IMPACT OF MICRO-CREDIT ON ENTERPRENURSHIP DEVELOPMENT IN NIGERIA

BY

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NSU/MBA/GEN/0244/17/18

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A DISERTATION SUBMITTED TO THE SCHOOL OF POSTGRAUDATE STUDIES NASARAWA STATE UNIVERSITY, KEFFI, IN PARTIAL FUFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER IN BUSINESS ADMINISRATION (MBA)

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DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. It has not been presented in a previous application for a master degree in Business Administration. All quotations are indicated and sources of information specifically acknowledged by means of references.

-- 03/03/20
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CERTIFICATION

This Impact of Micro-Credit on Entrepreneurship Development in Nigeria dissertation entitled, meets the regulations governing the award of Masters in Business Administration (MBA), School of Postgraduate studies, Nasarawa State University, Keffi its contribution to knowledge and literary presentation.

-- 03/03/2020

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DEDICATION

This study is dedicated to through Almighty Allah the most beneficent and the most merciful who saw me through all my academic pursuit.

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First and foremost i will like to thank Almighty Allah for the successful completion of my programme.

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ABSTRACT

The importance of credit to small and medium scale business is to stimulate SME production, and most of these improved implement and seeds are not found in Nigeria and are pretty expensive. Microfinance institutions as a means of resolving financing problems of small and medium scale businesses so as to create wealth, improve standards of living and achieve economy growth and development. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. The study seeks to examine the prospects and challenges of microfinance business in Nigeria and identify the role of microfinance bank in wealth creation in the rural areas. Data were collected from sample population 289 small business operators located in FCT-Abuja and the data were subject to analysis. The findings indicate amongst other that microfinance institutions (MFIs) has immensely contributed a lot to the wealth creation and investment in the study area through lending of loans to individual and groups for entrepreneur activities to bring about general increase in the production of goods and services create employment opportunities to the business, attracts foreign investment. The study recommends that MFIs should provide institutional structure for client's participation in government and management of the institutions.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nigeria, the rich and the poor, are enterprising and industrious. But the poor who account for over half of the population do not have access to formal banking services and they rely heavily on formal micro finance institutions for credit. Nigerian's large population, over 165 million people, required the production of goods and services on daily basis and funding is required for the population. There is therefore huge demand for financial services and the MFIs have a prominent role to play. The MFI operations are, therefore, expanding, but they have very limited financial resources (Berger, 2004). The SMIEIS funds and the development finance institutions (DFI) have been identified as potential sources of long-term funding for MFI operating. In addition, deposit money banks are beginning to develop interest in microfinance funding, give the unfolding commercial viability of the sector. The future of the industry is therefore very bright in Nigeria.

The role of micro finance banks whether in a developed or developing economy, consists of financial intermediation, provision of an efficient payments system and serving as conduit for the implantation of monetary policies. It has been postulated that if these functions are efficiently carried out, the economy would be able to mobilize meaningful level of saving and channel these funds in an efficient and effective manner to ensure that no viable project is frustrated due to lack of funds(Anyawu, 2006).

However, in addition, the nature of banking business (being highly geared and conducted with greater secrecy when compared with other real sector businesses), provides added reason for strict supervision. This is to constantly beam a search-light on the sectors activities with a view to ensuring that operators play by rules of the game and imbibe sound and safe banking ;practices. Furthermore, such an oversight is intended to assist supervisory authorities in timely identification of deterioration in bank financial conditions before it degenerates to threaten the stability of the banking system or even the economy (Charisto, 2004)

The role of the Small and Medium Enterprises (SME) as a catalyst for economic growth and development has been well documented in the economic literature and recognized in most countries. SMEs enjoy a competitive advantage over large enterprises in servicing dispersed local markets. Cognizant of this fact, programmes of assistance, especially, in the areas of finance, extension and advisory services, as well as provision of infrastructure have been designed by the Nigeria government for the development of the SMEs (Dhumale, 2000).

Specifically, successive governments in Nigeria have in the last three decades shown much interest in ensuring adequate financing for Small and Medium Enterprises (SMEs), by establishing various schemes and specialized financial institutions to provide appropriate financing to the subsector. The failure of most of these schemes revealed that the problem of SMEs in Nigeria is not limited to lack of long-term financing, but also inadequate management skill and entrepreneurial capacity. The need to address these problems comprehensively for a sustainable source of long term financing necessitated the introduction of Small and Medium Industries Equity Investment Scheme (SMIEIS) by Bankers' Committee at the initiative of the Central Bank of Nigeria.

Small businesses have played important roles in the development process in most of the developed economies, and proved to be one of the most viable sectors with economic growth potential.Small business has such a crucial role to play in the development of an economy that they cannot be ignored (Hayatudeen, 2006). Small Business Development should form one of the countries development objectives, because they can stimulate indigenous entrepreneurs, provide employment to a greater number of people and mobilize and utilize saving in the informal sector. They also help in curtailing rural-urban migration and in growing intermediate raw material to large-scale enterprises.

Although the availability of microfinance and the establishment of MFIs are expanding in Nigeria, there are yet no established government policies and mechanisms for regulating and supervising activities in the sector. In 2000, a National Conference on Microfinance organized by the Federal government of Nigeria and the World Bank recommended that the Central Bank of Nigeria should take up the responsibility of developing an appropriate policy, as well as regulatory and supervisory framework for the operation Microfinance policy (MFI)was critical to the development of sound microfinance practice, sustainable MFIs and by implication viable micro enterprises in Nigeria. In responding to this recommendation, the Central Bank conducted a baseline study of MFIs in 2008. The objectives of the study were to identify the role of MFIs in financial intermediation in Nigeria; determine the level of financial intermediate of MFI with a view to developing a regulatory and supervisory framework to guide and enhance its operations in Nigeria; and recommend policies that would facilitate the linkage, semi-formal financial services providers to micro and small rural entrepreneurs.

1.2 Statement of the Problem

The importance of credit to small and medium scale business is to stimulate SME production, and most of these improved implement and seeds are not found in Nigeria and are pretty expensive. In Nigeria it was estimate that about third of the working population own small scale business. Moreover the micro finance banks operating in Nigeria were not interested in financing small and medium scale enterprises mostly because it's comparatively risky nature, the fact that a substantial proportion of the small scale business men and women have no banking experience, which makes the processing of loans rather difficult for them. The problems confronting small and medium enterprises include infrastructural inadequacies, heavy dependence by industries on imported raw-materials and chemicals for production process, heavy dependence by industries on imported plant/machinery, engineering components/spare parts for their industrial activities including productions, maintenance and plant over haul among others.

The first challenge facing micro finance banks is to reach a greater number of the poor. The CBN survey indicated that their client base was about 2,000,000 in 2011, and there are indications that they may not be above 1.5million in 2003. This is too small for a country that has over 70million people that require microfinance services. The Government and its institutions, including the Central Bank, should work in concert to promote the sector, as a means of mobilizing domestic savings, widening the financial system, promoting enterprises, creating employment and income and reducing poverty.

Third, funding of real sector activities, especially agricultural and manufacturing production, need to be promoted by Fortis Micro Finance Bank as these sectors provide the founding for sustainable growth and development. Current, only about 14.1 and 3.5 per cent of total MFI funding went to these sectors, respectively, while the bulk, 78.4 per cent, funded commerce. This is understandable, as the bulk of the funds came from grants which are not sustainable, but this structure is not desirable. The MFIs can take advantage of the banks' small and medium industries equity investment scheme (SMIEIS) fund, ten per cent of which has been reserved for micro enterprises, to finance real sector activities. This will also integrate the MFIs and micro enterprises into the formal sector and widen the financial system. Arrangements are almost concluded to make it possible for MFI to access the fund. It is believed that if government policies on small business is planned and properly implemented, such policies will help for sustainable growth and development.

1.3 Research Questions

Bases on the problems encountered by small businesses in Nigeria on acquiring finance the following questions are pertinent in this regard:

i. How has microfinance bank contributed to the growth of small and medium scale enterprises in Nigeria?

ii. What are impact microfinance banks to wealth creation and employment generation in Nigeria?

1.4 Objectives of the Study

The broad objective of the study is to examine the impact micro-finance banks as an instrument of wealth creation in Nigeria.

The specific objectives are stated below:

i. To examine the contributions of microfinance banks to the growth of small and medium scale enterprises in Nigeria.

ii. To examine the contributions of microfinance banks to wealth creation and employment generation in Nigeria.

1.5 Research Hypotheses

The hypothesis of the study are stated below

Hypothesis One

H_0: Microfinance banks do not contribute significantly to the growth of small and medium scale enterprises in Nigeria.

H_1: Microfinance banks contribute significantly to the growth of small and medium scale enterprises in Nigeria.

Hypothesis Two

H_0: Microfinance banks do not contribute positively to wealth creation and employment generation in Nigeria.

H_1: Micro finance banks contribute positively to wealth creation and investment in Nigeria.

1.6 Significance of the Study

This study is relevant and important to the policy makers, stakeholders, researchers and the government. The study of this board topic will help the stakeholders to sit up and make sure that the money that is being spent by micro finance banks on small and medium scale business are channelled properly to the purpose in which is being released. It will help for further deliberations and to know the strategy to adopt, to make sure that the real poor in the society benefit from these government programme. It will also help them to advice the government properly.

The study will help other researchers as it will enable them to get information and data from this research to assist them to carry out further research.The study will go a long way to create awareness to help the public to take advantage of some of these government programmes to come out of their present poverty status.

The study will help the government for proper, implementation of policies, also it will help the government to access the progress made so far from the money that it has been spending to enhance small and medium scale business productivity. It will help the government to know the necessary parastatals to establish and create monitoring agencies for proper implement. It is recognize that like other analysis, this of value to policy and decision makers, leaders in private and public sectors, and as a basis for developing appropriate. It is hoped that this study would contribute to knowledge and be useful as references material for scholars and researchers in the field of study.

1.7 Scope of the Study

This study covers impact micro-finance bank as an instrument of wealth in Nigeria, a study of Small and Medium Enterprises in FCT-Abuja from 2012 to 2016. The basis for covering this study is to show whether the micro finance banks contributed positively to wealth creation in Nigeria from 2012 to 2016.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Small and Medium Enterprises (SMEs)

Most countries of the world have attained advanced stage industrial development because they started their industrialization process with programmes kin the small and medium enterprises sector (Baymback, 2006). Ariyo(2007) asserted that small firms are the backbone of the Nigeria Economy, and to reflect the acceptance and recognition of this fact, the government must have small business policy at the top of kits agenda. Ariyo's observation reinforces the point made by Anyanwu (2006), the form the bulk of business activities in a growing economy, because they form the bulk of business activities in a growing economy like that of Nigeria. Similarly, SMEs are recognized worldwide as a "Asian Tiger" countries of Malaysia, Indonesia, Taiwan and Hong Kong in the recent in the recent past (Usman, 2007).

Essfen (2006) observed that the critical importance of credit delivery to SMEs derives from the fact that their development is what is required to enable the country's Industrial Sector meet the contemporary challenges of globalization, economic restructuring and poverty reduction.Various forms of assistance have designed in many countries to promote the development of SMEs. These include finance, extension and advisory services, training and the provision of infrastructure. Of theses, entire programme on finance have attracted more attention that other obvious reasons. The take-off and efficient performance of any enterprise, be it small or large, will require the provision of funds for kits capitalization, working capital and rehabilitation needs as well as for the creation of new investment (Nnanna, 2007).

Carpenter (2007) buttresses Nanna's view by observing that special agencies of government are created to provide support to SMEs by both the formal funding institutions; Banks, micro-credit agencies, venture capital and the non-formal funding agencies like the donors specialized NGOs.

According to Adebusuyi (2007), the entrepreneur needs funds to bring together the other factors of production-Land, Labour and capital for production to take place.Unfortunately, small business enterprises have been discriminated against by financial institutions because of the high risk associated with financing them. Shamsudeen (2006) shares a similar view. He observed that while shortage of finance can affect all firms, it is particularly constraining for SMEs. He further observed that while the initial investment for small enterprises comes mainly from personal savings including those of friends and relatives and from the informal financial sector, these sources are often inadequate for the financing of subsequent capital investments that will allow a small enterprises to capitalize on growth opportunities.

The dynamic role of small and medium enterprises as engine of growth in developing countries has been recognized. As observed by Cook and Nixson (2001), the development of small and medium enterprises (SME's) should be seen as attempts towards the achievement of a wider economic and socio-economic objective, including poverty alleviation. As stated by Kuteyi (2013), small and medium Enterprise drives their country's development as they create employment and contribute to the gross domestic product (GDP). In the opinion of Ariyo, (2008); Ayozie and Latinwo (2010) and Muntala et al (2012), there is the greater likelihood that SMEs will utilize labour-intensive technologies thereby reducing unemployment particularly in developing countries and thus have an immediate impact on employment generation.

SMIEIS (2006) claimed that SMEs are those enterprises that has a total capital employed not below one million five hundred thousand but not exceeding two hundred million including working capital but excluding cost of land, with an employee strength of not below ten and not above three hundred. SMEDAN (2005) defines SMEs based on the following criteria: small scale enterprises are businesses with ten to fourty-nine people with an annual turnover of five to fourty-nine million Naira while a medium scale enterprises that have fifty to one hundred and ninety-nine employees with a year turnover of fifty to four hundred and ninety-nine million Naira. In Nigeria, SMEs cover economic activities within all sectors. It is clear from the various definitions, showing that there is no single concept that constitutes SMEs; the definitions vary across industries and the globe. SMEs are heterogeneous group, and SMEs owners may or may not be poor. Some are dynamic, growth-oriented, and innovative while others are not; there preferred to remain small and also to continue as usual. In some countries, SMEs owner and workers are (or are perceived to be) dominated by a member of particular ethnic groups (Hallberg, 2000).

The World Bank (2005) captures it thus: "Nigeria's SMEs at present experience a lot of problems there are a number of bottlenecks including serious undercapitalization with difficulty in gaining access to back credits and other financial resources". There is no doubt therefore that the government needs to develop appropriate and cost-effective mechanisms for supporting SMEs (Uzodika, 2007).

In spite of the increasing awareness of the role SMEs can play in Economics Development there is still debate on the desirability of direct assistance for their promotion (Nnanna, 2007). The World Bank (2005) argued that what is required for the growth of SMEs is an investment – friendly, investment which will be neutral to size. This has number of paid employees.

In Nigeria, the definition of SMEs has also varied from time to time and according to the institutions and purpose of public (Shamsudeen, 2006). For instance the Central |Bank of Nigeria (CBN)'s Monetary Policy Circular No. 22 of 1988 defined Small Scale Enterprises for the purpose of bank loans as enterprises in which total investment (including land and working capital) did not exceed N500,000 and/or the annual turnover did not exceed N5.0million. Following the persistent depreciation in the exchange rate of the naira, the maximum size of capital investment was raised to N5.0million and the turnover to N2.0million in 1990. Since 1993, the CBN monetary and credit policy guidelines have defined a small-scale enterprise as an enterprise whose total cost excluding and but including working capital, does not exceed N10.00million.

The varying definitions of SMEs among countries and institutions notwithstanding their characteristics, are universally recognized (Ven Katarman, 2005). They are typically small, owning largely to limited access to financial resources. According to Carpenter (2007), SMEs are characterized by simple management structure which generally combines ownership from management in one person, hence they revolve around than separating the ownership from management. There is flexibility in decision making and prevalence of largely informal employer-employee relationship (Uzodika, 2007).

2.1.2 Features of Small and Medium Scale Enterprises

Mohammed and Nzelibe (2014) opined that in a report publish in 1994 by the Center for Management Development (CMD) Lagos, noted that in order to create a clear picture of what SMEs is, certain characteristics associated with firms need to be identified and discussed. The report shows the following features of SMEs business: Ownership and Management to SMEs, the chief executive, generally participates actively in the decision-making process and day to day operation of the firm with little or no adequate specialist support, The chief executive can be known by all employees of the company or organization, The chief executive is the owner, founder and manager as well as the controller of the business.

SMEs cut across the industrial sector although the majority is Agro- Allied and food processing. There are quite some wood products and product furniture, in non-metallic mineral, in plastic wares, in clothing, tailoring, and the rest. Considering the facts that they form a large pool of indigenous enterprise and technical know-how and a breeding ground for entrepreneurial management, the SMEs sector needs to be supported and prepared for the uprising in economic activities in Nigeria (Mohammed & Nzelibe, 2014).

2.1.3 An Overview of Small and Medium Scale Enterprises in Nigeria

Nigeria remains a country with very high potential but an equally high inertia to develop. The country is blessed with abundant supply of enormous human, agricultural, petroleum, gas, and large untapped solid mineral resources (Obadan, 2003). Since her independence from British rule in 1960, the country has gone through decades of political instability and this has brought with it a climate of social tension and an unpredictable market for business. The successive forceful takeover of government by the use of military coup and the indigenization policy of the late 70's has put off investors who hitherto saw the country as a large and growing market. Due to the nature of these governments, there is

perceived corruption, policy instability, poor infrastructural development and lack of accountability of public funds. For these reasons, the World Bank described Nigeria as a paradox (World Bank, 1996). This is also true for most Sub-Saharan African countries as industrial production has declined or stagnated over the past decades (Lall, 1992).
Nigeria's challenges in terms of development are vast, including SMEs development. But enormous oil wealth has brought few benefits to the average person. As a result, the factors such as; corruption, crime and inadequate infrastructural facilities make entrepreneurs not to create enough jobs in the country which tremendously affect the economy. In Nigeria almost two-third of its citizen are living below the poverty line; about half are unemployed, and overall GNP per capital falls below the average for sub-Saharan Africa (World Bank, 2002).

According to Mambula (1997), since its independence, the Nigerian government has been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programs, which have generally yielded poor results. Unfortunately these funds hardly reach the desired business because they may be lost to bureaucratic bottle necks and end up in accounts of public office holders. Despite these setbacks, the role of small business owned by middle class Nigerians, set up by individual savings, gifts and loans and sometimes sustained by profit cannot be ignored. According to Asmelash (2002), countries that have made economic breakthroughs in the last two decades demonstrated beyond doubt that the development of entrepreneurship has been the sine qua non of economic growth and development. According to Asmelah (2002), the significant role SMEs play in development is acknowledged world over. He cited the work of Schell (1996), cited in Eze and Okpala (2015) who noted that in developed countries such as the USA, where big corporations are dominant, SMEs still play enormous role in the country's economy.

Also, according to the report of the Indian working group on science and technology for Small- and medium-scale enterprises, SMEs occupy an important and strategic place in economic growth and equitable development in all countries. Constituting as high as 90% of enterprises in most countries worldwide, SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Owing to the success of the Asian tigers, interest is running high globally particularly in developing countries that are in the rat race to meet up and reduce the economic and development gap. Chinese and foreign experts estimated that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Schell, 1996 cited in Eze & Okpala 2015). These SMEs creates jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market based economy.

Ariyo (2000) states that at the forefront of recent efforts to modernize and improve Nigeria's ailing economy, there has been a sharp focus on macroeconomic stabilization and the pursuit of investment liberalization, and massive trade programmes in order to encourage Foreign Direct Investment in the country. Multi-national corporations help to bring in foreign exchange and also contribute towards creating jobs in the country that give room for high revenue generation, but in real sense, how they boost and promote the economic development and how there have been assisting in attaining sustainable prosperity are not well appreciative or merely speculative. Consequently, for Nigeria to reach its full potential in terms of economic and social development, SMEs should not be neglected or ignore because it contributes simultaneously to the economy of the country actually. Therefore, the policies of trade liberalization and the encouragement of foreign direct investment have to be pursued in conjunction with a systematic and resolute effort to boost the development and growth of SMEs in the country (Dabo, 2006). Nigeria, like other developing countries with relatively low per capital income, looks forward to industrialization to give it the structural transformation that is imperative in its quest for growth and development. Consequently, one of the most critical development issues in Nigeria is the need to design and implement policies and strategies for an efficient, competitive and diversified economy that will create employment, generate wealth and eradicate poverty. To achieve these goals, therefore, a strong and viable entrepreneurial base is seen as being essential for the attainment of growth and prosperity in the economy (Dabo, 2006).

Small and Medium Enterprises are expected to facilitate the growth and development of human and capital resources towards general economic development and the rural sector in particular. In view of these expected roles from SMEs, the Nigerian government had in the past devised policies and incentives for the development of small and medium scale Enterprises. Such efforts, according to Adebusuyi (1997) in Eze and Okpala (2015), could be classified broadly into three, namely (i) Incentives (fiscal and export), (ii) Tariff regimes, and (iii) Financial support and technical assistance programme. The fiscal incentives include tax relief for small enterprises during the first six years of operation, granting of pioneer status for a period of five years with a possible extension of two years for enterprises located in economically disadvantaged areas, and provision of relief for investment in infrastructure capital allowances, and minimal local raw material utilization income of 20 percent. Export incentives include the introduction of import duty drawback, export credit and insurance schemes, etc.

The entrepreneurship that is part of SMEs is very relevant to the empowerment of the citizens for sustainable development. It gives substantial opportunities for the assumption and the use of local raw materials for vertical and horizontal linkages. Therefore, it has been estimated that the growth and development of SMEs would improve the economy and welfare of Nigerians. Also, new businesses bring new and improved products and services thereby increasing competition and challenging existing business to improve their performance (Carpenter, 2001). Study conducted by Nigeria Corporate Affair Commission posits that almost ninety percent of companies in Nigeria in 2001 absorb less than fifty people while in another study conducted by Nigeria Federal Office of Statistic opined that ninety-seven percent of Nigeria businesses also absorb less than or below one hundred employees or staffs, while going through the earlier explanation of SMEs it clearly signifies that almost ninety-seven percent of the entire business in the country are all small businesses. Similarly, a study by the International Finance Corporation (IFC) in the same period estimates that ninety-six percent of all companies in Nigeria are SMEs, compared to fifty-three percent in USA and sixty-five percent in the EU (World Bank, 2002). Carpenter (2001) and Kalanje (2002) argue that SMEs are significantly contributing to the Nigerian economy, with about ten percent of total manufacturing output and seventy percent of industrial employment. Similarly, according to Owualah (1999) claimed that SMEs in the country account for forty percent of its output and at the same time account thirty percent to value added in the manufacturing sector and he further opined that during 1972, SMEs accounted for seventy-four percent of the national employment and fifteen percent of that been accounted by the manufacturing sector with less than one hundred employees or staffs. The current status of the contribution of the manufacturing sector to GDP is seven percent with 1.4 million employment level (The Nigerian Financial Standard, May 3, 2004 p. 1 & 18).

In Nigeria, SMEs account for fifty percent to employment on average and also fifty percent of its industrial output. SMEs represent about ninety percent of the industrial sector in terms of number of enterprises or firms, and however they contribute a meager one percent of GDP. With these, it is inappropriate when we are talking about countries or comparing countries like Thailand, India and Indonesia where SMEs contribute almost forty percent to GDP (Ariyo, 2004). Industrial and economic developments are flourished by SMEs in the country through efficient utilization of local resources; production of intermediate goods and services; transformation of rural technology. SMEs are the backbone,. and there play a significant role in the business landscape of any country, but there are also faced with a lot of obstacles that make the sector not to contribute optimally to the economy. In this regard, Aregbeyen (1999) argues that the industrial development of Nigeria depends, to a large extent, on the growth and development of SME potentials. Although Nigeria witness reasonable but fluctuating growth in the industrial sector, in 1957 the manufacturing sector account only two percent of the GDP and it rose to ten percent in 1972 and it further increase to sixteen percent in 1981. The industries helped to reduce unemployment, and provided a base for Agro based industrial take-off and helped the Nigerian economy to grow.

Nonetheless, SMEs are constrained or face with high numbers of obstacles that are as a result of inadequate fund that does not allow the sector to grow and expand rapidly. He further suggests that for SMEs to improve, expand and modernize its operations competitively there are needs for SMEs to have access to long-term funding. Similarly, Ariyo (2000) identifies some of the bottlenecks faced by the indigenous SMEs to include gaining access to bank credits, financial markets; corruption; lack of transparency and high bureaucratic costs which seriously resulted to undercapitalization of the sector. Thus, she argue, which was further compounded in the early period of the oil boom by a seeming government indifference in it enormous support and the role SMEs play in the national economic development and competitiveness in the country. Ariyo (2000) claimed that the Government did not promote, and provide tangible and lasting policies to support small business sector despite the benefit provided by the oil boom. Similarly, Uzodika (1999) stressed that SMEs was negatively affected due to lack of support from government to the sector. The government spent resources and time on a large public project that seem to be less significant, without given emphasis on SMEs in the country. The woeful capital projects, the government engage upon, are the $10 million Ajaokuta Steel Complex Investment, the Bachita Sugar Factory, the Iwopin paper mill and the Leyland Daf are all good example of the less important public project carry out by the government. With these the EIU (1999) stressed that the government concentrate its resources on woeful public enterprises while showing neglect or abandonment to SMEs, these are considered as effective reason financial support to SMEs and contribution to SMEs to the economy remain weak. Therefore, it is concluded that the assessment of the past contributions of Nigerian governments to SMEs and the manufacturing sector of small business shows a poor performance. Abundant devaluation of the Naira came into existence as a result of the establishment of SAP in 1986, by then most of the SMEs fold up or collapsed as a result of quantum of the Naira that they required purchasing the right amount of foreign exchange for their raw-material considerably. Most are forced to fold up due to inadequate working capital that is necessary to import raw material regularly. The bank does not help them which is the cause as a result of the fact that most of them are undercapitalized or almost get distressed because of the effect of SAP. These usually continue until the Naira was devalued, but the inflation rate and the interest rate got out of hand. With these, the SMEs sector was entirely reduced significantly, and the country economy became weak and slow, and the following conditions ensured that, buying and selling became the mainstay of the economy, the real sector became inactive, the country became a dumping ground for other economies, unemployment escalated, capacity utilization plummeted, unemployment escalated, and also excessive importation became the order of the day.

According to Cook and Nisxon (2000), interest in the role of small and medium-sized enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. Owing to the relevance of SME's, in 2006, the government of Taiwan launched a $61 million "branding" initiative, which was aimed to push the economy from being production-based to knowledge-based. According to the report in EE Times Asia in August 2006, the so-called "Branding Taiwan Plan" is a seven-year program designed to help promising small-to-medium enterprises (SMEs) in developing their own brand, according to the Taiwanese government. This was initiated with the full consciousness of the ability of SMEs to drive the economy particularly in the medium term. Small businesses employ 72,000,000 people (Asmelash, 2002). More than 90 per cent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka are small enterprises (Fadahunsi & Daodu 1997 cited in Eze & Okpala 2015).

A 2004 survey conducted by the Manufacturers Association of Nigeria (MAN) revealed that only about ten percent (10%) of industries run by its members are fully operational. Essentially, this means that 90 percent of the industries are either ailing or have closed down. Given the fact that manufacturing industries are well-known catalysts for real growth and development of any nation, this reality clearly portends a great danger for the Nigerian economy. The acting director-general of the association, Mr. Jide Mike, who disclosed this fact, attributed the cause of this sorry state to such factors as poor infrastructure, multiple taxes imposed on manufacturers in Lagos state by all tiers of government and the difficulty in accessing finance. He noted, "The debris of dilapidated manufacturing concerns across the country is the outcome of years of harsh operating conditions". Jide (2012), cited in Eze and Okpala (2015) also remarked, "In addition to policy somersault, funding remains a challenge to all stakeholders in the manufacturing sector, the several palliatives, including the Small and Medium Industries Equity Investment Scheme (SMIEIS) and other sector-specific incentives notwithstanding". He added, "In summary, 30 percent of industries in Nigeria have closed down. About 60 percent are ailing companies and only 10 percent operate at sustainable level". The acting director-general of MAN (manufacturing association of Nigeria) emphasized that low capacity utilization has undermined the competitiveness of manufacturing industries, whose fortunes have been worsened by the impact of globalization. He recalled that at Nigeria's independence in 1960, the manufacturing sector's contribution to national Gross Domestic Product (GDP) was 3.8 percent and that despite the discovery of oil, manufacturing contributed as much as 9.9 percent to the GDP from 1975 to 1981 when capacity building was above 70 percent. Jide (2012) cited in Eze and Okpala (2015), however regretted that the story is different today as the manufacturing sector is back at the independence level as it contributed a mere 4.7 percent to GDP in 2003 while industrial capacity utilization dropped to a paltry 48.8 percent in 2003.

The above is indeed not encouraging as it is representative of the fate of the manufacturing sub-sector of the SMEs. It was said that the large manufacturing companies are even better off given that those of them, which have international affiliation do get succor and support from their parent companies or technical partners overseas. The support and services the multinationals get from their parent companies could be driven by the profit repatriation, expansion of their overseas market and other motivations but overall, the Nigerian economy benefits if only through employment generation. President Olusegun Obasanjo in his address on March 01, 2002 at the commissioning of the headquarters of SMEDAN (The Small and Medium Enterprises Development Agency of Nigeria) in Abuja also noted that there was a great disconnection between the SMEs and the large companies in Nigeria, pointing out that the multinational companies dominated business in the country even in the area of finished products. Because of these and other debilitating problems, only about 10 percent of SMEs in Nigeria are into manufacturing.

2.1.4 Concept of Microfinance Bank

The Central Bank of Nigeria recently introduced the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria to empower the vulnerable and poor people by increasing their access to factors of production, primarily capital. To achieve the goals of this phase of its banking reforms agenda, the apex bank seeks to re-brand and re-capitalise hitherto community banks, to come under two categories of microfinance banks. They are MFBs licensed to operate as a unit within local governments and the other licensed to operate in the state or the federal capital territory with a minimum paid up capital base and shareholders' funds of N20million and N1billion respectively. Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro- insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 2003). Abiola, *et al* (2012) agree that microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Microfinance is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). That is microfinance recognize poor and micro entrepreneurs who are excluded or denied access to financial services on account of their inability to provide tangible assets as collateral for credit facilities (Jamil, 2008). The main objective of micro credit according to Maruth *et al* (2011) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Kolawole (2013) states that microfinance bank helps to generate savings in the economy, attract foreign donor agencies, encourage entrepreneurship and catalyze development in the economy.

The establishment of microfinance banks is to serve the following purposes according to Central of Nigeria, (2005); provide diversified, affordable and dependable financial services to the active poor; mobilize savings for intermediation; create employment opportunities and increase the productivity of the active poor in the country; enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process; provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on the non-recourse case basis.

2.1.5 Experience of Some Microfinance Models

There are basically formal and informal models of purveying micro credit to the target group. The most successful had been the informal model because 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 (Aryeetey, 1995). Consequently, informal lenders tend to target the poor (including women) albeit not always successfully; attempts by better financed innovative scheme to target the same poor people have been no more successful. The issue therefore is no longer 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.

2.1.5.1The Informal Model

The informal model is built around group concept. The model works in a situation where groups whose commitment to savings and credit are weak and look up to donor sponsored credit. White this works better with a group that voluntarily come together to form a revolving savings and credit association, it develops managerial problem where the groups are not cohesive and not voluntary (Besley, Coate and Loury 1993).

(i) The Grammen Bank: Experience started with the group concept-informal lending to the poor. It was started to assist landless people in Bangladesh to (ii) Obtain credit, which could not be obtained through the formal commercial banks credit facilities. The program was successful because the groups were cohesive (landless) and voluntarily formed. The program has since been linked to formal micro credit model. It operates using the modality of collective guarantees, close supervision and peer pressure from other members of the Grammen group. The model had been quite successful as a bank for the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of poor.As at 1999, the Grammen Bank had provided its services to about 1.5million poor., unified about 60, 000 small village banks in the linkage process and about $480million to its clients for small scale trade, construction, backup funds or local production credit as well as for emergency funds.

(ii) Non Government Organization (NGO): Approach is also grouped as informal model as it tends to adapt the Grammen principles and usually are gender specific and sartorially motivated. There are women group, farmers union, trader union etc.In Ghana and Gambia, the most successful micro credit programs are women finance association. The program rewarded depositors at above market rate of interest which was 20-50 per cent in 1999. The high interest rate was not fixed by the formal institution but by the village assemblies. The assemblies meet to decide on the composition and responsibilities of credit committees, the interest rate and the types of savings instruments. Although, the Ghana and Gambian programmers operate as an informal credit model, the quality of service could be compared to the financial market.

(iii) Esusu: Esusu is a revolving loan scheme in Nigeria and entrenched in most West African countries operating as an informal micro=-credit programme. The group formed to operate the revolving schemes are voluntarily. Members make fixed contributions of money at regular intervals. At each interval, one member collects the entire contributions from all. Every member takes a turn until the cycle is completed, and then it starts again. For people who take their turn late, esusu functions as a savings mechanism. The esusus are very strong program that have assisted the target group to alleviate poverty, particularly among market women in rural/urban markets. East Esusu's group has a recognized leader and Esusus are often used a model by NGOs trying to establish micro-finance programme in urban setting.

2.1.5.2The Formal Model

The formal micro-finance model is built around formal financial institutions such as the commercial banks, rural/village/community bank etc. most of the formal institutions that purvey credit to the poor had not been successful. The reasons adducted for their failure had been limited knowledge of the poor and no closer relationship between the formal institutions and the informal institution. The Grammen experience is an example of that model that have been able to transform from informal to formal model of purveying micro-credit to the poor. The credit need of the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problem of no collateral. The formal micro-credit operators have found that per-client costs are high and expensive to reach groups of client physically and in part because poorly developed infrastructure increases the expense of delivering even basic needs. In addition, most programs offering, micro-finance services have small capital base and do not have access to the level of financing that would required for significant scaling up.

This is the reasons why commercial banks and development banks could not really purvey micro-credit and could not be used as the second-best to informal lending. The case of Nigeria Agricultural and Cooperative Bank, Nigeria Industrial Development Bank, Peoples were quite recent and confirmed that enormous problems of using the formal model as a strategy to alleviate poverty.

2.1.5.3The Linkage Model

The framework for linking informal savings collectors the formal institutions formed the basis of the breakthrough discussed earlier. In view of the bank's readiness to acquire more information about the Informal Sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro-credit programs. An example is the recent meagre of the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria and Family Economic Advancement Program (FEAP) to from Nigerian bankers Committee initiative which is supported by the CBN, for banks to set aside 10% of their profit before tax for equity investment in small scale industries will be will be tangential to alleviating poverty through the lending window or through joint ventures.

In Ghana, the framework for linking informal savings collector to the largest commercial banks was done by the collectors forming a registered association with which the bank deals. This linkage has led to an increase in the proportion of esusu depositors that gain access to credit facilities from their esusu collectors. The loan to deposits in the Ghana model rose from 9per cent to 60 per cent in the two years of operations. The scheme was based on observation that increased lending by collectors often led to larger numbers of depositors.

The linkage that has been made with the new institution NACRDB should be enhanced by designing policy to overcome the observed obstacles such as distrust, inadequate knowledge about agents and prejudice, all of which create a risky environment for formal banks linking up with informal micro-credit activities.

2.1.5.4 Donors Model

Donors have played a very strong role in the micro-credit program, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model proposed by Union Gabriel and Itoro O. Ibanga (1997) called "The Ekpuk (family) model worked perfectly well within an extended family structure, particularly proven successful in some village in Akwabom State. However, this system of credit delivery need to be encouraged to work through formal credit institutions as much as possible, such as the community banks and NACRDB. It will help to support the development of strong non bank financial institutions with less risk of default."

2.1.6 Microfinance Bank and SMES Growth

Access to finance is only key to SMEs growth globally, Nigeria inclusive. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs development. Lack of access to financial institutions also hinders the ability for entrepreneurs in Nigeria to engage in new business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. Idowu, (2008) agrees that access to loans is one of the major problems facing SMEs in Nigeria.

Diagne and Zeller (2001) also argue that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. The idea of creating Micro Finance Institutions (MFIs) is to provide an easy accessibility of SMEs to finance/ fund particularly those which cannot access formal bank loans. Microfinance banks serve as a means to empower the poor and provide valuable tool to assist the economic development process. Kolawole (2013) is of opinion that the promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development. The main objective of micro credit according to Sunitha (2010) cited in Olowe, Moradeyo and Babalola (2013) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

2.1.7 Microfinance Banking and Small and Medium Scale Development

The banking system in any economy plays the important role of promoting economic growth and development through the process of financial intermediation. Development economists argue that the existence and evolution of financial institutions and markets constitute an important element in the process of economic growth (Ferguson, 2007).

Ferguson continued that improving the efficiency of resource mobilization by pooling individual saving; increasing the proportion of societal resources devoted to interest yielding assets and long-term investments, which in turn facilitates economic growth.

This relates to the savings function of banks and the pivotal role of savings is demonstrated by the fact that when it is in short supply in any nation, investment and the standard of living decline. Providing a more efficient allocation of savings into investment than the individual savers can accomplish on their won. This flow of savings into investment ensures that more goods and services can be produced thus increasing productivity and the nation's standard of living (Ferguson, 2007).

Facilitating a reliable payments system which provides support for the economy is a certain financial assets such as current accounts, deposit/savings accounts, domiciliary accounts etc, which serve as medium of exchange for payments readily, come to mind. Cheques, credit cards, electronic transfers are the principal means of payment today (Ogunleye, 2005).

2.1.8 Performance of Microfinance in Nigeria

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country.

Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausa (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Out, et al, 2003). They also operate in the urban centres. However, the size of activities covered under the scheme has not been determined.

The non-traditional, formalized microfinance institutions (MFIs), are operating side by side with the informal services. The financial services provided by the MFIs in Nigeria include savings, credit and insurance facilities. The stated objectives of the MFIs obtained through the survey exercise are summarized as:

a. To improve the socio-economic conditions of women, especially those in the rural areas through the provision of loan assistance, skills acquisition, reproductive health care service, adult literacy and girl child education;
b. To build community capacities for wealth creation among enterprising poor people and to promote sustainable livelihood by strengthening rural responsive banking methodology; and
c. To eradicate poverty through the provision of microfinance and skill acquisition developments for income generation.

The Central Bank of Nigeria survey (2001) indicated that the operations of formal microfinance institutions in Nigeria are relatively new, as most of them were registered after 1981. The 10 MFI analyzed in this study were also registered from 1982 as non-governmental organizations (NGOs). They operate in both urban and rural areas except for three institutions that operate exclusively in the rural areas.

The result of our survey showed that the bulk of credit beneficiaries were women, as most of the MFIs began as NGOs that had the promotion of female welfare as the basis for their establishment. Thus, about 97.4 per cent of the clients in the sample were women.

Four of the institutions exclusively provide services to women, while five over 90 per cent of the clients as females. Apart from the general belief that women are marginalized in terms of economic opportunities and should therefore have separate promotional agenda, the MFIs are of the view that women perform better than men in managing meagre resources and promoting micro enterprises. Other reasons revealed by the survey were that the ego problem of men makes it difficult for them to solicit for small sums of money; and the cultural practices prevent men from engaging in certain businesses, such as petty-trading, hair-dressing, etc.

Unlikely in the banks, asset based collaterals is de-emphasized by the MFIs. Lending is done on group basis and a gr4oup is made up of between 5 and 10 clients. The collateral is the collective pledge of the group to repay, based on community recognition. In addition, the MFIs concentrate on short term financing, owning to the large demand for loans and their limited assets. Over 78 per cent of their financing was for trading activities. Two of the MFIs surveyed exclusively funded trading/commerce, while another five had not less than seventy per cent of their activities and only 3.5 per cent went into manufacturing. Credit to the service sector was very minimal and the MFIs gave no loans for consumption. All the clients were low income individuals, operating micro enterprises. The disproportionate coverage of commerce in the loan portfolios of MFIs is attributed to the quick and high returns that come from investments in the sector, compared with the long gestation periods and lower returns that are associated with businesses in agriculture and manufacturing (Tucker, 2000).

2.2 Empirical Review

Empirical studies from developing countries particularly Sub-Saharan Africa (SSA) show that saving and investment are determined by per capital income, cost of capital, expected rate of inflation, savings, tax rate, expenditure policies, macroeconomic and political environment (Calamites, et al, 2006).

Pollard's review of some empirical and theoretical works found a negative correlation between central bank independence and long-run average inflation. The studies reviewed also showed negative correlations between independence and long-run average government deficit as a percentage of GDP. There has generally been no positive correlation between output growth and central bank independence. Alesina and Summers (2006), on the other hand, concluded from their study that monetary discipline associated with central bank independence reduces the level and variability of inflation but did not find any systematic relationship between central bank independence and real macroeconomic performance.

The studies and reviews cited here emphasize that there is no conclusive evidence of causality between central bank in dependence and macroeconomic performance generally and the need to undertake more rigorous analysis of the issue involved. For instance, it is known that central bank independence is only one of several institutional factors that could affect the rate of inflation. Exchange rate arrangements and external shocks which are not always within the control of an independent central bank are also important determinants of inflation. Another factor that cells for caution in interpreting the results of past studies is the difficulty of measuring central bank independence. On this aspect, Pollard (2005) identified some critical issues as such as the weights applied to the factors related to independence and the possible error in measuring independence that may not reflect the central bank's actual level of independence. Notwithstanding these caveats, it will be assumed in the rest of this paper that a negative association exists caveats, it will be assumed in the rest of this paper that a negative association exists between central bank autonomy and inflation which is a proxy for macroeconomic performance.

In Nigeria, the intellectual influence of the Keynesian investment theory and the Mckinnon-Shaw argument which was observed that, high interest rates on saving deposits stimulates the supply of savings to the banking system, while the high cost of borrowing discourages the level of investments.

Uchendu (2005) opined that, the report established a positive relationship between interest and savings and financial liberation, while Agu (2006) found that the existence of very low and negative interest rates in Nigeria had inconclusive effects on the levels of saving and investment.

Using the descriptive research method, Adoyi and Agbo (2009) employed both primary and secondary data to determine the extent to which small business firms have developed Benue sate of Nigeria, and found that 86.3 percent of the small business firms pay their taxes regularly. These taxes increase the revenue base of the state which is used for development purposes. Akingunola (2011) assessed the specific financing options available to SMEs in Nigeria and their contribution to economic growth performance. The Spearman's Rho correlation was employed to determine the relationship between SMEs financing and investment level. At 10 percent level of significance, the Rho value of 0.643 indicated a significant and positive relationship between SMEs financing and economic growth in Nigeria.

Safiriyu and Njogo (2012), employed primary data instruments, questionnaire and interviews to study the impact of small and medium scale enterprises on employment generation in Lagos state, Nigeria. The results of simple percentages and chi-square (X^2) tests conducted show that small and medium scale enterprises and sustainable development of Nigerian economy are positively related, just as promotion of SMEs and improvements in employment generation are positively related and significant. Availability of finance has been widely viewed as a constraint to the growth of SMEs. Azende (2011) cited in Eze and Okpala (2015), in an empirical evaluation of the performance of small and medium scale Enterprises, Equity Investment Scheme (SMEEIS) in Nigeria used Benue and Nassarawa States as case studies. Using total credit to SMEs as a percentage of Banks' total credit for the period 1993 to 2008, the T-test conducted to determine the extent of relationship between bank loans before and after the introduction of SMEEIS indicated no significant difference between loans disbursed by banks to SMEs. This result, according to him, was due to the fact that the conditions for accessing SMEEIS funds were beyond the reach of the targeted SMEs.

Borio (2005) investigates the structure of credit channel of monetary policy by examining the structure of credit to the non-government sector in fourteen industrialized countries and factors influencing it. He find that the structure of credit was largely determined by interest rates and factors affecting the availability of credit such as collateral value and rationing, defined as "refusal to grant as much credit as demanded on the observed interest and non-interest terms". Borio observes further that changes in domestic interest rates do not directly affect credits dominated in foreign currency as they influence by foreign monetary policy.

2.3 Theoretical Framework

There is a large body of literature on financing investment projects. This study comprises of the theories of globalization. It was McKinnon (1973) and Shaw (1973), however, who independently in 1973 first highlighted the dangers of financial repression in a rigorous way, and argue the case for maximum financial liberalization.They used the theoretical framework of Gurkey and Shaw (1960), and their views became highly influential in the design of programmes for the financial restructuring of countries. It is important to stress, however, that there are differences in emphasis in the McKinnon and Shaw arguments. McKinnon's basic argument is that money holdings and capital accumulation are complementary in the development process. Because of the heavy reliance of self-finance when capital market are primitive and fragmented, and because of the lumpiness of investment expenditure, agents need to accumulate money balances before investment takes place.

Positive (and high) real interest rates are necessary to encourage agents to accumulate money balances, and there will be complementary with capital accumulation as long as the real interest rate does not exceed the real rate of return on investment.

Shaw (1973), on the other hand articulated the hypothesis of substitutability between money and capital assets. He stresses the financial intermediation aspect of financial liberalization, positive real interest rate on financial assets will encourage financial savings, and the increased liabilities of the banking system will enable financial institutions to lend more resources for productive investments in a more efficient way. Higher loan rates or interest, which follows higher deposit rates, will also discourage investment in low yielding projects.

According to Benji (1997) "if a country is hoping to attract foreign private capital flows, domestic rates should exceed international markets" another famous writer in economics observe that "If the Central Bank raises domestic short-term rates, this will induce an inflow of short-term capital to take advantage of the higher rate". A lowering of domestic interest rate will have the opposite effect as capital moves elsewhere to take advantage of the relatively higher foreign rates (Richard, 1975).

Apart from literature support, empirical result has shown that massive capital flows to the emerging markets during the first half of 1990s was influenced among other things by fall in real interest in the industrial economics. Flows began to level off in 1994 when interest rate rose in some of the major industrial countries (Alejandro 1999, IMF Research Department Staff, 1996).

In order to seek the highest of return for capital, economists tend to favour the free flow of capital across national borders. It is against this backdrop that multinational companies seek investment in foreign countries with reasonable risk. Nigeria is believed to be a high-risk market for investment because of factors such as bad governance, unstable macroeconomic policies, investment as a way out Nigeria's economic state of underdevelopment.

The need for foreign direct investment is born out of the underdevelopment nature of the Nigeria's economy that essentially, hindered the pace of her economic development. Generally, policies and strategies of the Nigerian government towards foreign investments are shaped by two principal objectives of the desire for economic independence and the demand for economic development.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The choice of design in research depends on thepurpose of the problem and variable alternatives for investigating the problem of that nature. This study shall employ both descriptive and survey research design. Both primary and secondary data will be used for the study with questionnaire as research instrument. Questionnaires shall be administered to raise data meant for triangulation and the results shall be analyzed to establish the relation between microfinance banks and the small and medium scale enterprises.

3.2 Population and Sampling Techniques

The target populations for this study are small and medium scale enterprise located in FCT-Abuja. The total population for this research work comprises of 115,352 small and medium scale enterprises owners located in FCT-Abuja. The combination of purposive and systematic sampling shall be adopted to determine the sample and the Taro Yamane(1972) formula shall be used in the determination of the sample size for the study.The sample will based on the formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n = sample size;

N = population size;

e= Level of precision required;

1 = constant

In determining the sample size, the following variables were used:

Confidence interval = 95 %

e = Margin of error = 0.05

Substituting into the formula,

Sample size for the number of registered businesses to be used:

$$n = \frac{N}{1 + N(e)^2}$$

Substituting into the Taro Yamane formula to get out sample size, we have:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{115,352}{1+115,352\ (0.05)^2}$$

$$n = \frac{115,352}{1+115,352\ (0.0025)}$$

$$n = \frac{115,352}{1+288.38}$$

$$n = \frac{115,352}{289.38}$$

n = 289 registered SMEs members

3.3 Method of Data Collection

The questionnaire shall be the instrument to be used in data collection and distribution shall be done by me, the respondents will be required to read each question carefully and indicate their agreement or disagreement with the statement using a 5 – point likert scale. On the other hand secondary data shall be obtained from the statement of account of various registered enterprises in Nigeria.

3.4 Procedure for Data Analysis and Specification

Quantitative method of analysis shall be used for the purpose of this study, because quantitative analysis results provide support for anticipated directions of the association between independent and dependent variables. Therefore, the study will used regression analysis (OLS) to address the three hypotheses of this study since the study is addressing relationship between the various variables. This will be achieved by the use of statistical package for social science (SPSS).

3.5 Research Instruments

The data generated from the study were analysed using simple summary statistics of percentages especially in answering the research questions while chi-square (X^2) test of independence was used to verify the null hypotheses at 0.05 level of significance.

$$X^2 = \frac{\sum(O - E)^2}{E}$$

Where:

X^2 Measurement of discrepancy existing between the observed and expected frequencies.

O = Observed frequencies

E = Expected frequencies

$\sum$ = Summation

The decision rule is, where the computed value of X^2 exceeded its critical (or table) value then the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted and when the computed value of X^2 is equal to or loss than the critical (or table) value, the null hypothesis is accepted. This hypothesis has been chosen by the researcher for this study.

Source: Field Survey, 2018

Table 4.4 indicated that the vast majority of beneficiaries were not graduates. Some of the respondents are graduate specifically only 3 of the respondents achieved first degree/master, 68 respondents are holders of diploma/HND, 73 respondents claimed to have achieved certificate while 142 respondents are claimed of other qualifications like SSCE, NECO and so on. The concluding question to the entrepreneur qualification attempted to determine their motivation for starting a business the problem they encountered, especially in securing financial assistant and finally their future career plans were sought.

Table 4.5:Area of Specialization

Responses	Respondents	Percentage
Business/Commerce	184	64.3
Education Services	51	17.8
ICT/Science	18	6.3
Engineering	26	9.1
Production	5	1.7
Others	2	0.7
Total	286	100.0

Source: Field Survey, 2018

Table 4.5 above indicated that majority of the respondents are not graduate but then they specialized on business/commerce, engineering, ICT/science and education. The table shows that 184 of the respondents were trained by EDP on business/commerce activities, 26 of the respondents were trained on engineering, 18 of the respondents were trained on the area of ICT/science, 51 of the respondents were trained on education activities and 5 of the respondents were trained to provide different kind of service while 2 respondents claimed to be trained to provide other services which were not specified.

Table 4.6: Microfinance Institutions have Adequate Credit Facilities to meet their Demands

Responses	Respondents	Percentage
Strongly Agree	148	51.8
Agree	82	28.7
Disagree	39	13.6
Strongly Disagree	17	5.9
Others	0	0
Total	286	100

Source: Field Survey, 2018

The above Table 4.6 shows that 230 (80.5%) of the respondents are of the view that MFIs have the adequate facility to meet their demand, while 56(19.5%) of the respondents have a contrary opinion as they constitute mainly cooperative societies who are not easily recognized by the FCT Poverty Alleviation without going through cumbersome process as such, their access to funds is limited. It therefore follows that most microfinance banks have a credit facility to meet their demand.

Table 4.7: Central Bank Policies Enable Microfinance Institutions to Discharge its Obligation to SME Effectively

Responses	Respondents	Percentage
Strongly Agree	81	28.3
Agree	166	58.0

Disagree	37	12.9
Strongly Disagree	2	0.7
Others	0	0
Total	286	100

Source: Field Survey, 2018

The above Table 4.7 shows that 247(86.3%) of the respondents strongly agree and agree that the Central Bank of Nigeria policies enable microfinance institutions to discharge is obligation to SMEs effectively, while 39(13.7%) are of a contrary opinion that the Central Bank policies do not enable microfinance institutions to discharge its obligations to small and medium business effectively.

Table 4.8: Response Rate of SMEs to the Loan Services of MFI is Satisfactory

Responses	Respondents	Percentage
Strongly Agree	147	51.4
Agree	81	28.3
Disagree	43	15.0
Strongly Disagree	15	5.3
Others	0	0

Total	286	100

Source: Field Survey, 2018

From the Table 4.8 above, 228(79.7%) of the respondents are of the view response rate of small business to their services is satisfactory, while 58(43.3%) have a contrary view. This is a result of the fact that SMEs have to comply with conditions like, having an account with the bank, having a good account turnover, being transparent and having a good character for MFIs and on the other hand, being an active member of a cooperative society. It therefore implies that the response rate of small businesses to the activities of MFIs is high.

Table 4.9: Casual Relationship between the Availability of Loans to SMEs and their General Performance

Responses	Respondents	Percentage
Strongly Agree	102	35.7
Agree	146	51.1
Disagree	36	12.6
Strongly Disagree	2	0.6
Others	0	0
Total	286	100

Source: Field Survey, 2018

From Table 4.9 above, 248(86.8%) which constitute the majority are of the opinion that the availability of credit facilities to SMEs has helped to improve their general performance. According to the MFIs, the SMEs are able to have a good account turnover after accessing loans which suggest their increase in productivity; while a minority of 38(13.2%) has a contrary view because they feel that the performance of SMEs depends on good management practices not money alone.

Table 4.10: Types of Business the MFI Loan Scheme Deals With

Responses	Respondents	Percentage
Yes	33	11.5
No	253	88.5
Total	286	100

Source: Field Survey, 2018

Table 4.10 shows that 253(88.5%) of the respondents which are mostly MFIs responded to the above statement that loans schemes of MFIs is not for particular types of businesses as long as the business satisfy the laid down conditions, while 33(11.5%) have contrary opinion especially the cooperative societies that are involved in farming activities.

Table 4.11: Microfinance Banks Contribute Positively to Wealth Creation and Investment

Responses	Respondents	Percentage
Strongly Agree	136	47.6
Agree	92	32.2
Disagree	58	20.2
Strongly Disagree	0	0
Others	0	0
Total	286	100

Source: Field Survey, 2018

Table 4.11 above indicates that 228(79.8%) of the respondents are of the opinion that the rate of microfinance banks contribute positively to wealth creation and investment is encouraging, while58(20.2%) have a contrary view.

Table 4.12: Business Use the Loan Given to Them

Responses	Respondents	Percentage

Strongly Agree	14	4.9
Agree	202	70.6
Disagree	70	24.5
Strongly Disagree	0	0
Others	0	0
Total	286	100

Source: Field Survey, 2018

Table 4.12 above indicates that 216(75.5%) respondents are of the opinion that SMEs make good use of the loans given to them. Their responses based mainly on the high rate of repayment by SMEs and the rate of regularizing their transactions with the microfinance banks, while 70(24.5%) of the respondents had a contrary opinion because they feel that most SMEs tend to use the loan for reasons other than that for which they collected the loan for.

Table 4.13 below explains the number of SMEs operators who at one time or the other attend to secure loan from MFIs in FCT metropolis.

Table 4.13: Attempts by SMEs to Secure Loan from MFIs in FCT

Responses	Respondents	Percentage
Yes	238	83.2
No	48	16.8
Total	286	100

Source: Field Survey, 2018

Table 4.13 above shows that 238(83.2%) of the respondents have approached a MFI for a loan. Out of this 308 respondents, only 48(16.8%) were successful because they were able to meet the conditions of the MFIs and they are members of cooperative society. The others were not successful mainly due to complex processes and couple with the fact that they applied before the MFBs were still community banks. On the other hands, 88(22.2%) have not applied for loans because they feel more comfortable getting funding from other sources than going through the cumbersome lending process of MFIs. Therefore it follows that the majority have responded to the services of MTIs.

Table 4.14: Degree of Technical Assistance Received by SMEs from MFIs

Responses	Respondents	Percentage
Yes	26	9.1
No	260	90.9
Total	286	100

Source: Field Survey, 2018

Table 4.14 indicates that 26(9.1%) have gotten assistance from MFIs, for instance the Agriculture Development Program has agriculture extension service where it assists farmers with trainings and farm inputs. This because they have a reasonable organizational structure, while 260(90.9%) on the contrary claimed that it has not gotten assistance from any MFIs.

4.2 Test of Hypotheses

Hypotheses that were earlier stated in the chapter one are tested using chi-square method (X^2) so as to confirm their viability or otherwise. The researcher chooses the 0.05 level of significance and the formula for calculating X^2 is as follow:

$$X^2 = \sum(O - E)^2/E$$

Where:

O = Observed Frequency

E = Expected Frequency

Hypothesis One

H_0: Microfinance banks do not contribute significantly to the growth of small and medium scale enterprises in Nigeria.

H_1: Microfinance banks contribute significantly to the growth of small and medium scale enterprises in Nigeria.

Table 4.15: Chi-Square Test for Hypothesis One

Responses	O	E	O – E	$(O-E)^2$	$\sum(O-E)^2/E$
Strongly Agree	102	57.2	44.8	2007.04	35.09
Agree	146	57.2	88.8	7885.44	137.86
Disagree	36	57.2	-21.2	449.44	7.86
Strongly Disagree	2	57.2	-55.2	3047.04	53.27
Others	0	57.2	-57.2	3271.84	57.2
$\sum(O-E)^2/E$					291.28

X^2 = calculated = $\frac{\sum(O-E)^2}{E}$ = 291.28

X^2 = tabulated at 5% of significant and (k – 1) degree of freedom X^2 0.05, (2 – 1) = 124.48

X^2 calculated (291.28) >X^2 tabulated (124.48) we therefore reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1) which states that microfinance banks contribute significantly to the growth of small and medium scale enterprises in Nigeria.

Hypothesis Two

H_0: Microfinance banks do not contribute positively to wealth creation and employment generation in Nigeria.

H_1: Microfinance banks contribute positively to wealth creation and investment in FCT-Abuja.

Table 4.16: Chi-Square Test for Hypothesis Two

Responses	O	E	O – E	$(O - E)^2$	$\sum(O - E)^2/E$
Strongly Agree	139	57.2	81.8	6691.24	116.98
Agree	92	57.2	34.8	1211.04	21.17
Disagree	58	57.2	0.8	0.64	0.011
Strongly Disagree	0	57.2	-57.2	3271.84	57.2
Others	0	57.2	-57.2	3271.84	57.2
$\sum(O - E)^2/E$					252.561

$$X^2 = \text{calculated} = \frac{\sum(O-E)^2}{E} = 252.56$$

X^2 = tabulated at 5% of significant and (k – 1) degree of freedom X^2 0.05, (2 – 1) = 124.48

X^2 calculated (252.56) >X^2 tabulated (124.48) we therefore reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1) which states that small microfinance banks contribute positively to wealth creation and investment in FCT-Abuja.

4.3 Discussion of the Findings

From the study, it emerged that the role of microfinance banks loans and advances have positive impact on the economic growth of the study areas, and have significantly enhance the socio-economic development of small scale traders because viable approach to sustainable growth and development lies in the financial and economic advancement of small scale trader and rural dwellers in Nigeria.

Findings has show that microfinance institutions (MFIs) has immensely contributed a lot to the wealth creation and investment in the study area through lending of loans to individual and groups for entrepreneur activities to bring about general increase in the production of goods and services create employment opportunities to the business, attracts foreign investment.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Chapter one shows that the growth and development of any country is substantially depended on the growth and dynamism of its SMEs driven largely factors which include; favourable government policies and incentives, technical assistant and financial assistance. The absence of these factors heralded the institutionalization of several MFIs to meet the increasing number of small scale businesses and support poor households. The chapter explains formal/traditional and informal/modern microfinance institution. This chapter explains that the microfinance has emerged an effective strategy for poverty reduction across developing countries as well as strategy for achieving millennium development goals. It concludes that the microfinance institutions have been performing below capacity but the additional liquidity provided microfinance bank, it is expected that the microfinance policy objectives will be realized. This chapter also contains the statement of the problem, statement of research questions, objectives of the study, scope and limitation of the study and definition of terms.

Chapter two highlights the importance of microfinance given by several scholars. These scholars can be said to fall under two schools of thoughts. The first school is opinion that money or credit has a direct impact on the growth of existing enterprise as well as leads to the establishment of new ones. The other school is opinion that the effectiveness of microfinance is not attainable despite the availability of credit due to the factors like high interest rate, loan repayment, and unchanging levels of poverty and failure to cater effectively for their target group.

Chapter three was on research methodology. The research methodology contains the method of data collection, sampling data analysis and difficulties encountered in the course of obtaining data. Chapter four contains the frequencies of response gathered through the administration of questionnaires. It further presents the testing of hypotheses using the chi-square statistical test. Chapter five states the chapters' summary, conclusion and provides recommendations for the study.

5.2 Conclusion

This study has assessed and observed that the transaction between the MFIs and small and medium scale enterprises in FCT-Abuja is promising, the extent to which the SMEs should benefit from the loan scheme has not reached the optional potential as some SMEs are still unable to access these loans due to reason which include: inadequate knowledge on the part of small scale business owners on improved lending conditions of MFIs.

In the cause of this study, the researcher deduced that a good number of small scale entrepreneurs are indifferent about accessing these loans because they assume that the lending conditions of MFIs are similar to that of commercial banks which is cumbersome and therefore prefer to raise funds through other sources. Clients apathy; some clients have decided to stop patronized the MFIs, they feel that the microfinance institutions are unable to meet their needs considering the nature of their business and lending conditions are flexible to meet those needs. The number of beneficiaries of the credit scheme can be increased in FCT if there are complete and updated records of increasing number of small medium enterprises (SMEs).

It was also discovered that small scale businesses serve as a backbone for economic development not only for developing but for the developed countries. Therefore, there is need for government at all levels to make people aware of how to source fund through various ministries. From findings, it has shown that the loan given to small scale business has improved the performance and conditions of small scale businesses in FCT-Abuja, thereby reducing rural and urban migration and assuring the attainment of self-reliance.

5.3 Recommendations

Based on the findings of this study, the following recommendations are provided.

1. Information Dissemination and Involvement of Client: Apart from the publication designed by the Central Bank of Nigeria, microfinance institution should expand their channels of promotion and improve their methods of marketing to genuinely meet the need of those small and medium enterprises rather than interested in the commission attached. Secondly, according to Iganiga (2008), client should not be seen as faceless customers of formal financial institution who are identified by their account number, MFIs should been seen as partners. They should be constantly engaged. Some MFIs provide institutional structure for client's participation in government and management of the institutions.
2. Develop Innovative Product: Microfinance institutions must recognize that i) credit needs of clients are diverse; and ii) there are always emerging needs. Clients should be constantly engaged to determine the trends of their requirements, tested strategies include market research, clients exists and assessment exercise (Olaitan, 2005).
3. Proper Documentation: The States Ministry of Commerce and Industry should frequently update the records of registered businesses as categorize them according to their sizes. This will enhance further studies carried out by other researchers as inadequate information may also limit adequate planning and monitoring.

4. Regular and Prompt Payment of Department: It has been noted that default in repayment bring about hindrance to the disbursement of loans to SMEs. Beneficiaries of loans should ensure regular and prompt payment of debt. This will encourage the state to consider more applications and review existing ones.

5.4 Limitations of the Study

The main limitation of the study is the reliance on information supplied by micro and small business operators who normally do not want to make a full disclosure of their businesses to an unknown person for fear of being subjected to tax payment.

Reliance on information supplied by microfinance banks as well as information supplied by corporate affairs commission (C.A.C) was a difficult task, as they are very careful in releasing sensitive information to an unknown person. Therefore, getting access to information/data is a major challenge the researcher encounter in the process of carrying out this study.

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