

**THE ROLE OF MICROFINANCE INSTITUTIONS IN FINANCING SMALL SCALE
BUSINESSES**

(A STUDY OF KADUNA METROPOLIS)

By

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DECLARATION

I declare that the work in the project titled “the role of microfinance institution in financial small scale businesses, in Kaduna metropolis” has been performed by me in the “Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list references provide. No part of this project report has been previously presented for another degree or diploma in this or any other university.

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CERTIFICATION

This project titled “the role of micro finance institution in financing small scale business, in Kaduna metropolis”. Written by Mok Yusuf Usman meets the requirement for the award of masters n business administration (MBA) Honour degree and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to Almighty God for successfully seeing me through in the course of the work and also to my parent Mr and Mrs. Yusuf Dodo.

ACKNOWLEDGEMENT

Unto God, i give all the glory, honour and praise for his grace and mercies that has brought me through.

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ABSTRACT

The study on the roles of micro finance institutions (MFI) in Kaduna metropolis, base on a survey of five MFIs Yamans's sampling technique was used to determine the sample size in this research work. Primary data was gathered through the administration of questionnaires. In testing the various hypotheses, the chi-square method was used. 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 recommendation given in the study include: information dissemination and Involvement of clients, proper documentation of records to meet the diverse loan requirements of clients and proper documentation of records by the Kaduna state ministry of commerce and Industry.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

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. Favorable 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 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 news paper (2009), the micro finance policy of the federal government: is already bearing fruits in Kaduna 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

A number of small scale businesses lack access to financial services from micro finance institutions, either for credit or savings, which further fuels the vicious cycle of poverty. Lack of access to micro finance institutions hinders small businesses to engage in new business ventures. Small scale business, industrialists have frequently faced discrimination from lending institutions since they are perceived to be less credit worthy. The challenge of microfinance institutions on the other hand, is how to efficiently improve lending practices and at the same time cover their operating cost so as to survive in the long run (Anyawu, 2004).

1.3 RESEARCH QUESTIONS

In other to fulfill the objectives of the study, the researcher attempt to answer the following 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?

Will this loan given by microfinance institutions improve the general performance of the small scale business?

1.4 HYPOTHESES OF THE STUDY

A hypothesis is a preposition that is stated in a testable form and predicts a particular relationship between two or more variables. By “test” we mean either to confirm it or to prove it wrong (Baily, 1987). The hypotheses in this case are:

Hypothesis I

HO = microfinance Institutions do not support the operations of small scale businesses in Kaduna metropolis.

Hypothesis II

HO = small scale businesses have not benefited from the credit scheme designed for them by microfinance institutions Kaduna metropolis.

Hypothesis III

HO = small scale businesses are not making good use of their advances from microfinance institutions in Kaduna metropolis.

Hypothesis IV

HO = the loan given out by microfinance institutions in Kaduna has not improved the general performance of the small scale businesses in Kaduna state.

1.5 OBJECTIVE5 OF THE STUDY

The general objective is to examine the role of microfinance institutions in finance small scale businesses in Kaduna metropolis. Apart from the general objective, the research work also aimed at the following objectives:

- i. To find out extent to which micro finance institutions have supported the small scale business?
- ii. To find out the extent to which the small scale businesses benefited from the credit scheme designed for them by micro finance institutions.
- 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 businessA

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 AND LIMITATIONS OF THE STUDY

The study attempts to find out the role of microfinance institutions in financing small scale businesses and will be limited to Kaduna metropolis. The small scale businesses that are covered are; hair dressing industry and agricultural industry.

In the process of carryout this research, some constraints are identified and these include; the unwillingness of the microfinance banks to release relevant information (facts and figures) of individual amounts of small scale businesses.

Another major constraint is the secret nature of some of the small scale businesses in Kaduna metropolis, in the sense that they operate without the necessary permit and registration formalities required for their legal existence. This in turn, tends to create suspicion from the board of internal revenue.

Time and finance has constrained on the researcher to perform a more thorough research. This is due to the internship program running simultaneously as at the time the research work was done and under a time frame.

The need to define some of the key terms that were frequently used in this study cannot be over looked.

- i. Microfinance institutions (MFIs): are designated financial institutions dedicated to assisting small enterprises, the poor, and the households who have no access to the more institutionalized financial systems, in mobilizing savings, and obtaining access to financial services. (Elahi et al 2004).
- ii. Micro finance: is defined as the provisions of very small loans (micro - credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. (Kimotho, 2005).
- iii. Small medium enterprises: this is an outline which requires small amount of capital and has some reasonable number of employees. (Anderson 1998).
- iv. Microcredit is broadly recognized as the practice of offering small, collateral - free loans to members of cooperatives who otherwise would not have access to the capital necessary to begin small businesses (Hossain, 2002).

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The chapter examines the basic theories and models underlying the subject of microfinance. Hence, the reviews of literature on theories that constitute microfinance as a policy and theories that explain microfinance as a concept will be carried out in this chapter.

Again the chapter contains the review of similar and related works done by different scholars, with regard to financing of small scale business by microfinance institution in Nigeria. Also it contains the overview of microfinance activities in Nigeria, the various microfinance models, the summary of microfinance policy, the roles of small scale businesses, the roles and challenges of microfinance institutions.

2.2 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 finance 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 (Ehigiamusoe, 2006).

2.3 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).

2.4 OVERVIEW OF MICROFINANCE ACTIVITIES IN NIGERIA

According to CTYK” (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 earner;. They arc 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-finance/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 (CBs), and the family Economy Advancement program (FEAP). In 2000, Government merged the NACB 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).

2.5 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. 2.5.1 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.

2.5.2 Formal/Modern Microfinance Institutions

These include:

2.5.2.1 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.

2.5.2.2 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.

2.5.3 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 (LAPO) 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.

2.5.4 PUBLIC SECTOR POVERTY ALLEVIATION AGENCIES

The 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) provision 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 stakeholders; and (v) nurturing of new MFIs to a sustainable level.

2.5.5 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 and artisans. These are credit outlets that may not be registered and hence not supervised by CBN. They are directly under the control of the government agency that midwives them.

2.5.5.1 Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of microfinance industry in Nigeria. They include bilateral and 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).

2.6 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 lender 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.

2.6.1 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.

2.6.1.1 The Grammen Bank:

Experience started with the group concept informal-lending to the poor. It was started to assist endless 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 \$450 million to its clients for small scale trade, construction, backup funds or local production as well as for emergency funds.

2.6.1.2 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,

2.6.1.3 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 internal, 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 has a recognized leader and esusu is often used a:, a model by NGO trying to establish micro finance program in the urban Betting.

2.6.2 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 gives credit to the poor had not been successful. The reason adduced for their failure had 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 that has been able to transform from informal model of purveying Micro credit to the poor. The credit needed able to poor has been, founded 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 client physically is expensive because poorly developed infrastructure increases the expense of delivering even basic needs. In additions, most programs offering micro finance services have a small capital base and do not 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's bank were quite recent and confirm the enormous problem of using the formal model as a strategy to alleviating poverty.

2.6.2.1 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 Nigerian Agricultural Cooperative Bank (NACB), people Bank of Nigeria and Family Economic Advanced program (FEAP) to form Nigeria Agriculture Cooperative and Rural Development Bank (NACRDB). Also the 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 distrust 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.

2.6.2.2 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!).

1.7 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 (lie 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).

2.8 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 of industrial workers and establishing forward and backward linkage.. The spectacular economic development of the Asian countries like 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 lift poverty through the development of small scale business (FGM, 2003).

2.9 CHALLENGES OF MICROFINANCE

Iganiga, (2008) reports that, to achieve sustainability and growth, microfinance institutions and authorities must devise 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 role in the development of SMEs, targeted interventions 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.

2.10 A BRIEF ACCOUNT OF KADUNA, THE AREA UNDER STUDY

Hassan Ishaya (2011) In his work sees micro finance institution as a very important sector of economic which provides diversified affordable and dependable financial services to the economically poor which otherwise would have been excluded in a timely and constructive to enable them undertake and develop long term sustainable entrepreneurial activities.

Its bring about creation of employment opportunities and increase in productivity of the active poor in the country these thereby enhancing individual household income and uplifting their standard of living.

Promotion of synergy and mainstreaming of the informal micro finance sector into the formal financial system. Thereby ensuring effective systematic and focused participation of the poor in socio-economic development and resource allocation. Enhancement of service delivery by all microfinance institutions to MSEs and rendering of specialized services such as payment of salaries, gratuities and pensions licensed by the CBN.

Microfinance institution has provides sustainable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non recourse basic, and promotion of an enabling platform for microfinance service providers to network and experience on their products and processes.

Abubakar Abdulkarim (2009). In his work says, the significant of microfinance institutions cannot be undermined, because it has brought about Economic Empowerment of the poor: Globally, small and

medium enterprises (MSMES) are known to contribute to poverty alleviation through their employment generating potentials. As people, become gainfully employed they are able to earn some income from which basic needs of life are met. In Nigeria, however, the employment generation potentials of small business have been seriously constrained by lack of access to finance either to start, expand or re-engineer their present scope of economic activities in order to generate employment. The increasing interest of local and “international investors in micro finance. Many local and international investors have expressed interest in investing in the country’s microfinance sector.

I summarized that microfinance institutions activities in Kaduna Metropolis K-is drastically reduced the poverty rate in the state. Alekjevno and Attah (2005) in the assessment of- micro financing experience in Indonesia and Philippines said that evidences showed the efficacy of microfinance in poverty reduction as people has been able to improve living standards and indeed open employment opportunities through the use of microcredit. They concluded that the experiences of Indonesia in poverty reduction take the joint effort of government of Central Banks and the private sector. Thus, Nigeria is moving in the right direction. However, Bashir, (2009) opined that microfinance institution is the tool that poverty. She quoted Garry et al (2001) saying the microfinance, like any other economic envelopment activities represents upward directional movement of the society's growth from lesser to greater levels of energy, efficiency, quality, productivity, complexity, comprehension, creativity, mastery, enjoyment and accomplishment. Thus, this has revealed the extent of the relevance of micro finance in poverty reduction despite its complexities.

According to Dimoso and Masanyiwu (2001), in their study found that the impact of microfinance banks on poverty reduction (the standards of living of the people. They found that 60.0% (percent) of the respondents borrowers covered do not realize their objectives of accessing credit, 30.0% (percent) realized their objectives partially and only 10.0% (percent) fully realized their objectives.

However, the study found that those that realized their objectives were due to their financial or monetary discipline in business management. This implied that if the arc fore-poor is to break the vicious cycle of poverty through accessing of microcredit, it is a must for them to be financially discipline in the administration of such loan fund for its purpose or else remain continually dependant on loans and its attendants burdens.

Conclusively, micro finance institution has received extensive recognitions as a strategy for poverty reduction and for economic empowerment. Microfinance institution is a way for fighting poverty, particularly in rural areas, where most of the world's poorest people live. Accessing small amounts of credit at reasonable interest rates give poor people an opportunity to set up their own small business. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor household use microfinance to move from everyday survival to planning for the future: they invest in better nutrition's, housing, health, and education.

The state is a successor of the old northern region of Nigeria which had its capital at Kaduna. