EFFECT OF NSUK MICROFINANCE BANK ON THE PERFORMANCE OF SMALL SCALE BUSINESSES IN KEFFI LOCAL GOVERNMENT, NASARAWA STATE

BY

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A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, FACULTY OF ADMINISTRATION, NASARAWA STATE UNIVERSITY, KEFFI IN PARTIAL FULFILLMENT OF THE REQUIRMENTS FOR THE AWARD OF POSTGRADUATE DIPLOMA IN BUSINESS ADMINISTRATION

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DECLARATION

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

AMINU JIBRIL **DATE**

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CERTIFICATION

The project "Effect of NSUK Microfinance Bank on the Performance of Small Scale Businesses in Keffi Local Government, Nasarawa State" meets the regulations governing the award of Postgraduate Diploma in Business Administration, of the School of Postgraduate Studies of Nasarawa State University, Keffi and is approved for its contribution to knowledge.

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DEDICATION

I dedicate this project to Almighty Allah.

ACKNOWLEDGMENTS

I thank Almighty Allah for given me the strength and opportunity.

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ABSTRACT

The study investigates the effect of NSUK microfinance Bank on the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State. It intends to find out how NSUK microfinance Bank credit affects the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State (profit margin and return on investment). The main objective is to examine the effect of NSUK microfinance Bank on the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State, covering a period of 10 years from 2009-2018. The study utilizes the data from the questionnaire administered on the selected SSBs in Keffi Local Government, Nasarawa State. The Chi-square method was used to measure the relationship between dependent and independent variables and findings reveal that there is significant relationship between NSUK microfinance banks Micro credit and the performance of selected SSBs in Keffi Local Government, Nasarawa State (profit margin and return on investment). This study concludes that there is significant relationship between NSUK micro finance banks and SSBs performance in Keffi Local Government, Nasarawa State. The study recommended that SMEs should re-strategies on how to finance their business since there is significant relationship between NSUK microfinance and SSBs performance in Keffi Local Government Area, Nasarawa State; there should be strict adherence to the minimum professional qualification and balancing experience specified for managers of Microfinance by the CBN and Government agencies should grant development fund through microfinance rather than direct involvement; and International bodies and donors agencies should endeavor to grant more supports.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Micro financing is the provision of financial services to poor and low income households without access to formal financial institutions (Conroy, 2003).

Microfinance bank is described also as banking for the poor. They are different from commercial banks because, they have limited banking services directed primarily to a designated catchments area or group. The major purpose of Micro Finance Banks is to direct attention of purveying credit to Small scale Enterprises. In Nigeria, the Microfinance Banking concept is an extension of the old community banking system. Lemo (2007) described Micro finance banking as one of the prime strategies for achieving millennium Development Goals (MDGs), particularly targets that relate to poverty eradication, gender equality and the empowerment of the disadvantaged groups. Akanji (2006) identified three features of microfinance making it different from other financial products as smallness of Loans advanced and or savings collected, absence of asset based collaterals and simplicity of operations.

Microfinance has emerged as effective tools across developing countries which enable small and medium enterprises to obtain micro credit from microfinance institutions (MFIS) to improve their performance in terms of profit margin and return on investment. Microfinance is for small scale businesses to have access to financial services which enable poor households to move from everyday struggle for survival to planning for the future and investing in better nutrition of their business. Micro finance is an important factor in improving the performance of small scale businesses in Keffi Local Government Area of Nasarawa State, Nigeria. Micro finance scheme provides small scale businesses with the institutional support needed to generate a profit and return on investment which may help them to achieve security. Micro finance has for a long time been considered as a primary means of rekindling and enhancing the performance of the small scale businesses in terms of profit margin and return on investment in Nigeria.

Rolando (2010) describes microfinance as a good way of supporting entrepreneurs. It provides poor borrowers with access to sustainable livelihood through zero or very low interest loans. However, Jegede (2011) observed that entrepreneurs prefer personal saving and cooperative credits to microfinance banks and commercial banks fund citing reasons of non-accessibility, prohibitive collaterals and high interest rates barriers. The dismal performance of the conventional finance sectors triggered the advocating of micro financing by policy makers, practitioners, and international organizations as a tool for poverty reduction (Mejeha & Nwachuckwu, 2008).

The establishment of Micro-finance banks as an effort by the government to improve the access to loans and savings services for poor people is currently being promoted as a key development strategy to enhancing poverty eradication and economic development (Shreiner, 2005). Abimiku (2000) asserted that finance is the main pre-occupation of banking industry that brings together the factors of production such as land, labour and entrepreneur into action. According to Babagana (2010) there is no doubt that small scale businesses need assistance through Microfinance Banks to become sustainable and competitive.

1.2 Statement of the Problem

The promotion of small scale businesses has been carried out by subsidizing credits, providing preference treatment and targeting locations of business. However, the Nigerian microfinance industry is still in its infancy, serving an estimated 1 million out of the estimated 40 million people the industry could be serving (Mohammed & Hassan, 2008)

In addition, it has been argued that the size of the needed loans by the Small Scale Businesses often exceeds the maximum amount that can be borrowed from microfinance institutions. Theoretically, it is thus unclear whether or not microfinance banks have really helped the small scale industries to perform effectively and efficiently. This study is an attempt to reveal the effects of NSUK Microfinance Bank on the performance Small Scale Businesses in Keffi Local Government, Nasarawa State.

Previous studies such as Ashamu (2014) used chi-square to study the impact of micro finance and the performance of SMEs in Nigeria and some authors in the empirical findings used SPSS and multiple regression to study the impact of micro finance and the performance of SMEs but this study fills the research gap by using simple linear regression method and e-view statistical package to study the effect of NSUK

Microfinance Bank and the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State.

1.3 Research Questions

The study attempts to answer the following research questions:

i. To what extent does NSUK Microfinance Bank micro credit affect the profit margin of small scale businesses in Keffi Local Government, Nasarawa State?

ii. What effect does NSUK Microfinance Bank micro credit have on return on investment of small scale businesses in Keffi Local Government, Nasarawa State?

1.4 Objectives of the Study

The main objective of this study is to examine the effect of NSUK microfinance Bank on the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State.

Other specific objectives are:

i. To determine the impact of NSUK Microfinance Bank micro credit on profit margin of small scale businesses in Keffi Local Government, Nasarawa State

ii. To examine the impact of NSUK Microfinance Bank micro credit on return on investment of small scale businesses in Keffi Local Government, Nasarawa State.

1.5 Statement of the Hypotheses

In line with the aforementioned objectives, the following null hypotheses were formulated and tested in the study:

H_{01}: There is no significant relationship between NSUK Microfinance Bank micro credit and profit margin of small scale businesses in Keffi Local Government, Nasarawa State.

H_{02}: There is no significant relationship between NSUK Microfinance Bank micro credit and return on investment of small scale businesses in Keffi Local Government, Nasarawa State.

1.6 Significance of the Study

The findings of this study will enable the industry to design effective economic policy strategies which will ease accessibility of credits. Measures to be put in place, if properly implemented will enhance the performance of Small Scale Businesses.

The findings of this research will serve as additional literature to be used as reference materials in developing further studies.

The Micro Finance Institutions will be able to train their credit officers on what kind of investment opportunities are viable for Small Scale Businesses.

The credit officers will not only give out credit, but also advise borrowers on profitable projects to consider investing in.

Borrowers should repay the loans that have become fruitful in their business and not having burdens repaying with little improvements experienced from the funds granted to them as loans.

1.7 Scope and Limitations of the Study

The study examines the effect of NSUK Microfinance Bank on the performance of Small Scale Businesses in Keffi Local Government, Nasarawa State, covering a period of 10 years from 2009 to 2018.

The researcher find it difficult to collect information from the selected Small Scale Businesses in Keffi but we were able to overcome it with the helped of some staff in the organization who helped to give out information pertaining to the realization of this work.

1.8 Definition of Terms

For the purpose of clarity, the following terms and definitions shall be used.

Microfinance: Microfinance is any institution that provides credit and other financial services to the low income entrepreneurs who are traditionally not served by the conventional/formal financial institutions (Central Bank of Nigeria (CBN), 2005)

Microenterprise: a Microenterprise is a business that operated with very small start-up capital. The management is often built around the sole owner or micro-entrepreneur. It provides employment for few people mainly the immediate family member and does not often require formal registration to start (MFBs, 2012)

Microfinance loan: a loan is granted to the operations of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, workers in the formal and informal sectors. The loans are unsecured, but typically granted on the basis of the applicants' character and the combined cash flow of the business and household (MFBs, 2012).

