rates, the lack of product differentiation and a largely disoriented work force. All these dictate that community bankers must be dedicated, honest, and vigilant and be prepared to make sacrifices that will make their banks grow. A new innovation, no matter how good or profitable, is received in every society with caution. While some people are quite willing and eager to accept innovation, some tarry a little longer waiting to see how it goes before joining. To many outsiders all banks are alike. They accept deposits and make loans. The banking industry, in turn, is often viewed as a uniform competitor with nonbank financial services companies. However, to insiders there are many variations among banks, with the distinction between Micro Finance banks and all other banks being one of the most important. As the name suggests, Micro Finance banks focus their activities on local communities, gathering deposits and lending within a restricted trade area rather than operating in regional or national markets. Because of their narrow focus, these banks are generally smaller. In fact, many market participants label banks with less than $1 billion in assets as (http://www.readbag.com/frbatlanta-filelegacydocs-hein-article-final\_br) microfinance banks. Bankers not only view microfinance banks as being far different from large banking organizations but also draw important distinctions between different types of (http://www.readbag.com/frbatlanta-filelegacydocs-hein-article-final\_br) microfinance banks. For example, the banking industry sponsors many trade associations. Most states have associations for independent (micro finance) banks, whose members are typically the smallest institutions, in addition to a state bankers association, which generally draws members from all size banks. As another illustration, when evaluating micro finance bank performance, most bankers and analysts compare performance across banks of similar size that operate in similar geographic markets with the same general strategies. In fact, the uniform bank performance report set up by the Federal Financial Institutions Examination Council (FFIEC) selects peer institutions for banks on the basis of size. Policymakers also often focus their attention narrowly on community banks. For example, because community banks are associated with small business lending, local community development, and direct customer contact, policymakers have worried whether such banks will be able to survive threats brought by consolidation of the banking industry. Implicitly, policymakers worry whether consolidation will reduce the availability of credit to small businesses and impose rising fees on consumers. While the banking industry has experienced dramatic changes over the past twenty years (http://www.readbag.com/frbatlanta-filelegacydocs-hein-article-final\_br), microfinance banks have survived and in many cases prospered. Regulatory changes during this period include geographic deregulation, with the passage of the Interstate Banking and Branching Efficiency (Riegle-Neal) Act of 1994 and the general elimination of restrictions against interstate and intrastate banking, and branching and product deregulation with the passage of the Financial Services Modernization (Gramm-Leach-Bliley) Act in 1999. The last twenty years have also witnessed extraordinary technological changes, which have directly affected the banking industry.3 Amid these changes, many microfinance banks, have flourished financially (see Bassett and Brady 2010), and de novo banks continue to enter the scene to the surprise of many who expected greater consolidation of small banks resulting from significant scale and scope economies in banking. Many factors and circumstances argue against the success of micro finance banks: excessive concentration of risk in lending; competitive pressures from deregulation and new technologies; and limitations on market power, brand recognition, and technological investment (see Berger 2010; http://www.readbag.com/frbatlanta-filelegacydocs-hein-articlefinal\_br). Their size presumably prevents smaller banks from adequately diversifying credit risk and prevents management from investing sufficiently in new technologies to compete effectively. According to aggregate data, most large banks are becoming more cost efficient in their operations while smaller banks are not, making it more difficult for smaller banks to offer a sufficiently broad range of services at competitive prices (see FDIC 2002; http://www.readbag.com/frbatlanta-filelegacydocs-hein-article-final\_br). These latter factors hinder the growth in non-interest income, an attractive and stable source of future earnings. On the other hand, there are many reasons why community banks are flourishing in Nigeria and other parts of the world where they are found. First, micro finance bank managers seem to process information differently than managers of larger banks, placing greater emphasis on long-term customer relationships. The relatively smaller size of micro finance banks, along with more local ownership, allows them to give more decision-making authority to bank employees, which further allows these banks to exploit “soft” information. Widespread mergers and acquisitions among larger banking organizations enhance this difference and drive many (http://finance.ba.ttu.edu/hein/Research%20Papers/On%20the%20Uniqueness%20of%20Community%20Banks.pdf\_ br) customers who seek non-standard and personal banking services to community institutions. Second, the recent availability of relatively low-cost Federal Home Loan Bank (FHLB) advances as a funding source has reduced funding constraints on qualifying microfinance banks in growth markets. FHLB advances allow small banks to better compete with large banks on the basis of price. Third, many microfinance banks have substantial credit exposure to customers involved in agriculture. Recent programs have expanded federal guarantees and agriculture payments, which improve overall credit performance and quality. Finally, since 2007 many community banks have elected to be taxed as Subchapter S corporations, thereby avoiding corporate income taxes and directly increasing aggregate profitability. At the time of this study, the “Sub S” option was not available to firms with more than seventy-five shareholders. Part of this study is to explore differences between microfinance banks and larger banks and to describe certain differences among micro finance banks. Understanding these differences is important to students of the U.S. financial system, to participants in the banking industry, and to policymakers who regulate depository institutions. We initially summarize recent academic literature that tries to identify the unique aspects of micro finance banking. In doing so, we distinguish between relationship banking, which we associate with (http://finance.ba.ttu.edu/hein/Research%20Papers/On%20the%20Uniqueness%20of%20Community%20Banks.pdf\_ br) microfinance banks, and transactional banking, which we associate with larger banking entities, and discuss the different hierarchies of decision making in the two types of institutions. This line of inquiry suggests that banks of various asset sizes conduct business in very different ways(http://finance.ba.ttu.edu/hein/Research%20Papers/On%20the%20Uniqueness%20of%20Community%20Bank s.pdf\_br). Microfinance banks, in particular, appear to have quite different strategic orientations. For example, they are afforded unique ways to manage their taxes and appear to rely much less on Non-interest income than do the largest banks in the country.

 **CHAPTER THREE**

 **RESEARCH METHODOLOGY**

* 1. **INTRODUCTION**

This chapter deals with the method used in collecting data required in carrying out this research work it explains the procedures that were followed and the instrument used in collecting data.

* 1. **SOURCES OF DATA COLLECTION**

Data were collected from two main sources namely:

1. Primary source and
2. Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment, the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **POPULATION OF THE STUDY**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information for the study the impact of micro finance banks in rural development in Nigeria. The researchers randomly select 200 staffs and customers of Oha Microfinance Bank, Ogui Road branch in Edo State as the population of the study.

* 1. **SAMPLE AND SAMPLING PROCEDURE**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N(e)2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 INSTRUMENT FOR DATA COLLECTION**

The major research instrument used is the questionnaires. This was appropriately moderated. The manager was administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staffs of the micro finance banks: The questionnaires contained about 16 structured questions which was divided into sections A and B.

* 1. **VALIDATION OF THE RESEARCH INSTRUMENT**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **METHOD OF DATA ANALYSIS**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations, it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion.

The simple percentage method is believed to be straight forward easy to interpret and understand method. The researcher therefore chooses the simple percentage as the method to use. The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

 **CHAPTER FOUR**

 **PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 INTRODUCTION**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133 (one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

**TABLE I**

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

**TABLE II**

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Clients  | 37 | 27.8 | 27.8 | 27.8 |
| Cashiers  | 50 | 37.6 | 37.6 | 65.4 |
| Marketers  | 23 | 17.3 | 17.3 | 82.7 |
| Auditors  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents 27.8% of the respondents are Clients, 50 respondents which represents 37.6 % are Cashiers, 23 respondents which represents 17. 3% of the respondents are Marketers, while 23 respondents which represents 17.3% of the respondents are auditors.

**TEST OF HYPOTHESES ONE**

 Microfinance bank does not help in the provision of soft loan to assist the rural dwellers.

|  |
| --- |
| **Microfinance bank does not help in the provision of soft loan to assist the rural dwellers.** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Microfinance bank does not help in the provision of soft loan to assist the rural dwellers. |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state that Microfinance bank does not help in the provision of soft loan to assist the rural dwellers as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state that Microfinance banks help in the provision of soft loan to assist the rural dwellers.

