

**ROLE OF MICRO FINANCE INSTITUTIONS (MFI) IN FINANCING SMALL
SCALE BUSINESSES: A CASE STUDY OF LAGOS STATE**

BY

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NSU/ADM/MBA/BUS/538/14/15**

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**DEPARTMENT OF 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 any degree. All quotations are indicated and sources of information specifically acknowledged by means of references.



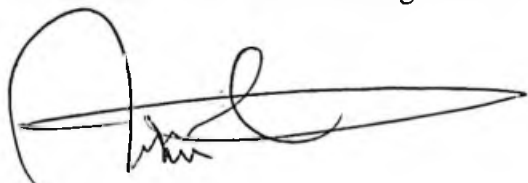
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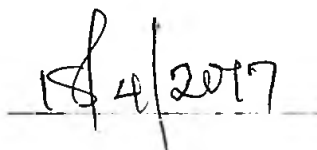
CERTIFICATION

This project is titled “**Role of Micro Finance Institutions (MFI) in Financing Small Scale Businesses: A Case Study of Lagos State**” meets the regulations governing the award of the Masters in Business Administration (MBA) in Nasarawa State University Keffi and is approved for its contribution to knowledge and literary presentation.



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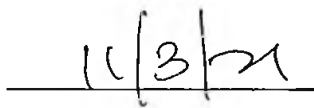


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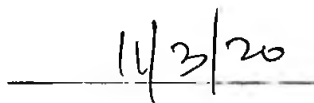


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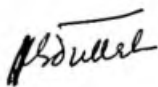


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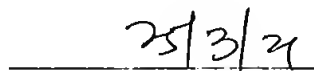
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DEDICATION

This project is dedicated to Almighty God.

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I am particularly grateful to Almighty God for making me complete this programme successfully; and to my Supervisor Dr. Uche Uwaleke for his advice, suggestions at every stage of this work.

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ABSTRACT

The study examines the roles of micro finance institutions (MFI) in Small Scale Businesses in Nigeria with emphasis to Lagos State. Based on a survey of five 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 which involves 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. The study also reveals the sub-sector faces a number of challenges, which have been addressed in this research. They include the urgent need to approved and implement a policy framework that would regulate and standardize the MFI operations; - accessing medium to long term sustainable commercial sources of funds, such as SMIEIES. The findings indicated that there is inadequate knowledge on the part of small scale entrepreneurs on improved lending conditions of MFIs, clients' apathy and the number of beneficiaries seems to be small. The study also indicate that Microfinance institutions (MFIs) have therefore become the main sources of funding small and medium scale industry in Africa and in other developing regions. The study recommend that there is need for development of a regulatory and supervisory framework for all forms of operations of the MFIs in Nigeria in general and Lagos in particular so as to assist the development of small and medium scale industry. It is not only desirable to regulate only Microfinance Banks, but also others that mobilize savings for purposes of lending to their clients. The study also recommend that The government should also improve on the state of infrastructural facilities to reduce the transactional costs associated with the administration of micro credit in the country so as to assist small and medium scale industry

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and medium enterprises are believed to be the engine room for the development of any economy, because they form the bulk of business activities in a growing economy like that of Nigeria. This is manifested in the following ways. Employment generation, Rural development, Economic growth and Industrialization, Better Utilization of Indigenous Resources.

In the past, Nigeria's over dependence on oil which really exposed the economy to unprecedented macro-economic instability resulting from the effects of external shocks to oil prices. The world economic recession and the sustained slump in oil prices posed a serious challenge on Nigeria economy which accounted for a reduction in our external Reserves and also diminished on the nation's capacity to finance much of its development needs. It was also observed that the real GDP growth slows to 2.2% from 2009; population growth rate will climb to 2.5%. Such situation could

Since Nigeria attained independence in 1960, considerable efforts have been directed towards industrial development. The initial efforts were government-led through the vehicle of large industry, but lately, emphasis has shifted to Small and Medium Scale Enterprises (SMEs) following the lessons learnt from the success of SMEs in the economic growth of Asian countries (Ojo. 2003). Thus, the recent industrial development drive in Nigeria has focused on sustainable development through small business development. Prior to this time, particularly judging from

the objectives of the past National Development Plans, 1962-68, 1970-75, 1976-80 and 1981-85, emphasis had been on government-led industrialization, hinged on import substitution strategy.

Since 1986, government had reduced its role as the major driving force of the economy through the process of economic liberalization entrenched in the IMF pill of Structural Adjustment Programme. Emphasis, therefore, has shifted from large-scale industries to small and medium-scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention was focused on the organized private sector to spearhead subsequent industrialization programmes. The incentives given to encourage increased participation in these sectors were directed at solving and/or alleviating the problems encountered by industrialists in the country, thereby giving them opportunity to increase their contribution to the Gross Domestic Product (GDP).

The contribution of Small & Medium Enterprises (SMEs) to economic growth and sustainable development is globally acknowledged (CBN, 2004). There is an increasing recognition of its pivotal role in employment generation, income redistribution and wealth creation (NISER, 2004). The small and medium enterprises (SMEs) represent about 87 per cent of all firms operating in Nigeria (USAID, 2005). Non-farm small and medium enterprises account for over 25 per cent of total employment and 20 percent of the GDP (SMEDAN, 2007) compared to the cases of countries like Indonesia, Thailand and India where Small and Medium Enterprises (SMEs) contribute almost 40 percent of the GDP (IFC, 2002).

Whilst SMEs are an important part of the business landscape in any country, they are faced with significant challenges that inhibit their ability to function and contribute optimally to the economic development of many African countries. The position in Nigeria is not different from this generalized position (NIPC, 2009).

Realizing the importance of small businesses as the engine of growth in the Nigerian economy, the government took some steps towards addressing the conditions that hinder their growth and survival. However, Ojo (2003) argued that SMEs assistance programmes have failed to promote the development of SMEs. This was supported by Yumkella (2003) who observed that all these programmes could not achieve their expected goals due to poor project evaluation and monitoring as well as moral hazards involved in using public funds for the purpose of promoting private sector enterprises.

Studies on industrial development countries have shown that small and medium enterprises constitute a fundamental part of the industrial sector and play an active role and bring development to these countries. Over the year, the Nigeria economy has been dominated by large industries which are mostly multinational. This is obviously due to the government policies which encouraged and emphasized the development of these large industries at the expense of the small scale industries. Eventually, the Nigerian government recognized the development of small scale industrial as an imperative prerequisite for sustaining a well-balanced industrial sector. Faust (2000) submits that four basic interrelated inputs are required to give impetus to their development. They included;

- i. Favourable government policies and incentives
- ii. Technical assistance
- iii. Managerial assistance
- iv. Finance assistance

Due to the uncertainties, the lower rate of return, the expense of administration and the mediocre expense of previous government lending programs, Faust added, financial assistance for the small entrepreneur has been lacking from both government and commercial source.

Consequently this heralded the institution dedicated to assisting small enterprises, the poor and households who have access to financial services. Institutions offering microfinance institutions are designed financial institutions dedicated to assisting small enterprises, the poor and households who have no access to financial services. Institutions offering microfinance services are very diverse, including commercial banks, community banks and state owned development banks.

The formal/traditional micro finance institution include: the Self-help Groups (SHGS), or the rotating saving and Credit Associations (ROSCAs), and cooperative societies, while the formal/modern Microfinance institutions include universal banks, community Banks (Micro-MFIs), non-Government Organizations Microfinance Institutions (NGO-MFIs), public sector poverty alleviation agencies, special microfinance schemes and Donor Agencies. (Iganiga, 2008).

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. They operate in both urban to rural areas, the roles played by these institutions are diverse according to the scope of their operations which vary from social to economic roles. in other words. from financial intermediation to technical and managerial assistance.

According to Anyawu (2004), the bulk of credit beneficiaries were women, as most of the microfinance institutions began as NGO that had the promotion of female welfare as the basis for their establishment. 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 meager resources and promoting micro enterprises.

Over the years, microfinance has emerged as an effective strategy for poverty reduction. Across developing countries, micro, small and medium enterprises are tuning to microfinance institutions (MFIS) for an array of financial services. Microfinance is acknowledged as one of the prime strategies to achieve the millennium development goals (Ehigiamusoe, 2005).

However, institutions and programs put input in place for this purpose, (micro financing) by government and individuals and group of individuals have at best recorded limited successes in securing wide access to sustainable micro credit as a critical instrument for growth and poverty reduction. It could be observed that most of the these policies and schemes relating to micro finance become moribund few years after initiation due to high operating cost, repayment process, weak access to refunding facilities, client apathy and drop out and internal control challenges among others (Iganiga, 2008) according to the Daily Trust newspaper (2009), the

micro finance policy of the federal government: is already bearing fruits in Lagos State as the 18 community banks already been converted to micro finance banks and as January 2009, 23 of such have either been licensed or given approval in principle by the central Bank to operate.

One can say that the micro finance institutions have been performing below capacity over the years but with the additional liquidity provided by the recent banks Iganiga (2008) added, it is expected that the micro finance policy objectives would be realized which will move the Nigerian economy to the attainment of the millennium development goals. This study is aimed at examining the roles of microfinance institutions in financing small scale businesses.

1.2 Statement of the Problem

Majority of the Small Scale Business in Nigeria are still at a low level of development, especially in terms of number of jobs, wealth and value creation. This is because 65% of the active population, who are majorly entrepreneurs, remain unserved by the formal financial institutions. The microfinance institutions available in the country prior to 2005 were not able to adequately address the gap in terms of credit, savings and other financial services.

Despite the potential importance of Small Scale Businesses in any economy, high mortality rate among established Small Scale Businesses is a matter of major concern in developing economies. International Finance Corporation (IFC) reported in 2002 that only 2 out of every 10 newly established businesses survive up to the fifth year in Nigeria. The report was corroborated by Small and Medium Enterprise

Development Agency of Nigeria (SMEDAN) that only 15% of newly established businesses survive the first five years in Nigeria. This is a pointer to the fact that there is a problem. The indispensable role of finance to the growth and survival of Small Scale Business and the adoption of microfinance as the main source of financing SMEs in Nigeria therefore makes it imperative to study the extent to which microfinance can enhance Small Scale Business survival.

1.3 Research Questions

- i. To what extent have the micro finance institutions supported the operations of small scale business?
- ii. To what extent have small scale businesses benefited from the credit scheme designed for them?
- iii. Are the small scale businesses making good use of their advances?
- iv. Will this loan given by microfinance institutions improve the general performance of the small scale business?

1.4 Hypotheses

H₀₁: Null hypothesis (H₀): Small and Medium Scale Industry will not be improved with the introduction of microfinance.

H₀₂: Null hypothesis (H₀): Small and Medium Scale Industry will not improve Economic Development in Nigeria.

H₀₃ = the loan given out by microfinance institutions has not improved the general performance of the small scale businesses in Nigeria

1.5 Objectives of the Study

The broad objective is to examine the role of microfinance institutions in financing small scale businesses in Lagos State. The specific objectives are:

- i. To find out the extent to which micro has SMEs improved since the invention of Micro Finance Institutions.
- ii. How has SMEs improve the Economic Development in Nigeria?
- iii. To find out if the small scale business are making good use of their advances.
- iv. To find out if the loan given by microfinance institutions have improved the general performance of small scale business.

1.6 Significance of the Study

The relevance of the roles played by modern microfinance institutions cannot be overlooked. When the objectives of this study are achieved it will go a long way to create awareness among small and medium entrepreneurs about the existence of MFIs as well as correct the perceptions of small and medium entrepreneurs that have unfounded reservations about the operations of the modern MFIs.

The study may provide solutions to the challenges faced by modern MFIs in services delivery and provide a platform for the improvement of their services which the state economy undoubtedly needs to attain the millennium development goals.

The research may help entrepreneurs and managers understand the major role of microfinance institutions in financing small scale businesses as well as how to benefit from the loans given to them by these institutions. It will also serve as a

guide or reference to scholars and writers who need to know more about microfinance role in financing small scale businesses.

1.7 Scope of the Study

The study attempts to find out the role of microfinance institutions in financing small scale businesses and with emphasis on some selected Small Scale Businesses in Lagos State.

The main limitation of the study is the reliance on information supplied SMEs 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. It is strongly believed that the result of the study can be generally applied to other SMEs beyond the selected town.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Microfinance

Consultative group to Assist the poor (2003) define microfinance as the supply of loans, savings and other basic financial services to the poor. These owners of micro and small enterprises require a diverse range of financial instrument to meet working capital requirement, build assets, stabilized consumption and shield themselves against risk. Financial services include working capital loans, consumer credit, savings, pensions, insurance and money transfer services. In practice, microfinance is much more than disbursement management and collection of little bits of loan. It is rather refers to flexible process and structured to suit credit need and cash flow pattern of small business.

Microfinance is not charity despite its appellation as —poverty lending!. Primarily micro finer cc seek to create access to credit for the poor who ordinarily are locked out of financial services in the formal financial market by reasons of their poverty, that is, lack of command over assets. It therefore places obligation on the borrowers for proper utilization and complete repayment of the borrowed amount even at commercial interest rates (CGAP, 2003). Microfinance is not new in Africa. In other societies and history we come across schemes and social arrangements which enable people to pull their resources for onward distribution to cooperatives and needy individuals. Ready examples include adashe and variants of esusu. Nigerian

microfinance institutions have also integrated the best practices of traditional scheme into operational procedures (Ehigiamusoc. 2006[^]).

2.2 The Importance of Microfinance

By adopting with microfinance as a central element in their development programs, several development organizations, among them, government and non - governmental organizations (NGOs), aim to decrease global poverty while simultaneously enhancing the portfolio of women and Other under privileged communities (Tjossmn 2002). Current literature has underscored the growing importance of micro finance as an .essential poverty alleviation mechanism (Navasjas et al., 2000, Ahmad, 2001 and 200; CGAP, 2003; Bran et al 2004; chowdhury, et al, 2005). This has been the creation of opportunities for entrepreneurship, enable the poor to eliminated unemployment and poverty by fulfilling their creative potential (Yunus, 2001).

Successful adoption and implementation of microfinance programs in development organizations such as ACCION in the United States. ASA and BRAC in Bangladesh and BRI in Indonesia has further increased the interest in microfinance phenomenon (ASA, 1997), (Navajas et al, 2000). Muhammad Yunus initially developed the innovative technique by the creation of grameen Bank in bangladesh. On experiencing several challenges in lending to the poor via the traditional banking system, yunus established grameen Bank in 1983, and this has been followed by subsequent adoption of microfinance by almost 70 countries worldwide.

Yimus (2000) claim, if we are looking for single action which will enable the poor to overcome their poverty, he would go for credit. That money is power. Credit invested in an income - generating enterprise as working capital or for productive assets leads to establishment of a new enterprise or growth of existing one.

Vincent (2006) added that extent to which microfinance. entrepreneurship is becoming increasingly recognized by experts in their respective fields of work, associated with economic development.

IFC (2002) reported that over 500 million poor people around the world run profitable micro enterprises and often cite credit as the primary constraint to business growth thus, credit is essential for the entrepreneurs in low developed countries.

The sustainable financial markets facility SFMF (2004) recognizes the importance of promoting —environmentally and socially responsible lending and investment in emerging markets, thus stimulating sustainable markets/sustainable private sector activity and enhancing other sustainable initiatives in the developing world. Thus, the interrelated nature of microfinance, entrepreneurship and sustainable development is evident.

However, the success of microfinance has been contradicted by intense criticism in the current literature, particularly regarding loan payment. high interest rates. effective microfinance provision to target groups, unchanging levels of poverty and failure to cater effectively for the target groups (Holt, 1994; Dignard and Havet, 1995; Chriten, 1997; Mallik, 2002; Brau and wolle', 2004).

Deheija et al. (2005) observed that 'high repayment rates are insufficient to drive microfinance revolution' consequently, they identify high interest rate as necessary for generation of profitability, in order to reduce reliance of microfinance institutions (MFIs) on external funding. This is confirmed by Malick (2002) who observes that the income generating loans is 20 percent, which is notably higher than the 8 to 10 percent rate offered by Bangladesh commercial banks. In addition, studies by Deheiji et al. (2005) emphasize that the poor are extremely sensitive to increases in interest rates which results in a reduced demand for financial services among this group.

Failure to eliminate global poverty levels is another major criticism of microfinance. As stated by Morduch and Haley (2002) refutes this claim by emphasizing the fact that despite its various limitations like any other development model, the strength and success of micro-finance cannot be ignored. Hussain (2002) further suggest that rather than reduce the use of microfinance on the basis of the deficiencies outlined, these drawbacks of microfinance should instead be incorporated into its environment. This is confirmed by Yunur (2001) who reiterates that the German borrower has experienced increased income with one third of the very poor escaping poverty:

In Nigeria the formal financial system provides services to 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector through, non-governmental organizations (NGO) microfinance institutions, money lenders, friends and credit unions. The non regulation of the activities of some of these

institutions has serious implications for the central Bank of Nigeria's (CBN) ability in the financial system. (CBN, 2005)

Therefore, the national microfinance policy frame for Nigeria was introduced amongst others, to enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and the low income groups. The policy would create a platform for the establishment of microfinance banks, improve the CBN's regulatory/supervisory performance' in ensuring monetary stability and liquidity management, and provide appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria (Ehigiamusoe, 2006).

2.3 Overview of Microfinance Activities in Nigeria

According to CTYKII (2005), the practice of microfinance in Nigeria is practically rooted and dates back to several countries. The traditional micro finance institutions provided access to credit for the rural and urban, low-income earners. They are mainly of the informal self help group (SHGs) or rotating savings and credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and cooperative societies.

In order to enhance the flow of financial services in Nigeria rural areas, government has, in the past, initiated a series of publicly-financed/rural credit programs and policies targeted at the poor. Notable among such programs were the rural Banking program, sectoral allocation of credits, a concessionary interest rate, and the Agricultural credit Guarantee scheme (ACGS). Other institutions were the establishment of the Nigeria Agricultural and cooperative Bank limited (NACB).

the National Directorate of Employment (NDE), the Nigeria Agricultural insurance corporations (NAIC) the people's Bank of Nigeria (PBN), the community Banks (CR's), and the family Economy Advancement program (FEAP). In 2000, Government merged the NACD with the PBN and FEAP to form the Nigerian Agricultural cooperative and Rural Development bank limited (NACRDB) to enhance the provision of finance to the Agricultural sector. It also created the national poverty Eradication program (NAPEP) with the mandate of providing financial services to alleviate poverty.

Micro finance services particularly, those sponsored by government, have adopted the traditional supply - led, subsidized credit approach mainly directed to the agricultural sector and non - farming activities, such as trading, tailoring Weaving, blacksmithing, agro processing and transportation. Although services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects short-lived, due to the unsustainable nature of the programs (CBN, 2005).

2.4 Participating Institutions in Microfinance Activities in Nigeria

The practice of micro finance can be categorized thus.

1. Informal/traditional microfinance institutions.
2. Formal/modern microfinance institutions.

2.4.1 Informal/Traditional Microfinance Institutions

The practice of microfinance in Nigeria is culturally rooted and dates back to several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners.

They are mainly the informal Self-Help Groups (SHGs) or rotating savings and credit Association (ROSCAS) type. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due to inadequacy of loan able funds (Agaifa, 2006). This led to establishment of formal microfinance Institutions.

2.4.2 Formal/Modern Microfinance Institutions

These include:

Universal Banks

Universal Banks currently engaged in micro finance services, either an activity or a product, set up a department/unit is subject to the provision of the MFBs regulatory and supervision Guidelines.

Community Banks (Microfinance Banks)

All licensed in Nigeria that met CBN guidelines has been transformed to microfinance Bank. There are two categories of micro finance banks (MFBs)

- i. Micro-finance Banks (MFB) license to operate as a unit. These are hitherto community banks licensed to operate branches and/or cash centers subject or meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centers. The minimum paid up capital in this category of

banks is N200 million for each branch. The branching should be gradual within a local council before it spreads to other local councils and state.

- ii. Micro-finance Banks (MFB) license to operate in a state. These are MFBs licensed to operate part of the state at once without recourse to gradual coverage (spread) as in unit MFBs. Branches are opened subject to meeting the prescribed prudential requirements and availability of free funds. The minimum paid up capital for this category of banks is 1 million.

2.4.3 Non-Governmental Organization Microfinance Institutions (NGO-MFI)

The present policy in Nigeria recognizes the existence of credit only membership - based microfinance institutions under the supervisory purview of the Central Bank of Nigeria, such institutions engaged in the provision of micro credit to their targeted population and forbidden from mobilizing deposits from the general public. The registered NGO - MFIs are required to forward periodic returns on their activities to the CBN. Lift above poverty organization (L.APO) in Benin is an example of NGO-FNLs. NGO-NFIs that wish to obtain the operating license of a micro finance bank are required to meet the specified provision as stipulated in the category and supervisory guidelines. Special micro finance scheme operated by some state government fell under this category.

2.4.4 Public Sector Poverty Alleviation Agencies

The MFI policy recognizes the roles of public sector MFI and poverty alleviation agencies such as the National poverty Eradication program (NAPEP) and small and medium Enterprises Equity scheme (SMEEIS) in the development of the sub-sector.

Such agency performs the following functions (i) provisions of resources targeted at difficult - to – reach clients and the poorer of the poor (ii) capacity building (iii) development of MFIs activities nationwide (iv) collaborating /partnering with other relevant stake holders; and (v) nurturing of new MFIs to a sustainable level.

2.4.5 SPECIAL MICROFINANCE SCHEMES

In Nigeria today, some governmental agencies across the various tiers of government operates special credit for traders, farmers, young school leavers, graduate anc artisans. These are credit outlets that may not be registered and hence lot supervised by CBN. They are directly under the control of the government agency that midwives them.

Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of microfinance industry in Nigeria. They include bilateral a-id multinational- institutions, NGO and missionaries with a proper orientation. The services provided by donor agencies include grants, donations technical, etc.-the donor agencies in conducting their microfinance activities comply with the relevant provisions of this policy. The target plan of donors' support may include; MFI, NGOs regulatory, and other relevant agencies. However, for the purpose of leveraging the evolving microfinance initiatives, donors are expected to direct most of their assistance to licensed MFIBs to ensure an orderly resource injection, transparency and synergy (Iganiya, 2008).

2.5 Microfinance Models

There are basically formal and informal models of providing micro credit to target group. The most successful had been the informal model because several developing countries where poverty is high some individuals, households and regions remained isolated from markets and from mechanisms of borrowing and lending and insuring from against risk (Aryeetey, 1995). Consequently, informal lenders tend to target the poor (including women) albeit not always successfully; attempts by better financed innovative schemes 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.

2.5.1 The Informal Model

The informal models built around group concept. The model works in a situation where groups whose commitment of savings and credit are weak and look up to donor sponsor credit. In as much as this works better with a group that voluntarily come together to form a revolving saving and credit associations, it faces managerial problems where the groups are not cohesive and not voluntarily formed.

The Grameen Bank:

Experience started with the group concept informal-lending to the poor. It was started to assist countless people in Bangladesh to obtain credit, which could not be obtained through the formal commercial bank credit facilities. The program has since been linked to formal Micro model. It operates using modality of collective

guarantees, close supervision and peer pressure from other members of the Grammen group. The model has been quite successful as a bank for the poor and as a social movement based principles of awareness and training, which has facilitated active participation of the poor. As at 1999, the Gram men had provided its services to about .5 million poor, unified about 60,000 small village banks in the linkage process and about S450 million to its clients for small scale trade, construction, backup funds or local production as well as for emergency funds.

Non-Government Organizations (NGO)

Approach is also grouped as informal model as tends to adapt the Grammen principle and usually are gender specific and sartorially motivated. There are women groups, farmers union, trade union etc. in Ghana and Gambia the most successful micro credit programs are women finance association. The programs were reported to have had high rate of repayment. In the Gambian experience, the program rewarded depositors at above market of interest which 20-50 percent in 1999, the high interest rate was not fixed by the formal institution but by the village assemblies. The assemblies met to decide on the composition and responsibilities of credit committees, the interest rate types of savings instrument.

Although the Ghana and Gambia programs operate as an informal credit model, the quality of service could be compared to the financial market,

ESUSU:

Esusu is revolving loan scheme in scheme in Nigeria and estranged in most West African countries operating as an informal micro credit program. The group to operate the revolving schemes is voluntarily. Members make contributions of

money at regular intervals. At each interval, one member collects all the contributions from all. Every member takes a turn until each cycle is completed, and then it starts again. Esusu functions as a saving mechanism. The Esusu is a very strong program that has assisted target groups to alleviate poverty, particularly among market women in rural/urban markets. East esusus' groups have a recognized leader and esusu is often used as a model by NGOs trying to establish micro finance programs in the urban setting.

2.5.2 The Formal Model

The formal micro finance model built around formal financial institutions such as the commercial banks, rural-village community bank etc. Most of the formal institutions that give credit to the poor have not been successful. The reasons adduced for their failure have been limited

knowledge of the poor and no closer relationship between the formal institutions and the informal institutions. The Grammen experience is an example of that model that has been able to transform from an informal model of purveying micro credit to the poor. The credit needed by the poor has been found to be very small compared to what the formal model can possibly attend to and also the reoccurring problems of no collateral. The formal micro operator has found that pre-client costs are high and expensive. To reach groups of clients physically is expensive because poorly developed infrastructure increases the expense of delivering even basic needs. In addition, most programs offering micro finance services have a small capital base and do not have access to the level of financing that will be required for

significant scaling up. This is the reason why commercial banks and development banks could not really purvey micro credit and could not be used as a second-best to formal lending. The case of Nigerian Agricultural and Cooperative bank, people bank were quite recent and confirm the enormous problem of using the formal model as a strategy to alleviating poverty.

2.5.3 The Linkage Model

The frame work linking informal savings collection institutions formed the basis for the break through discussed earlier. In view of the banks readiness to acquire- more information about the informal sector and making serious efforts at strengthening group schemes encouraged the successful turnaround of micro credit programs. An example is the recent merger of the Niger an Agricultural Cooperative Bank (NACB), people Bank of Nigeria and Family Economic Advanced program (FEAP) to for Nigeria Agriculture Cooperative and Rural Development Bank (NACRDB). Also tie current banker's committee initiative which is supported by the CBN, for banks to set aside 20% of their profit before tax for quality investment in small scale industry will be tangential to alleviating poverty through the lending window or through joint ventures.

In Ghana the frame work for informal savings collector to the largest commercial bank was done by the collectors forming a registered association with which the bank deals. This linkage has led to the increase proportion of esusu expositors that gained access to credit facilities from their esusu collectors. The loan to deposits in the Ghana model rose from 9% to 60% in the two years of credit operations. The

scheme was based on the observation that increased lending by collectors often leads to larger numbers of depositors.

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

2.5.4 Donor 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 Ibanga (1997) says —Ekpuk (family) model worked perfectly well within an extended family structure. particularly proven successful in some villages in Akwa Ib.-m State. However, the system of credit needs to be encouraged to work through the formal credits institutions as much as possible, such as community banks and the NACRDB. It will help to support the development of strong non bank financial institutions with less risk of default (Okanji, 201!).

2.6 The Microfinance Policy

The main objective of the microfinance policy is to make financial services accessible to a large segment of the productive Nigeria populace which otherwise will have little or no access to financial services. This is by enhancing service delivery to micro, small and medium entrepreneurs in order to bring about rural

transformation which would which would be achieved through meeting specific targets. They include:

- To cover the majority of the poor but economically active by 2002 thereby creating millions of jobs and reducing poverty.
- To promote (ie participation of at least two thirds of state and local government in micro credit financial by 2015.
- A number of strategies have derived from the objectives and targets. They include but not the linked to
- License and regulate the establishment of the microfinance banks (MFBs)
- Promote the establishment of KGOs-based MFIs.
- Promote the establishment, of institutions that support the development r id growth of microfinance providers and clients (CBN, 2005).

2.7 The Role of Small Scale Business

It has been researched and established that small scale businesses play crucial roles in the economic development of countries. They employ more workers than their large scale counterparts. They play complementary roles to large scale firms as a training workshop for developing skills 3f industrial workers and establishing forward and backward linkage.. The spectacular economic development of the Asian countries Ike Malaysia and Indonesia were attributed to the rapid development of the small and medium enterprises. In recognition of this many countries now see them as instrument for fighting poverty and underdevelopment and are re-directing their economic policies towards the development of this class

of enterprises (Ogundele, 2006). In Nigeria small -scale businesses (SSB) constitute 85% of all firms operating in the economy. Like in most other developing countries they employed the largest number of workers. It is the official policy of government to develop the economy and light poverty through the development of small scale business (FGM, 2003).

2.8 Challenges of Microfinance

Iganiga, (2008) reports that, to achieve sustainability ad growth, microfinance institutions and authorities most devices strategies to effectively address the six challenges of microfinance which includes:

- High operating cost
- Repayment problems
- Inadequate experience staff © Lack of financing facilities
- Client apathy and drop-out because pro-poor microfinance MFIs lose up to 20% of their client base annually and
- • Internal control challenges as a result of Large transactions informal challenges.

The development of SMEs requires combine efforts on the part of government institutions. In this regard, issues related to tax, information and availability of social infrastructure needs to be addressed to facilitate the development of SMEs. In as much as national policies play an important rolc in the development of SMEs, targeted inventions are much more effective to bring about a rapid changing the growth of SMEs' support services at the firm level. These are important mechanisms

that will ensure the efficient allocation of resources by SMEs to enable them to grow and expand their operations in order to create a robust and dynamic private sector.

2.9 Empirical Review

Hassan Ishaya (2011), In his work sees microfinance institution as a very important sector of the economy which provides diversified affordable.

Microfinance institutions play significant role in enhancing socio-economic development; of women because; viable approach of sustainable growth and development lies in the financial and economic advancement of women and rural dwellers in Nigeria, Recent development in Africa and other developing countries reinforce the contention that microfinance or microcredit structures are essential for development of rural areas in consideration of the fact that development concentrated in the urban. Centre's in the country (Iheduru 2002). Provision of microfinance made positive impact on the individual household's budget and has charge the quality of life of millions of people in developing countries especially women.

Iheduru (2002), declared that, micro financial provides the means to generate income eventually leads to sustainable development and provide the drive develop a —broad access to financial resources crucial to the poor (Among who: women comprises the majority) in order to provide the basic requirement it for sustainable development.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research is descriptive in nature and employs the survey method in assessing the impact of Micro finance on small scale enterprises in Nigeria. The research design used for the purpose of the study is the survey design. The survey covered the Small scale enterprises around Lagos State used as the case study. In order to effectively conduct a valid analysis in the presentation and analysis of the data collected on the field the researcher used descriptive statistics. The primary data was obtained through the use of questionnaire and interview.

3.2 Population of the Study

The data from this study was administered to 120 respondents who were selected randomly from Small scale enterprises in Lagos state environment. In return 110 questionnaires were perfectly attended. The total population was 400, while the sample size was 30% of the entire population that is 30% of 400 =120. The questionnaires administered was based on the sample size of 120 and 110 were dully filled and return, the remaining 10 were too busy and undecided. so the actual sample used for this study was 110.

Stratified random sampling techniques were used to select respondents. The state identified cut across all segment of microfinance and small and medium scale industry namely: Senior management Middle Management, Officer Level and

customer; each stratum was selected based on their importance. Simple random sampling was used to select target individual from each stratum.

The complete questionnaires were collected serially, coded and analyzed sequentially according to the research questions. Tables were used to present information to facilitate analysis, simple percentages while Chi -square was used to test the hypothesis.

3.3 Method of Data Collection

The data for this study was, collected from primary and secondary data. The primary source was with the use of questionnaire of close end type. The close ended provided options of two to five where the respondent selected their answer. The questionnaire was structured into three sections with part one eliciting information about the respondent bio-data like age, sex, qualification, etc. whereas part two and three reflected the objectives, research questions and hypothesis of this study. In order to support the finding, the researcher made use of secondary information from textbooks, journals, and copies of annual performance evaluation form from staffs personal records.

3.5 Technique for Data Analysis

In analyzing the data Collected, the descriptive and statistical methods were used. In testing the various hypotheses, the chi-square was used. A measure of discrepancy existing between observed and expected frequencies. It is usually supplied by the statistics symbolized as X^2 and it is given by:

$$X^2 = \sum \frac{(D_i - C_i)^2}{e_i}$$

Where X^2 = calculated value of chi-square

D_i - observed frequency

C_i — expected frequency

EI - number of cells

In order to arrive at the decision on whether to accept or reject the null hypothesis, comparison will be made between the computed chi-square and [table value at the same degree of freedom at 0.05 level of confidence based on the following:

The null hypotheses would be rejected if the computed X^2 value is less than the table or theoretical value.

The null hypothesis would be accepted if the computed value is than the table of the chi-square (X^2). In other words, the decision rule will be compared with the computed chi-square value with critical value. If the computed X^2 value exceeds the critical value determine at a given confidence level and degree of freedom, the null hypothesis would not be rejected and alternative hypothesis will be accepted.

The degree of freedom: $(r - 1)(c - 1)$

Where: R = number of rows

C = Number of columns

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

Table 4.1: Composition of Questionnaires administration

Questionnaire	Respondents	Percentage
Questionnaire Returned	110	92 %
Questionnaire not Returned	10	8%
Total No. Distributed	120	100%

4.2 Data Analysis and Results

The questionnaires were sequentially analyzed and presented in Tables. However, all the necessary data with respect to respondents' response were analyzed using percentage and rank.

Table 4.2: The introduction of microfinance will improve the strategy of small-scale development in Nigeria especially in Lagos State?

RESPONDENTS	FREQUENCY	PERCENTAGES %
Strongly agree	24	21.82
Agree	38	34.55
Strongly disagree	11	10
Disagree	29	26.36
Undecided	8	2.27
Total	110	100

Source: Field Survey, 2016

The above table shows that appraisal puts an employee on the right remuneration with 24(21.82%) respondents strongly agree to the statement and 38(34.55%) agreeing 11(10%) strongly disagreeing, 29(26.36%) disagreeing leaving 8(2.27%) undecided. The introduction of microfinance will improve the strategy of small-scale development in Nigeria.

Table 4.3: Will small and medium scale industry improve economic development in Nigeria?

RESPONDENTS	FREQUENCY	PERCENTAGES %
Strongly agree	42	38.18
Agree	23	20.90
Strongly disagree	16	14.55
Disagree	27	24.55
Undecided	2	1.82
Total	110	100

Source: Field Survey, 2016

Test of Hypotheses

Hypothesis one

Null hypothesis (H₀): Small and Medium Scale Industry will not be improved with the introduction of microfinance.

Alternative hypothesis (H₁): Small and Medium Scale Industry will be improved with the introduction of microfinance.

Discussion of Result

Using table : The introduction of microfinance will improve the strategy of small-scale development in Nigeria especially in Lagos State?

Responses	Code	Fo	Fe	Fo-Fe	(Fo-Fe) ²	$\frac{(Fo-Fe)^2}{Fe}$
Strongly agree	5	24	22	2	4	0.18
Agree	4	38	22	16	256	11.64
Undecided	3	11	22	-11	121	5.5
Disagree	2	29	22	7	49	2.23
Strongly disagree	1	8	22	-14	196	8.91
Total		110	110			28.46

Therefore $X^2_c = 28.46$

Degree of freedom (df) = (K-1)

$$= (5-1) = (4)$$

$$df = 4$$

Degree of freedom (4) at 0.05 level of significance will give 9.49 table value of Chi-square (x^2_t)

Hence

$$X^2_c = 28.46$$

$$X^2_t = 9.49$$

Decision based on finding

Since the calculated value of chi-square (x^2_c) is greater than the table value of chi-square (x^2_t) $x^2_c > x^2_t$ ($28.46 > 9.49$) then the alternative hypothesis (H_1) which states that small and medium scale industry will not be improved with the introduction of microfinance.

Hypothesis two

Null hypothesis (Ho): Small and Medium Scale Industry will not improve Economic Development in Nigeria.

Alternative Hypothesis (Hi): Small and Medium Scale Industry will improve Economic Development in Nigeria.

Table 4.3: Will Small and Medium Scale Industry improve Economic Development in Nigeria?

Responses	Code	Fo	Fe	Fo-Fe	(Fo-Fe) ²	$\frac{(Fo-Fe)^2}{Fe}$
Strongly agree	5	42	22	10	100	4.5
Agree	4	23	22	1	1	0.09
Undecided	3	16	22	-6	36	1.64
Disagree	2	27	22	5	25	1.14
Strongly disagree	1	2	22	-20	400	18.18
Total		110	110			2.55

Therefore $X^2_c = 25.51$

Degree of freedom (df) = (K-1)

$$= (5-1)$$

$$= (4)$$

$$df = 4$$

Degree of freedom (4) at 0.05 level of significance will give 9.49 table value of Chi-square (x^2_t)

Hence

$$X^2_c = 26.51$$

$$X^2_t = 9.49$$

Decision based on finding

Since the calculated value of chi-square (χ^2_c) is greater than the table value of chi-square (χ^2_t) $\chi^2_c > \chi^2_t$ ($26.51 > 9.49$) then the alternative hypothesis (H_i) which states that small and medium scale industry will not be improved with the introduction of microfinance.

Decision Rule: Reject H_0 If $\chi^2_c > \chi^2_t$ Otherwise Accept H_i

Hence the calculated is greater than the tabulated we therefore reject the Null Hypothesis (H_0) and accept the alternative hypothesis (H_i).

4.3 Discussion of Findings

From the results and discussion afore, it emerged that the role of microfinance institutions in Lagos State have positive impact on the economic growth of the state, 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 shows that microfinance institutions has immensely contributed a lot on the economy growth of Nigeria through lending of loans to individual and groups for entrepreneur activities to bring about general increase in the production of goods and services creates employment opportunities to the youth, attracts foreign investment.

The finding has also made us understand that microfinance institution is very relevant to the growth of Nigeria, economy this microfinance institution has contributed greatly on the growth and development of the Nigeria economy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Based on the findings, the following were revealed: Microfinance plays a great impact in the development of small and medium scale in Lagos State. It can be concluded that there are various sources of funds available for the development of small and medium scale industry. There are various government policies affect the development of SME especially with regards to Microfinance bank The study also revealed that Small and Medium Scale Industry improve Economic Development in Nigeria. The introduction of microfinance will improve the strategy of small-scale development in Nigeria. The introduction of microfinance will improve accessibility to loan for small-scale industry in Nigeria. That microfinance fair in granting loan to small-scale industries especially in Lagos state. viii) The role of Microfinance with respect to small-scale industries is positive. That the establishment of Microfinance has contributed to the success of small-scale industries in Lagos state. It can be concluded that effective performance of small-scale industries in Lagos state has in the past been affected by source of finance.

5.2 Conclusion

This study examines the role of microfinance institutions (MFIs) on SMEs in Nigeria with specific emphasis in Lagos State with regard to small and medium scale industry based on a survey of major MFIs. The findings indicate that the operations of MFIs have grown phenomenally in the last three years. driven largely

by expanding informal sector activities and the reluctance of banks to fund the emerging micro and small scale enterprises. The financial service provided by the study also reveals that the sub sector faces a number of challenges, which have been addressed in this project. They include the urgent need to approve and implement a policy framework that would regulate and standardize MFI operations; accessing medium to long term sustainable commercial sources of fund, such as SMIEIES.

The number of MFI branches increased fivefold and the employees ten times. Their asset base and clients rose six and sixty-seven times, respectively. The value of outstanding loans and savings increased in multiples. Yet the number of beneficiaries of MFI operators is an insignificant proportion of over 60 million people that are in need of microfinance services. The financial services provided by the MFIs have neither been given any publicity nor captured explicitly in the official financial statistics.

Commercial banks traditionally lend to medium and large enterprises which are judged to be creditworthy. They avoid doing business with the poor and their micro enterprises because the associated cost and risks are considered to be relatively high. Microfinance institutions (MFIs) have therefore become the main source of funding micro enterprises in Lagos and in other state in Nigeria.

Initially, the objective of this study was to undertake surveyor microfinance institutions in Lagos. However, a similar survey was carried out by the Development Finance Department or the Central Bank of Nigeria in 2001. The focus of the 2001 study was to gather and analyze data that would provide a basis for "developing appropriate policy, regulatory and supervisory framework for the operations of

MFIs in Nigeria" (CBN, 2003). This study builds on the 2001 survey and undertakes a more detailed analysis of MFIs impact on small scale development, to assess their performance and highlights the potentials of the sub-sector in Nigeria in general.

In summary, empirical evidence has shown that the microfinance revolution, as an effective tool for development, employment generation and poverty reduction had been remarkably successful in many parts of the world. Indeed, the concept had evolved over time, first from the notion of microcredit to microfinance and then into a movement towards the building of entire financial systems that serve the poor and low-income people.

Given the underdeveloped state of the Nigerian financial market relative to the size of the economy and population of the active poor, MF offers a tremendous scope for economic growth, poverty reduction and employment generation.

This potential should be carefully harnessed and supported by effective regulation and supervision, in order to achieve the intended objectives.

5.3 Recommendations

The study recommends the following:

1. There is need for development of a regulatory and supervisory framework for all forms of operations of the MFIs in Nigeria in general and Lagos in particular so as to assist the development of small and medium scale industry. It is not only desirable to regulate only Microfinance Banks, but also others that mobilize savings for purposes of lending to their clients.

2. An apex regulatory institution should be established and charged with the responsibility of building capacity through the training of directors and managers of MFIs to enable them develop an efficient information system for identifying and managing risks, and satisfying relevant data and information requirement of regulators and stakeholders.
3. The government should also improve on the state of infrastructural facilities to reduce the transactional costs associated with the administration of micro credit in the country so as to assist small and medium scale industry.
4. Develop Innovate Products: MFIs 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 exist and assessment exercises (Olaitan, 2005).
5. Training: should be given to staff of SMEs in order to develop their skills and become expert in the area of operation.
6. Regular and Prompt Payment of Debt: It has been noted that default in repayment brings 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 SMEs 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. It is strongly believed that the result of the study can be generally applied to other SMEs beyond the selected town.

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