Active poor: active poor lack sufficient money to live at a standard considered comfortable or normal (MFBs, 2012).

Small Scale Businesses: Bankers committee (1999) defined Small Scale Businesses as any business with a maximum asset bases of ₦200 million excluding land and working capital and with the number of staff employed not less than ten (10) and not more than three hundred (300) (MFBs, 2012).

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Microfinance Bank

CBN (2005) defines microfinance bank as the provision of financial services to very small businesses, i.e. micro-enterprises, which are often unable to benefit from the services of conventional financial institutions.

According to Anyanwu (2004), microfinance bank is not just providing capital to the poor, but to also combat poverty at an individual level and also has a role at institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Irobi (2008) defines microfinance bank as the provision of financial services such credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household, to enable them engage in income generating activities or expand/grow the small businesses.

Micro Credit

Sirha (1998) states that micro credit refers to small loans made to an organization. Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards (Isaac, 2000). Micro credit institutions are those which provide these facilities.

According to Udoh (1995), micro credit is a small amount of money loaned to a client by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending.

In developing countries, the poor have innovative idea for business, even as a local/simple product manufacturer, but they lack financial strength to fully implement their ideas. This results to low economic activity in developing countries. The situation makes the poverty level in these countries to be increasing at alarming rate. Generally, financial services cover savings and credit activities and this is the same concept about MFBs. But according Ledgerwood (1997), MFBs work for general financial services, they provide insurance and repayment services to their clients. However, the important aspect of MFBs is not only financial intermediation but also; they equally provide social intermediation and social services to their customers.

Social intermediation and social services comprise activities such as trainings, management development and financial literacy activities which will later lead to entrepreneurship development. Furthermore, many MFBs, organize workshops where the experienced people guide others, give useful suggestions and other tactics or strategies for their business. Therefore, Microfinance Banking is combining financial services with social services. Although, the general banking system did not include social services in its operation; therefore, microfinance Bank is not simply a banking system but a development tool.

The following are the discussion about different services provide by MFBs.

i. Financial Intermediation

This is the primary objective of MFBs because without fund, social intermediation cannot be achieved. The poor face barriers to access financial institutions. MFBs, in this regard, provide fund availability and essential poverty alleviation tool, health care and education literacy. MFBs are providing several financial services which include credits, savings, insurance, credit cards, and payment services; however, it is not necessary that every MFBs should facilitate their customers with all these services, but MFBs can perform any of these services or engage in all. This largely depends on the objectives of the microfinance bank, its demand as well as the institutional structure.

ii. Social Intermediation

Social intermediation is the process by which human and social capitals are built by sustainable financial intermediation for the poor. It covers the issues of group formation, leadership training and cooperative learning. Social intermediation is the secondary role of MFBs for borrowers. Development of social capital however, forms the basic ingredient of sustainable development in the poor's life and society as a whole. According to Ismailov and Zahid (2008), social capital is actually linked between clients of a group and multiple groups, and between MFBs and borrowers. These links are established on the basis of strong foundation of trust and unity. The foundation will increase the ratio of social capital thereby increasing the business activities among members, and financial transactions between MFBs and borrowers. Social capital can primarily be developed through group activities. In group social intermediation, activities are carried out within the group combining external efforts, so as to develop institutional capital and human resources. Most of the members of the group reside in remote areas, with less education and idea about business and financial transaction. Therefore, MFBs harmonize the borrowers towards the development of solid networks. They train borrowers on how to keep record, book keeping, and accounting, train their clients about business environment and bargaining skills.

iii. Entrepreneurship Development Services

Microfinance is an emerging tool for economic development. It provides technical support to group or individual in startup of a business, development of manufacturing ideas and maturing the skills. It has gained a prominent role in some developed and developing countries. Although, most research on micro financing is based on the issue of poverty alleviation and empowering the poor, nonetheless, there is no way, this will not lead to entrepreneurship development. However, there are two types of microfinance borrowers: micro borrower and micro entrepreneur. Micro borrower possesses the characteristic of capitalist that is aimed to maximize profit in transaction. So micro borrowers get loans from MFBs; after paying back, they will still get finances but with the motive of generating profit without any innovation (Oshitola, 2012). On the other hand, micro entrepreneurs obtain loan to finance their business and bring innovation, creativity and doing different things from others.

iv. Social Services

Poverty can be addressed by financing the poor for productive activities which give/results to life necessities. The poor need more than microfinance to address the problems of poverty and accessibility to other life needs like food, shelter, health, self-esteem, family planning, and education, social support network, etc. Therefore, MFBs play a productive role on the life of the poor by offering financial services with supportive services; creditably play an important role in sustainable human development and livelihood of the poor.

2.1.1.1 The Clients of Microfinance Bank

Typical microfinance clients are low-income persons that do not have access to formal financial institutions. Microfinance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. Microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income (Ehingiamuse, 2008).

Women constitute greater proportion of client base of most microfinance providers. There are number of explanations and opinions for this disproportionate representation of women in client base of most microfinance institutions. Many practitioners are of the opinion that female clients exhibits better credit discipline than their male counterparts therefore microfinance institutions seek them, and also it is believed women could be easily intimated to comply with repayment undertaking (Ehingiamuse, 2008).

Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change (Adeyemi, 2008). By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty (Adeyemi, 2008). For instance, income generation from a business helps not only the expansion of the business activity but also contributes to household income and its attendant benefits on food security, children's education, etc. Moreover, for women, who in many contexts are secluded from public space, transacting with formal institutions can also build confidence and empowerment.

Recent research has revealed the extent to which individuals around the poverty line are vulnerable to shocks such as illness of a wage earner, weather, theft, or other such events. These shocks produce a huge claim on the limited financial .resources of the family unit, and absent effective financial services can drive a family so much deeper into poverty that it can take years to recover. Microfinance increasingly refers to a host of financial services, savings, loans, insurance, remittances from abroad, and other products. It is hard to imagine that there would be any family in the world today for which some type of formal financial service could not be designed and made useful.

Microfinance serves best those who have identified an economic opportunity and who are in a position to capitalize on that opportunity if they are provided with a small amount of ready cash. Thus, those poor who work in stable or growing economies, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts (instead of feeling that the credit represents some form of social re-vindication), are the best candidates for microcredit.

2.1.1.2 The Objectives of Microfinance Banks in Nigeria

Microfinance institutions are established with the following objectives:

i. 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 services, adult literacy and girl/child education.

ii. To build community capacity for wealth creation among enterprising poor people and to promote sustainable livelihood by strengthening rural responsive banking methodology.

iii. To eradicate poverty through the provision of microfinance and skill acquisition for income generation.

However, Iganiga (2008) sums up the objectives of microfinance policy in the following ways:

i. Make financial service accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.

ii. Promote synergy and mainstreaming of the informal sub sector into the national financial system.

iii. Enhance service delivery by microfinance institutions to micro, small, and medium entrepreneurs.

iv. Contribute to rural transformation.

v. Promote linkage programmes between universal/development banks: specialized institution and microfinance banks.

2.1.1.3 Importance of Microfinance Bank in Nigeria

Microfinance is very important in poverty alleviation. It helps to place resources in the hand of the poor who are economically active in the society. It can be depended upon in order to achieve the Millennium Development Goals (MDGs). Ogho and Nwachukwu (2008) share the view that microfinance can be a powerful tool in initiating a cyclical process of growth and development. Microfinance activity can improve the access of rural poor to finance services. They further stressed that microfinance interventions help in inculcating necessary habits for economic independence and self-reliance.

Appropriate and participatory credit plans by the members of a group can help in social and economic empowerment. Increased access signifies the overcoming of isolation of rural women in terms of their access to financial services and denial of credit due to absence of collateral security. It could also help in strengthening poor families' resistance to external shocks and reducing dependence on money lenders. Severino (2008) opines that microfinance allows people who have been traditionally excluded from the financial system to have access to credit. It allows people to escape from the vicious circle of excessive interest rates, promote equal rights for women and helps to overcome some of the failings in the traditional banking system.

2.1.1.4 The Problems of Microfinance Banks in Nigeria

Microfinance bank is faced by several challenges in Nigeria. Olaitan (2006) highlighted the constraints and limitation to successful micro financing in Nigeria as follows:

i. Inadequate staff training to handle lending to small and medium enterprises.

ii. Policy conflicts resulting from numerous alternative sources of credit with different interest rate.

iii. Inability of borrowers to offer acceptable collateral for large loans which places a limit on their probable scale of operation.

iv. Problems of illiteracy which affects record keeping and decision making ability of borrowers.

Ogho and Nwachukwu (2008) found the main problems of microfinance institutions as follows:

i. **Nonproductive loans and procedural delays for productive loans:** Since most of the poor and needy are illiterate and prefer loans for consumption rather than productive purpose, majority of the poor find it hard to get loans sanctioned for taking up economic activities, even, if they want to. Sometimes, the borrowers are asked to furnish some documents and collateral security against the loan sanctioned, contrary to the directives of the government.

ii. **Inflexibility and delay:** The rigid systems and procedures for sanctioning loans and disbursing them to the beneficiaries result in a lot of delay in time for the borrowers, which de-motivate them.

iii. **Social obligation, not a business opportunity:** They believed that microfinance has been seen as a social obligation rather than a potential business opportunity.

iv. **Lack of training:** In most of the cases, it has been found that members of a group take up certain economic activities for their sustenance which are not preceded by relevant training. After the pioneering efforts of the last few years by the government, banks, NGOs, and so on, the microfinance scene is reaching the take-off point.

However, Iganiga (2008) identified the problems of microfinance as follows:

i. **Repayment problem:** Loan delinquency is a major threat to institutional sustainability; it is the deadly "virus" which afflicts MFBs. Delinquency is a symptom of poor leadership. This has accounted for the failure of most MFBs and schemes in Nigeria.

ii. **Inadequate experienced credit staff:** He believed that for microfinance institutions to be viable, it requires experienced and skilled personnel. He stressed that, as a young and growing industry, there is a dearth of experienced staff in planning, product development and effective engagement with clients. Most credit staff of MFBs in Nigeria are on their first jobs and majority are school leavers.

iii. **Internal control challenge:** This is as a result of large transaction and informal operational procedures that could be breached at disbursement and collection points; high cash transaction which as a feature of micro financing is a source of temptation for fraudulent practices.

2.1.1.5 Policy Objectives of NSUK Microfinance Bank

The specific objectives of this microfinance policy are the following:

i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;

iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;

iv. Contribute to rural transformation; and

v. Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

2.1.1.6 Policy Targets of NSUK Microfinance Bank

Based on the objectives listed above, the targets of the policy are as follows:

i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.

ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.

iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2020.

iv. To eliminate gender disparity by improving women's access to financial services by 5 % annually; and

v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10 % annually.

2.1.1.7 Activities of Microfinance Bank (MFB)

Microfinance institution covers various activities both directly and indirectly in an economy. Zahid and Ismailov (2008) opined that MFBs are dedicated only to poor and explicitly for business activities. They further stressed that MFBs usually do not invest in consumer finance, but give finance only for micro enterprises. Their belief is that microfinance institutions have indirect impacts on the micro borrower.

Microfinance institution encourages people to lift up their standards by doing business and also earning from these businesses. Ledgerwood (1999) found the activities and characteristics of MFBs in the following ways:

i. Supply of small and short term loans.
ii. Social collateral rather than financial collateral.
iii. Access to larger amount of loan if repayment performance is positive.
iv. Continuous monitoring of business.
v. Loan on higher interest rate due to expensive financial and risk factor.
vi. Easy way to access finance; therefore, not too much paper work, easy and short procedure.
vii. Offering saving services to borrowers even for smallest amount.
viii. Offer training services to borrower's business development.
ix. Literacy training to borrowers so that they can come up with competent daily business problems and solutions.
x. Health care, social services and other skill training services to provide borrower, a sustainable base for their business.

2.1.1.8 Problems of the Microfinance Banks in Nigeria

Contrary to much expectation of improved performances of the microfinance banks in strengthening the operations of the MSMEs in Nigeria, microfinance banks have not been able to fulfill optimally, the objectives for which they were established. This may be due to any or a combination of the following factors:

(a) Very high operational costs: In line with the directives of the Central Bank of Nigeria, most microfinance banks are usually established in the rural areas where basic facilities such as electricity, good roads, water supply and other infrastructural services are lacking. These coupled with the fact that microfinance banks are expected to serve micro-savers in their large numbers, the burden that microfinance banks face trying to cope with the higher overhead costs as well as service cost per customer usually put them at disadvantage position when compared with the commercial banks.

(b) Lack of public confidence: Regular policy reforms in the microfinance banking sector has led to the liquidation of microfinance banks in different parts of Nigeria. For instance, the withdrawal of the licences of 224 microfinance banks in 2010 has badly damaged public confidence in these banks. Each time a new microfinance bank is set up; it faces a huge task of gaining public confidence in its locality. Most people in the rural areas especially the illiterates are sceptical of microfinance bank operations going by their experiences in the hands of “wonder” banks

(c) Lack of skilled human capital: Unlike the big commercial banks, microfinance banks lack access to capital base with which they could run their specialized training institutions to groom their workforce. This coupled with poor remuneration of staff by microfinance banks have led to recruitment of poorly-skilled manpower, very high turn-over and in some cases, microfinance banks are left with no option other than employing retired, fired and rejected staff from commercial banks. These situations have seriously compromised the effectiveness of microfinance bank objectives.

(d) Misplaced Philosophy, Ethics and Culture: When microfinance banks recruit workforce mostly inherited from the commercial banks, there is tendency for misplacing the philosophy, ethics and culture of microfinance banking by those old commercial bank staff. There have been reported cases in which microfinance banks have jettisoned micro-business owners, micro-savers etc to pursue lending to larger business with better returns. Moreover, it is not uncommon to find managers of microfinance banks lavishing their meager incomes on acquisition of exotic cars, office apartments and other frivolous packages just the way the bigger commercial banks do. All these pursuits limit the ability of microfinance bank to concentrate on the sole mission of helping the SMEs.

(e) Regulatory challenge: Regulation of microfinance banks operations is directly under the Central Bank of Nigeria. Given that the CBN has other overwhelming responsibilities to perform, microfinance banking regulation is not as regular and thorough as that of commercial banks. This gives room for inefficiency and poor performances over the years. For instance, Soludo (2005) opined that an overview of the performance of the SMEs in Nigeria shows that past policies made limited impact on the Micro enterprises sector

(f) Corruption, Embezzlement and Frauds: The case for regulatory challenges is worsened by the fact that it paves way for other sharp practices to flourish within microfinance banks. Large-scale mismanagement of resource mostly happened with a view to making personal gains, reported cases of massive frauds on the part of bank staff irrespective of their cadres etc. All these factors militate against microfinance banks in the delivery of their mandate to the SMEs in Nigeria.

2.1.2 Concept of Small Scale Businesses

The United Nations Industrial Development Organization (UNIDO) states that a small business is characterized by localized area of operation, capital supplied by the owner with policy decisions held by individual or small group of entrepreneurs, owner's participation in all decision-making and daily operation. Nwakoby (1988) defines Small Scale business as any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400,000). The National Directorate of Employment (NDE) defines Small Scale business in the 1989 National Budget to include project with a capital investment as low as N3,000 and employing as few as three persons. The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750,000, and paid employment of up to fifty (50) persons.

In a later report, the Federal Ministry of Industry (1988) defines a small-scale industry as those industries with a total investment of between N100,000 and N2,000,000 exclusive of land but including working capital. Okorie (1989), defines small-scale industry as wholly indigenous owned enterprises with less than fifty full time employees. The Central Bank of Nigeria, in its monetary policy circular No. 25 of 1991, defines small-scale business as an enterprise whose capital investment does not exceed N5,000,000 (including land and working capital) or whose turnover is not more than N25,000,000 annually. Section 351 (1) of CAMD 1990 defines a small company as one which satisfies the following conditions: a private company with a share capital, an annual turnover not more than two million naira (N2m) and net asset value not more than one million (₦1m).

Thus small scale business as a concept is without an acceptable universal definition, hence the classification of an enterprise into small, medium and large scale is relative and varies. The major criteria for classification are the number of employees, relative size, initial capital outlay, sales value and volume, financial strength and balance sheet size, ownership structure and industry type. From these views, it is convenient to broadly describe Small scale business with capital outlay of between N100,000 and N25,000,000.00 (excluding land) and workforce of between 1 and 100. What is agreed though is that small scale businesses are crucial in economic development (Boettke & Christopher, 2004).

The performance level of small scale businesses has been minimal despite the importance of the sub-sector, in terms of its contribution to the Gross Domestic Product (GDP), export earnings, employment creation, and global competitiveness. According to Okwu, Obiakor and Obiwuru (2013), Nigeria’s small scale businesses grossly underperform in contribution to GDP vis-à-vis other selected countries. The Nigerian small scale businesses contribute 10% to GDP and just 2% to export earnings. These have been attributed to lack of skills/management capacity, poor quality product, low production capacity, poor access to international markets, and insufficient working capital. Consequently, the sector has tended to serve the bottom end of the domestic market (Nigeria Vision 2020 NTWG on SMEs, 2009). It is evident that the small scale businesses in Nigeria have not been performing in terms of contributions to GDP and export earnings.

2.1.2.1 Features of Small Scale Businesses

i. Personalized management style: this means that small scale business entrepreneur participates actively in all managerial activities of the business including decision making process.

ii. Production process is labour intensive in most occasions.

iii. Relationship between employer and employees is relatively cordial and informal and the entrepreneur manager has personal knowledge of all employees in the small business enterprise.

iv. Small scale enterprises have limited access to long and short term financial assistance from the organized financial markets. Most times, they rely on informal sources of external funding, such as loans from friends, family members and other relations, etc.

v. Small scale enterprises have close relationships with customers and clients, most times emerge as a result of one-on-one network, word of mouth recommendations, and repeat business deals.

vi. Small scale businesses are mostly found in low skilled technological manufacturing industry and small scale enterprises pay less wages and salaries to their workers when compared to their industry standard and larger scale firms within their industry.

2.1.2.2 Role of Small Scale Businesses

Lawal (1998) present a position that small scale enterprises are not a new phenomenon in the Nigeria society and played the following role in economic development:

i. Transformation of traditional or indigenous industry: In any economy whether developing or developed, investments in small enterprises have helped and is helping to transform and modernize the traditional economic sector. The development of small and medium enterprises has led to the transformation of artisan industries which metamorphosed into modern and technology driven industries.

ii. Reduction in Rural-urban Migration: the development of small and medium enterprises, particularly in the rural areas, has led to substantial reduction in the migration from rural to urban centres. What we witness nowadays is for people to migrate from urban to rural centres in search of business opportunities in the small scale enterprises.

iii. Increase in standard of living: small scale enterprises are noted for the creation of new products and services which their consumption improves the standard of living of the public at large.

iv. Utilization of natural resources: small scale industries enhance the exploitation and utilization of a nation's natural resources and converting them to industries goods.

2.1.2.3 Sources of Finance for Small Scale Businesses

There are two broad sources of financing available to an entrepreneur. These are internal source and external sources. (Sunday & Ayodele, 2014)

A. Internal sources

At the startup of a small business the main sources of funds available to the entrepreneur are mostly internal. Internally generated funds can come from several sources within the company.

Common among these sources are:

i. Personal funds: the most common source of financing for Small business enterprises is personal funds from savings of the owners.

ii. The company's retained earnings or profits: in most new ventures, the start-up years involve putting all the profit back into the venture; even outside equity investors do not expect payback in these early years.

iii. Selling fairly used assets

Some fairly used assets can be sold off and the proceeds used to acquire bigger and more modern assets with more funds added to the proceeds from the sale of the assets.

B. External sources

i. **Commercial and Bank lenders**

The most common practice for established small business enterprise is to borrow from commercial lenders and banks such as credit union, financial houses and other non-bank lenders.

ii. **Commercial credit:** they involve vendors/suppliers/manufacturers delivering goods and performing services before payment is received from customers on credit.

iii. **Leasing:** lease is a contract between a lessor, the owner of the assets and a leasee. The user of the asset under the lease agreement, the owner gives the right to use the asset to the user over an agreed period of time for a consideration called a lease rental.

2.1.2.4 Importance of Small Scale Businesses

Many economies, developed and developing have come to realize the value of small business. They are seen to be characterized by dynamism with innovation and efficiency. Their small size also allows for faster decision making process. Small businesses have always played an important role in the economy. Looking at the importance of small business, means trying to assess its contribution to the economic development of the country. The contributions of small scale businesses to the development of the Nigerian economy are immense and have been acknowledged by many (Mohammed & Obeleagu-Nzelibe, 2014). Data from the National Bureau of Statistics (NBS) in Nigeria affirmed this importance when it reveal that about 97percent of the entire enterprises in the country are SMEs and they employed an average of 50% of the working population as well as contributing 50 percent of the country industrial output.

Proceedings of 25th International Business Research Conference (2014) identified six importance of small scale businesses. They include employment, labour intensity, job creation, efficiency of the enterprise, wages and benefits, social, and political and equity justifications. The desire of governments to promote SMEs is often based on social and political considerations rather than on economic grounds. Often SMEs are (or perceived to be) the domain of certain ethnic groups or political constituencies such as women in traditional societies, some society or family inherited traits in producing some goods like hide and skin in northern Nigeria, Iron smelting in the middle belt part of Nigeria (Ekpenyong, 1997). Sometimes the growth of small firms is seen as part of a democratization process and increased social stability, or as an instrument of regional development.

Besides contributing significantly to reducing unemployment, it forms a core of the economy generating significant percentage of domestic taxes and producing goods and services using large numbers of labor from the low to middle income categories of people; and supplying the goods and services to the general population. In a nutshell, small scale business enterprises represent the largest proportion of the productive population and by extension provide the fuel that keeps the economy running towards technological, economic, political and social development (MOPFED Report, 2010).

2.1.2.5 Problems of Small Scale Businesses

Small scale businesses have certain advantages over large scale businesses such as the ability in many cases to form close relationships with customers and clients, but small scale businesses also face several notable problems. Small businesses often focus on a niche or specialty that differentiates their goods or services from larger competitors. Some of the problems facing small scale business enterprises are inability to produce under economies of scale. Economies of scale is a concept in economics that describes a situation where the marginal cost of making a certain product falls as a company makes more of the product. In other words, when economies of scale exist, the cost of producing a certain product is lower per unit if the product is produced in large quantities. A small scale business production is usually limited because they produce for a limited market. For example, the cost per unit of making cars might be lower for a manufacturer that produces 100 cars a day than a manufacturer that produces one or two cars a day. Large scale businesses allow manufacturers to employ systems such as assembly lines that can increase productivity and reduce costs. Small businesses may have difficulty competing with large scale businesses that are able to mass produce products inexpensively (Harris & Sauzor, 2006).

Difficulty in attracting customers is another problem. A Small scale business enterprise typically has a more difficult time attracting customers than a larger business enterprise. They have smaller marketing and advertising budgets. Also, some potential customers are reluctant to do business with small businesses especially new businesses without loyal followers, since they believe that these businesses may not be around for a long time or that they will not be able to provide the appropriate level of service. A challenge for small scale businesses is to make sure that they provide excellent customer service and instill confidence in their customers (Oyelaran, 2012).

There is also the problem of facing competition from large scale business enterprises. Possibly one of the biggest problems facing small scale businesses is that they have to compete with much larger companies. Larger companies have bigger budgets and can usually provide products and services at much lower costs. A small business must be able to either match the prices charged by larger businesses or provide extra benefits to the customer such as better customer service. It is unarguable that some small scale businesses are good innovators. Most of the products available in the market today were developed by small businesses. However, these new product ideas or processes are always hijacked by large scale companies which subsequently make it difficult for small businesses to profit from their innovations. In cases where the small scale innovators take up patent, the larger business skirt such patent thus destroying the continued existence of the small scale niches (MOPFED Report, 2010).

Government policies seem to have constituted a serious problem area for small scale business enterprises. The beginning of harsh government policies toward small scale business can be traced back to 1982 with the introduction of "stabilization measures" which resulted in import controls and drastic budget cuts. These, in turn, adversely affected the subvention to the financial institutions established to provide financial assistance to the small scale business. For example, in 1983, out of a total of 8,380 applications for loans received from the small scale business for a total of 559.13 million naira, only 18 per cent (1,470 projects) for a total of 46.66 million naira was disbursed. Small scale businesses also face challenges obtaining money for expansion. Larger corporations have many more sources available to them to obtain capital to expand, even banks and lenders are much more willing to lend money to a large company with tangible assets that can be used for collateral. Adelaja (2003) argued that the access to institutional finance has always constituted a pandemic problem for small scale business development in Nigeria (Oyelaran, 2012).

Small scale businesses in Nigeria are seen to be affected due to the poor infrastructures that exist in the country. Many small scale businesses operate on a small scale mostly in rural areas and these rural areas have poor infrastructures like bad transportation network.

Good roads will not only encourage people to patronize a business but will equally reduce cost of transportation and carriages of raw materials and finished goods to retailers or sales outlets. In the same way regular supply of electricity can enhance maximum satisfaction of customers and reduction of operating costs such as diesel or any other fueling cost.

The definition of a small scale enterprise may vary in different economies of the world, but the underlying concept is the same. Small scale business enterprise can be defined in terms of annual sales, asset valuation, net profit, balance sheet totals and the size of the business including the numbers of employees available in the business.

Different authors, scholars, and schools have different ideas as to the variation in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development.

These features equally vary from one country to the other. Asaolu (2005) sites other problems such as inadequate information and likely cessation of business after death of the owner.

2.1.2.6 Government Policies for Promoting Small Scale Businesses

Regulation is part of contemporary business life as it helps to shield the businesses, the employees, and the general public from unwarranted risks just as it protects the environment from pollution. Besides, Regulation is the medium through which government targets her policy aims and objectives. The regulatory environment includes all the stipulated conditions, rules and regulations, as well as the government policies and guidelines that dictate the setting up of small scale business enterprise and that which influence their mode of operations. Policies and regulations targeted at the promotion of small scale business enterprise in Nigeria can be traced to include the Nigeria Enterprises Promotion Act No. 3 of 1997; Patent Right and Design Act No. 60 of 1979; and Industrial Development Tax Act No. 2 of 1971, among others. Some micro lending institutions established to enhance capacity and development of SMEs were identified in Ogechukwu (2006) as including the defunct Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERF), and the National Export and Import Bank (NEIB). Others are the Bank of Industry (BOI), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), National Poverty Eradication Programme (NAPEP), National Economic Empowerment and Development Strategy (NEEDS), Small and Medium Industries Equity Investment Scheme (SMIEIS), Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), and the Microfinance Development Fund (MDF).

In 2012, the Federal Government approved the sum of N200 billion for operation of the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) fund. The government has recently been involved in the provision of fiscal incentive for the promotion of enterprises within the small scale business sector. An example of this incentive is the tax relief incentive for SMEs, usually valid during the first six years of operation and is made up of company income tax Act of 1990 and the industrial development (Income Tax Relief) act of 1990 amended as decree of 1993. Technical assistance has also been established by the government to promote small scale business enterprises in Nigeria. Examples of these are the Center for Industrial Research and Development (CIRD) and Project Development Institute (PRODA).

2.1.3 Concept of Performance

Performance can be seen here as the success in meeting pre-defined objectives, targets and goals. Firm performance is thus the effectiveness of a firm in achieving the outcomes it intends to achieve within specified time targets (Vintila & Duca, 2013).

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard, Devinney, & Johnson (2009), organizational performance encompasses three specific areas of firm outcomes:

a. Financial performance (profits, return on assets, return on investment, etc.);
b. Product market performance (sales, market share, etc.); and
c. Shareholder return (total shareholder return, economic value added, etc.)

Thus, organizational performance is one of the most important variables in management research. Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its many meanings. For this reason, there isn't a universally accepted definition of this concept.

In the 50s, organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Georgopoulos &

Tannenbaum, 1957). Performance evaluation during this time was focused on work, people and organizational structure.

Later in the 60s and 70s, organizations have begun to explore new ways to evaluate their performance, so performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Yuchtman & Seashore, 1967).

The years 80s and 90s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998). In this context, profit became one of the many indicators of performance.

The authors, Lebans & Euske (2006) provided a set of definitions to illustrate the concept of organizational performance:

a. Performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske 2006, and Kaplan & Norton, 1992).
b. Performance is dynamic, requiring judgment and interpretation.

c. Performance may be illustrated by using a causal model that describes how current actions may affect future results.
d. Performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside).
e. To define the concept of performance it is necessary to know its elements characteristic to each area of responsibility.
f. To report an organization's performance level, it is necessary to be able to quantify the results.

Organizational performance is probably the most widely used dependent variable in organizational research today yet at the same time it remains one of the vaguest and loosely defined constructs (Rogers & Wright, 1998). Measuring organizational performance is difficult, especially when what has to be measured keeps changing (Hubbard, 2009).

Many small and medium-sized enterprises are becoming ever more focused on their organizational performance. Organizational performance comprises the actual results or output of an organization as measured against its intended results or outputs. Typically, there are different ways to characterize various types of organizational performance in small and medium sized enterprises. Dyer and Reeves (1995), proposed four possible types of measurement for organizational performance in small and medium-sized manufacturing firms:

a. Human resource outcomes (job satisfaction, absenteeism, turnover),
b. Organizational outcomes (quality, productivity, service),
c. Financial accounting outcomes (return on assets, profitability) and
d. Capital market outcomes, (stock price, growth, returns).

Pierre (2009) argued that organizational performance encompasses three specific areas of firm outcomes: (a) Financial performance (profits, return on assets, return on investment, etc.); (b) Product market performance (sales, market share, etc.); and (c) Shareholder return (total shareholder return, economic value added, etc.).

According to Shaker and Basem (2010), organizational performance indicators from relationship marketing perspective include: Increasing market share, retaining current customers, attracting new customers, creating loyal customers, increasing profit, Increasing return on investment, positive image. Venkatrman and Ramanujam (1986) argued that organizational performance has three dimensions: Financial performance, operational performance, and stakeholder performance.

According to the literature review, most common types of organizational performance measures that are used in recent empirical researches are: Financial or accounting performance, operational performance and market-based performance (Combs, 2005; Brealey, 2001; Helfert, 1994; Higgins, 1995; Pemnan, 2001; Carton & Hofer, 2006).

2.1.3.1 Financial and Accounting Performance

Performance is usually assessed with accounting-based measures (for example, profitability measures such as return on assets, return on investment, return on sales, return on equity), market-based measures (for example, stock market returns) or a mixture of accounting- and market-based measures (for example, price-earnings ratio).

Accounting-based criteria are common in performance evaluations. Popular management journals (such as Business Week, Management Today) use profitability criteria for performance-league tables. Also, in academic performance studies profitability measures are the most often used (McGuire & Hill, 1986; Hubbard & Bromiley, 1995). Accounting-based figures can be misleading because they might have been manipulated to look good. A lack of consistency in corporate accounting methods (for example, with regard to the treatment of inflation, inventory valuation, and depreciation or intangible assets) and a lack of standardization in international accounting conventions make interpretations as well as comparisons between organizations difficult. A further shortcoming of all accounting-based performance measures is their backward-looking focus (Kaplan &Norton, 1992). Data of past years reveal little about the future potential of a firm. The "short-termism" of the accounting-based measures relates to another point of criticism. Profit can easily be raised in the short-term by cutting expenditures (for example, for advertising or R and D), but that kind of practice might be harmful in the long-run. Thus, the question is if "firm performance” is truly assessed when merely relying on accounting based measures (Ursula & Wilderom, 1997).

Profit Margin (PM)

Profit margin is a ratio of a company’s profit divided by its revenue; it is always expressed as a percentage. It tells you how well a company uses its income. A high ratio means the company generates profit for each amount of revenue. A how percentage means the firm’s high costs reduce the profit for each amount of income.

Return on Investment (ROI)

Return on investment is a measure that investigates the amount of additional profits produced due to a certain investment. Businesses use this calculation to compare different scenarios for investments to see which would produce the greatest profit and benefit for the company.

However, this calculation can also be used to analyze the best scenario for other forms of investment such as if someone wishes to purchase a car, buy a computer, pay for college etc.

2.2 Empirical Review

Ashamu (2014) examines the performance of Micro finance Institutions (MFIS) in Lagos State, based on the development of small and medium Scale Industry. Simple random sampling technique was employed in selecting the 110 (SMES) that constituted the sample size of the research. Structured questionnaire was designed to facilitate the collection of relevant data which was used for the analysis. Descriptive statistics were employed as tools for the analysis which involve simple percentage, and Chi-square (contingency test). The findings indicate that the operations of MFIs have grown phenomenally in the last three years, driven largely by expanding informal sector activities, the conversion of the community banks to micro finance banks and the reluctance of banks to fund the emerging micro enterprises.

Albert and Henry (2013) investigated the effects of microfinance institutions lending on small enterprises performance within Kitale Municipality. This study adopted a descriptive survey research design and the target population was 1,200 SEs which were registered within Kitale Municipality and had operated for at least three years. The target population was stratified into homogeneous categories as wholesalers, retailers, restaurants and service delivery. A sample of 120 SEs was drawn proportionately and randomly from the strata. A semi-structured questionnaire was used to collect data. Completed questionnaires were verified and coded by the researcher in a computerized package then analyzed and summarized in frequency tables, pie charts and figures. The association between microfinance lending and SE performance variables was established through Chi square and correlation tests at 95% significance level. A multivariate logistic regression was used for significant bivariate variables at 95% significance level. The amount of loans is significantly and positively related with performance of SEs in Kitale Municipality.

Yusuf, Amao and Olawale (2014) examined the effects of micro credit on small scale enterprises in Osun State, Nigeria. Descriptive statistics and econometrics (regression analysis) were employed as tools for the analysis. Results showed that out of the 120 respondents that were sampled, 105 were credit users. The average age of the respondents was 40years and majority was female (about 61 percent). About 85 percent of the respondents were married with an average family size of 6. A very few number of the respondents had tertiary education. The study also revealed that the average monthly income of the respondents that were engaged in farming was N11,000, that of artisan was N19, 500 and that of trader was N25, 138.9. The average loan sourced by Artisan was N24, 000 that of trader was N28, 000 and that of farmer was N4, 000. The average loan to all respondents was N282, 000. The regression analysis revealed that loan repayment period, family size and years in business were the key determinants of business turn over. On the other hand, volume of credit available to respondents is affected by repayment period, number of sources and interest on loan. The study found that there is no significant relationship between micro credit and performance of SMEs in Osun State

2.3 Theoretical Framework

2.3.1 Games Theory of Microfinance

This theory states that many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves and is based on Grameen lending theory of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The theory has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to broader social network (Legerwood, 1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts (Gruber, 2005).

2.3.2 Financial Sustainability Theory

Long term survival and sustainability is critical for an MFI in being able to reach its target clientele and cover administrative and other costs. While social goals of reaching the poorest and poverty alleviation are valid, finance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch, 2002).

2.3.3 Investment Theory

The pressing need for SMEs firms is to obtain capital for a large growth and investment. It is customarily argued that capital either be generated through credit by the government or by personal contribution to the business. Unfortunately income from other sources is so low that they cannot generate investible surplus on their own. Thus obtaining credit under certain circumstances can help the poor accumulate their own capital and thus improve their living standard through the income generated from investments (Wahid, 1994).

2.3.4 Credit Theory of Money

This theory seeks to illustrate the relationship between credit and money. Proponents of this theory argue that money is best understood as debt even in systems often understood as using commodity money. The first formal credit theory of money arose in the 19th century (Graeber, 2011) argued that for most of human history, money has been widely understood to represent debt, though he concludes that even prior to modern era. According to Graeber, the credit theory is the sale and purchase in the exchange of a commodity for credit. From the main theory springs the sub theory that the value of credit or money does not depend on the value of any metal, but on the right which the creditor acquires payment meaning satisfaction for credit. On the obligation of the debtor to pay his debt and conversely on the right of the debtor to release himself from his debt by the tender of an equivalent debt owed by the creditor. The obligation of the creditor to accept the tender in satisfaction for the credit. Graeber goes on to note that a major problem in getting the public to understand the extent to Which monetary systems are debt based is the challenge of persuading them that things are not the way they seem.

2.3.5 Liquidity Theory

Emery, (1984) proposes that credit rationed firms use more trade credit than hose with normal access to financial institutions. When a firm is financially constrained the offer of trade credit makes up for the reduction of credit those that are credit rationed(.Nielson, 2002) obtained empirical evidence by use of small firms as a proxy for credit rationed firms, found out that when there is monetary contraction; small firms react by increasing the amount of trade credit accepted. Financially unconstrained firms are less likely to demand trade credit and prone to offer it.

2.4 Summary

The chapter has analyzed relevant selected literatures, review works of various authors and writers who have written about the effect of microfinance bank on the performance of SMEs. The study was conducted with the hypothesis test. It also reveals concepts of Microfinance, problems of the microfinance banks in Nigeria, concept of SMEs, effects of microfinance on small and medium enterprises, concepts of Performance microfinance bank and performance and theoretical framework.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study adopts descriptive research design to enable the researcher gain an in-depth knowledge of the phenomena and to assess data for analysis and testing of hypothesis. The choice of this design was chosen due to the fact that it enhances the data collection. Though the researcher is allowed to adopt any technique or combination of techniques most suitable for the study, but the research designs adopted on this study was carefully planned, so as to be able to obtain accurate and complete information about the research being used.

3.2 Population, Sample and Sampling Technique

The population of this study comprised the Small Scale Businesses (SSBs) in Keffi that have accessed Micro financing in NSUK Microfinance bank. Presently there are three hundred and one (301) SSBs that collect loan from NSUK MFB.

Simple random sampling technique was used to select the sample of SSBs. Taro Yamane formula as quoted in Nwabuoke (1986) was applied to determine the sample size and it is stated as follows:

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

Where: n =sample size

N = Total population size

1 is constant

e = the assumed error margin or tolerable error which is taken as 5% (0.05)

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

Where N=301

$e = (0.05)^2 = 0.0025$

$$n = \frac{301}{1 + 301(0.0025)}$$

$$= \frac{301}{l + 0.7525}$$

$$= \frac{301}{1.7525} = 171.7546$$

n = 172 SSBs

3.3 Method of Data Collection

The study utilizes the primary data from the questionnaire issued to the selected Small Scale Businesses (SSBs) in Keffi Local Government, Nasarawa State, to assess the effect of NSUK microfinance bank on the performance of SSBs in Keffi Local Government as they are more reliable.

3.4 Techniques for Data Analysis and Model Specification

Statistical measures were employed in the analysis. Collected data were tabulated and the number of respondents and percentage of responses were stated to given a fairly accurate view of the respondent's knowledge of information system.

The chi-square formula was used in the test of hypotheses using data collected from primary source. The chi-square formula is stated as;

$$X2 = \frac{\Sigma (F0 - FE)^2}{FE}$$

Where x^2 = subject of the chi-square

Σ = summation

FO = Observed frequency.

FE = Expected frequency

Decision rule:

As common in most research work, the rule is to accept the null hypothesis (Ho) if the computed Chi-square (X^2) value is less than or equal to the tabulated Chi-square. On the other hand the null hypothesis (Ho) is rejected if the computed Chi-square (X^2) value is more than the tabulated Chi-square (X^2t).

Level of Significance

5% (0.05) level of significance is used in testing the hypothesis.

3.5 Justification of Methods

The Chi-square method was used to measure the relationship between dependent and independent variables. Data from the selected small scale businesses in Keffi Local Government, Nasarawa was collected because they are more reliable for study of this nature.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

The researcher administered 172 questionnaires to the respondents, only 160 of these questionnaires were returned and this forms the basis of data presentation and analysis. On this note, the 93% retrieved questionnaires are adequate enough to analyze the research questions and make a valid conclusion and inference.

These details are shown in the table below:

Table 1: Composition of Questionnaires administration

Questionnaire	Respondents	Percentage
Questionnaire Returned	160	93.02
Questionnaire not Returned	12	6.98
Total No. Distributed	172	100

Source: Field Survey, 2019.

Table 1 above shows the analysis of all the data collected**.** The composition from the table shows that out of 172 copies of Questionnaires distributed, 160 copies representing 93.02% were returned while 12 copies representing 6.98% were not returned.

Table 2: Gender of Respondents

Gender	Frequency	Percentage
Male	67	41.86
Female	93	58.13
Total	160	100

Source: Field Survey, 2019.

The table above presents gender of the respondents 41.86% of the SSBs respondents are male, while 58.13% of the SSBs respondents are female which shows that the female are more dominant in Small Scale Business in Keffi, Nasarawa State, Nigeria.

Tabele 3: Age of Respondents

Age	Frequency	Percentage
20-30	44	27.50
31-40	53	33.13
41-50	31	19.38
51 and above	32	20.00
Total	160	100

Source: Field Survey, 2019.

The table above presents the age of the respondents; 27.50% of the respondents are between the age of 20-30, 33.13% of the respondents are between the age of 31-40, 19.38% of the respondents are between age 41-50 and 20% of the respondents are between the age of 51 and above. This implies that most of the entrepreneurs are between the youthful ages of 31 to 40 years which will bring about more productivity.

Table 4: Marital Status

Marital Status	**Frequency**	**Percentage**
Single	64	40.00
Married	82	51.25
Divorced	14	8.75
Total	160	100

Source: Field Survey, 2019.

From table 4 above, 40.00% of the respondents are single while 51.25% are married and 8.75% divorced.

Table 5: Educational Qualification

Qualification	**Frequency**	**Percentage**
FSLC	10	6.25
WASC/GCE	14	8.75
OND/NCE	80	50.00
B.Sc/HND	44	27.50
MBA/M.Sc	10	6.25
Ph.D	2	1.25
Total	160	100

Source: Field Survey, 2019.

From the table above, 10 of SSBs representing 6.25% have FSLC, 14 of SSBs representing 8.75% have WASC/GCE, 80 of SSBs representing 50.00% have OND/GCE, 44 of SSBs representing 27.50% have B.Sc/HND, 10 of SSBs representing 6.25% have MBA/M.Sc and 2 of SBBs representing 1.25% have Ph.D. From the above table, it is clearly shown that most of entrepreneurs in Keffi are those that have WASC/GCE certificate.

Tabele 6: Type of Business

Type of Business	**Frequency**	**Percentage**
Services	75	46.88
Manufacturing	24	15.00
Processing	38	23.75
Educational	23	14.38
Total	160	100

Source: Field Survey, 2019.

From the table above 75 respondents of SSBs representing 46.88% indicated that they render services as type of their business, 24 respondents representing 15.00%, 38 respondents representing 23.75%, 23 respondents representing 14.38% indicated that they manufactured, processed and based on Education respectively.

Tabele 7: Numbers of people employed

Number of people employed	**Frequency**	**Percentage**
1-5	127	79.38
6-10	33	20.63
11-15	0	0
16-20	0	0
Above 21	0	0
Total	160	100

Source: Field Survey, 2019.

The table above presents the number of people employed by SSBs, 127 respondents representing 79.38%, 33 respondents representing 20.63% indicated that SSBs employed 1-5 and 6-10 people respectively.

Table: 8: Do you borrow money from NSUK Microfinance Bank?

Opinion	Frequency	Percentage
Yes	160	100
No	0	0
Total	160	100

Source: Field Survey, 2019.

Table 8 above, shows that, 160 respondents representing 100% indicated that they borrow money from NSUK Microfinance Bank which means that they benefited from micro financing.

Table 9: Do you patronize the services of NSUK Microfinance Bank?

Opinion	Frequency	Percentage
Yes	160	100
No	0	0
Total	160	100

Source: Field Survey, 2019.

The table above shows that 160 respondents representing 100% indicated that they patronize the services of NSUK Microfinance Bank.

Table 10: NSUK Micro finance Bank's policies are appropriate for financial sustainability of small scale business in Keffi Local Government, Nasarawa State

Opinion	**Frequency**	**Percentage**
Agree	42	26.25
Strongly Agree	74	46.25
Undecided	24	15.00
Disagree	14	8.75
Strongly Disagree	6	3.75
Total	160	100

Source: Field Survey, 2019.

Table 10 above shows that 42 respondents representing 26.25% and 74 respondents representing 46.25% agree and strongly agree respectively that NSUK microfinance Bank's policies are appropriate for financial sustainability of small scale business in Keffi local government, Nasarawa State, while 24 respondents representing 15.00% undecided, 14 respondents representing 8.75% disagree and 6 respondents representing 3.75% strongly disagree.

Table 11: Money borrowed from NSUK Microfinance Bank affected the profit margin of SSBs positively

Opinion	**Frequency**	**Percentage**
Agree	20	12.50
Strongly Agree	109	68.13
Undecided	10	6.25
Disagree	18	11.25
Strongly Disagree	3	1.88
Total	160	100

Source: Field Survey, 2019.

Table 11 above shows that 20 respondents representing 12.50% and 109 respondents representing 68.13% agree and strongly agree respectively that the money they borrowed from NSUK microfinance bank affected the profit margin of SSBs positively, while 10 respondents representing 6.25% undecided, 18 respondents representing 11.25% disagree and 3 respondents representing 1.88% strongly disagree.

Table 12: Borrowing from NSUK microfinance bank has enabled SSBs to expand their business

Opinion	**Frequency**	**Percentage**
Agree	20	12.50
Strongly Agree	101	63.13
Undecided	15	9.38
Disagree	17	10.63
Strongly Disagree	7	4.38
Total	160	100

Source: Field Survey, 2019.

Table 12 above shows that 20 respondents representing 12.50% and 101 respondents representing 63.13% agree and strongly agree respectively that borrowing from NSUK microfinance bank has enabled SSBs to expand their business, while 15 respondents representing 9.38% undecided, 17 respondents representing 10.63% disagree and 7 respondents representing 4.38% strongly disagree.

Table 13: Borrowing from NSUK Microfinance Bank has enabled SSBs to sustained

Opinion	**Frequency**	**Percentage**
Agree	21	13.13
Strongly Agree	130	81.25
Undecided	3	1.88
Disagree	4	2.50
Strongly Disagree	2	1.25
Total	160	100

Source: Field Survey, 2019.

Table 13 above shows that 21 respondents representing 13.13% and 130 respondents representing 81.25% agree and strongly agree respectively that borrowing from NSUK Microfinance Bank has enabled SSBs to sustained, while 3 respondents representing 1.88% undecided, 4 respondents representing 2.50% disagree and 2 respondents representing 1.25% strongly disagree.

Table 14: Borrowing from NSUK Microfinance bank has enabled SSBs to perform better than their competitors

Opinion	Frequency	Percentage
Agree	30	18.75
Strongly Agree	99	61.88
Undecided	11	6.88
Disagree	17	10.63
Strongly Disagree	3	1.88
Total	160	100

Source: Field Survey, 2019.

Table 14 above shows that 30 respondents representing 18.75% and 99 respondents representing 61.88% agree and strongly agree respectively that borrowing from NSUK Microfinance Bank has enabled SSBs to perform better than their competitors, while 11 respondents representing 6.88% undecided, 17 respondents representing 10.63% disagree and 3 respondents representing 1.88% strongly disagree.

Table 15: Micro credit from NSUK Microfinance Bank has positive effect on SSBs business return on investment

Opinion	Frequency	Percentage
Agree	20	12.50
Strongly Agree	120	75.00
Undecided	5	3.13
Disagree	7	4.38
Strongly Disagree	8	5.00
Total	160	100

Source: Field Survey, 2019.

Table 15 above shows that 20 respondents representing 12.50% and 120 respondents representing 75.00% agree and strongly agree respectively that micro credit from NSUK Microfinance Bank has positive effect on SSBs return on investment, while 5 respondents representing 3.13% undecided, 7 respondents representing 4.38% disagree and 8 respondents representing 5.00% strongly disagree.

4.2 Data Analysis and Results

Here, contingency tables were developed for each hypothesis and the chi-square formula was used as a tool for analysis the chi square (X2) formula shows thus:

$$x2 = \frac{\sum(fO - fE)^2}{N}$$

Where FO = Observed frequency

Fe = expected of theoretical frequency

N = number of the event

X^2 = Value of chi-square.

For the purpose of this study, the expected frequency i.e. it is mathematically presented as:

$$FE = \frac{\sum fO}{N}$$

Where Fe = expected frequency value

∑FO = Observed frequency total

N = No of the option

In addition, 5% or 0.05 significant is chosen and degree of freedom i.e. DF is mathematically presented as:

Df = N – 1

Where N = No. of options

Computation of Chi-square

In computing the chi-square, the researcher use question 2 which show result of responses in table 11 above and relate to test hypothesis 1. Also use question 6 which show result of responses in table 15 above and relate to test hypothesis 2.

H_{01}: There is no significant relationship between NSUK Microfinance Bank micro credit and profit margin of small scale businesses in Keffi Local Government, Nasarawa State.

Computation of expected frequency (Fe) is as follow; using

$$FE = \frac{\sum fO}{N}$$

Where $\sum fO = 160 \; and \; N = 5$

$$fE = \frac{160}{5}$$

$$= 32$$

Table 16: Computed Value of X^2 (Hypothesis I)

No	Fo	Fe	Fo-Fe	$(Fo-Fe)^2$	$\frac{(Fo-Fe)^2}{Fe}$
1	20	32	-12	144	4.5
2	109	32	77	5929	185.28125
3	10	32	-22	484	15.125
4	18	32	-14	196	6.125
5	3	32	-29	841	26.28125
Total	160	160	0		237.3125

Degree of freedom (df) = N-1

= 5-1

= 4

The table X^2t value at 4df = 16.919

But, the calculated X^2 = 237.3125

We therefore, compare the calculated X^2 table with the computed value above i.e. $X^2 > X^2t$ at (4df)

= 237.3125>16.919

Decision Rule

Hence the calculated X^2 is greater than the table value of X^2t. We therefore, accepted the alternate hypothesis (Hi_i). We conclude that there is significant relationship between micro credit and profit margin of small scale businesses in Keffi Local Government, Nasarawa State.

H_{02}: There is no significant relationship between NSUK Microfinance Bank micro credit and return on investment of small scale businesses in Keffi Local Government, Nasarawa State.

Computation of expected frequency (Fe) is as follow; using

$$FE = \frac{\sum fO}{N}$$

Where $\sum fO = 160 \; and \; N = 5$

$$fE = \frac{160}{5}$$

$$= 32$$

Table 17: Computed Value of X^2 (Hypothesis II)

No	Fo	Fe	Fo-Fe	$(Fo\text{-}Fe)^2$	$\frac{(Fo\text{-}Fe)^2}{Fe}$
1	20	32	-12	144	4.5
2	120	32	88	7744	242
3	5	32	-27	729	22.78125
4	7	32	-25	625	19.53125
5	8	32	-24	576	18
Total	160	160	0		306.8125

Degree of freedom (df) = N-1

= 5-1

= 4

The table X^2t value at 4df = 16.919

But, the calculated X^2 = 306.8125

We therefore, compare the calculated X^2 table with the computed value above i.e. $X^2 > X^2t$ at (4df)

= 306.8125>16.919

Decision Rule

Hence the calculated X^2 is greater than the table value of X^2t. We therefore, accepted the alternate hypothesis (Hi_i). We conclude that there is significant relationship between NSUK Microfinance Bank micro credit and return on investment of small scale businesses in Keffi Local Government, Nasarawa State.

4.3 Discussion of Findings

The results of the analysis indicate that NSUK Microfinance Bank is significant in achieving SSBs performance in Keffi Local Government, Nasarawa State. The study is conforms with credit theory of money which state that money is best understood as debt even in systems often understood as using commodity money and most of human history, money has been widely understood to represent debt and in Nigeria Microfinance Banks do not grant credit to SMEs for fear of defaulters in payment.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This is the summary of the entire research and it will be presented in such a way that it will enhance the understanding of what the study entails.

Chapter one is the introduction of the entire research work, as such, it started with background to the study, it further stated the problems which form the basis for the interest in the study, it highlighted the research questions and specified the objectives of the study, Stated the hypotheses, it also emphasized on significance of the study, scope and limitations of the study, and it ended by defining some terms used in the research work.

Chapter two started with a comprehensive look at the conceptual framework covering the concepts of variables of the study. This chapter also examined the concepts of Microfinance and SSBs Performance. It went further to extensively review empirical literature and reports on the variables of the study, examined the relationships between microcredit and profit margin and return on investment of Small Scale Businesses in Keffi Local government, Nasarawa State. This chapter ended with a theoretical framework and Summary concerning the study.

Chapter three focused on research methodology, research design, population of the study, sample and sampling techniques. It went further by looking at the methods of data collection, Techniques for Data analysis and model specification. It ended by justifying the methods of data collection and analysis.

Chapter four presented and analysis all data collected from primary sources and also tests the validity of research hypothesis, which was successfully carried out and results where stated. The chapter also looked at the discussion of findings.

The study is on the effects of NSUK Microfinance Bank on the performance of Small Scale Businesses in Keffi Local Government. The study employs descriptive research design using data of primary source via questionnaire collected from SSBs and NSUK MFB in Keffi Local Government, Nasarawa State.

Chi-square was used to determine and analyze the relationship between microcredits and profit margin (PM) and return on investment (ROI) in Small Scale Businesses.

5.2 Conclusion

This study concludes that there is significant relationship between micro credit and profit margin of small scale businesses in Keffi Local Government, Nasarawa State and significant relationship exist between NSUK Microfinance Bank micro credit and return on investment of small scale businesses in Keffi Local Government, Nasarawa State.

5.3 Recommendations

Based on the conclusion, the study recommended the following:

1. It is recommended that Small Scale Businesses should re-strategies on how to finance their business by considering borrowing from friends or retained earnings. They should look at the their contribution for the business to growth within the level of the business since there is significant relationship between NSUK Microfinance Bank and SSBs performance in Keffi Local Government, Nasarawa State. However, micro credit loan should be encouraged since it does contribute to SSBs performance in Keffi Local Government, Nasarawa State.
2. There should be an even spread of Microfinance, their branches and activities to serve the unserve but economically active clients in the rural, semi-urban and urban areas;
3. There should be strict adherence to the minimum professional qualification and balancing experience specified for managers of Microfinance by the CBN;
4. Government agencies should grant development fund through microfinance rather than direct involvement;
5. International bodies and donors agencies should endeavor to grant more supports. With these and the above listed solutions, there will be an organic growth in NSUK Microfinance Bank and Nigeria.

5.4 Suggestions for Further Studies

This research study has revealed numerous research opportunities in the field of micro financing, particularly on the performance of Small Scale Businesses (SSBs) in Keffi, Local Government, Nasarawa State. Other areas that could be of researchers interest includes, but not limited to the followings:

i. Interest Rate Determination and Microfinance Bank Performance in Nigeria.

ii. Group versus Individual Liability: A Field Experiment of Microfinance Bank in Nigeria.

iii. Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions.

iv. Impact analysis of Microfinance Banks on Small business Development-An in-depth analysis of different sectors of the economy.

v. A group-based study of different trade group among artisans in Nigeria a microcredit approach.

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APPENDIX

LETTER OF INTRODUCTION

Department of Business Administration,
Faculty of Administration,
Nasarawa State University,
Keffi.
23rd September, 2019.

Sir/Madam,

REQUEST TO FILL QUESTIONNAIRE

The researchers are final year students of the Department of Business Administration, Faculty of Administration, Nasarawa State University, Keffi, currently undertaking a research project on the topic "Effect of NSUK Microfinance Bank on Performance of Small Scale Businesses in Keffi Local Government, Nasarawa State". Your cooperation will be highly appreciated in completing the attached questionnaire. This would go a long way in helping us to complete the research work successfully. Be assured that any information you supply here will be treated with outmost confidentiality and strictly for academic exercise.

Thank you.

Yours faithfully,

Researchers

QUESTIONNAIRE

Please take a few minutes of your precious time and complete the questionnaire. Your responses will be used for academic purposes only and will be treated with utmost confidentiality.

Section A:

1. Sex: Male [ ]

   Female [ ]

2. Age: 20-30 [ ]

   31-40 [ ]

   41-50 [ ]

   51 and above [ ]

3. Marital Status: Single [ ] Married [ ] Divorced [ ]
4. Educational Qualification: FSLC [ ]

   WASC/GCE [ ]

   OND/NCE [ ]

   B.Sc/HND [ ]

   MBA/M.Sc [ ]

   Ph.D [ ]

5. Type of Business: Services [ ]

   Manufacturing [ ]

   Processing [ ]

   Educational [ ]

6. Size of Business: ____

7. Location: ____

8. When did your business start? ____________________________________

9. Numbers of people employed: 1- 5 [ ]

   6-10 [ ]

   11-15 [ ]

   16-20 [ ]

   Above 21 [ ]

10. Do you borrow money from NSUK Microfinance Bank? Yes [ ] No [ ]

11. Do you patronize the services of NSUK Micro Finance Bank? Yes [ ] No [ ]

Section B: (Please tick where appropriate)

S/N	**NSUK Microfinance Bank**	**A 5**	**SA 4**	**UD 3**	**D 2**	**SD 1**
1.	NSUK Micro Finance Bank's policies are appropriate for financial sustainability of small scale business in Keffi Local Government, Nasarawa State.					
	Small Scale Businesses Performance					
2.	Money borrowed from NSUK Microfinance bank affected the profit margin of your business positively.					
3.	Borrowing from NSUK Microfinance bank has enabled you to expand your business.					
4.	Borrowing from NSUK Microfinance bank has enabled your business to be sustained.					

5.	Borrowing from NSUK Microfinance bank has enabled your business to perform better than your competitors.					
6.	Micro credit from NSUK Microfinance bank has positive effect on your business return on investment.					

Where:
A = Agree (5)
SA = Strongly Agree (4)
UD = Undecided (3)
D = Disagree (2)
SD = Strongly Disagree (1)