**TEST OF HYPOTHESIS TWO**

Microfinance banks are not a base for development of the rural infrastructure

**Table IV**

|  |
| --- |
| **Microfinance banks are not a base for development of the rural infrastructure** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Microfinance banks are not a base for development of the rural infrastructure |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis which states that microfinance banks are not a base for development of the rural infrastructure as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted which states that microfinance bank is a base for the development of the rural infrastructure.

 **CHAPTER FIVE**

 **SUMMARY CONCLUSION AND RECOMMENDATION**

**5.1 INTRODUCTION**

It is pertinent to note that this research was aimed at finding out the positive impacts of micro finance banks in rural development in Nigeria,

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges associated with micro finance banks in rural development.

**5.2 SUMMARY**

Rural transformation is all about seeking to bring about improvement in the living condition of the people in the community. The aim of microfinance is not only to extend credits to beneficiaries but to promote entrepreneurial activities and boost rural financial markets that will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them. It is in this light that Central Bank of Nigeria provides an appropriate policy and regulatory framework for the bank operations for the microfinance sector to gain both public and donor confidence

**5.3 Conclusion**

Many individuals view banks as homogeneous financial intermediaries (The Uniqueness of Community banks. This study argues that such a view is misleading because the more numerous microfinance banks in Nigeria up rate very differently than larger commercial banks. This research describes recent performance and risk assessment data across micro finance bank different size categories. We find evidence that microfinance banks were generally profitable over recent years. Only the small micro finance banks appear to have significant operating inefficiencies. Above all, microfinance banks have performed well in many cases better than the larger banks in managing (The Uniqueness of Community banks. rural economy. On the other hand non-interest income is not as important for micro finance banks and it is unclear whether the generation of more non-interest income represents as good a risk-return trade-off for all micro finance banks as it does for the larger bank in the country. As at the end of 2002, some micro finance banks were well positioned in terms of profitability and reported limited credit risk exposure. These trends are likely just as strong today.

**5.4 Recommendations**

 This study evidently depicts the fact that in order to achieve the federal government policy for grassroots development, the following recommendations are made:

i. Micro finance banks should involve themselves in the community development projects in their catchments areas.

ii. These banks should be compelled to be more active in the discharge of their functions. They should not sit complacently by expecting rural loan seekers to seek them out. On the contrary, they should comb the rural areas; enter into its nooks and cranny of these areas to sell their activities.

iii. It is of utmost necessity that rural banks should operate as poverty oriented development banks. They should seek out the very poor within these rural areas and change their lives for good through bank credit, training in entrepreneurship and investment opportunities.

 iv. Micro finance banks should do more work on the areas of mobilization and sensitization of these rural communities on what they stand to gain by seeking bank credit.

v. As a matter of urgency, micro finance banks should incorporate into their loans and advances department the services of monitoring agents who will ensure that bank loans are utilized on projects they are granted for.

vi. Government should device measures to nip in the bud the activities of selfish individuals who may want to convert Micro Finance Banks into their family financial institution.

vii. Above all, government should not think that is work is complete with the promulgation of Micro Finance Banking Decree, it is also government responsibility to ensure that the programme is being accordingly implemented by the banks themselves.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been SME?
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….

SECTION B

1. Microfinance bank is a base for the development of the rural infrastructure?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Microfinance bank does not help in the provision of soft loan to assist the rural dwellers?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Microfinance banks help in the provision of soft loan to assist the rural dwellers?
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Microfinance banks are not a base for development of the rural infrastructure?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. Micro finance bank does not provide for the needs of the people?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Microfinance bank assists in the employment of the people?
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Microfinance bank does not assist in the employment of the people?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Micro finance banks provides for the needs of the people?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. What does microfinance bank does towards the activities of business in the community?
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }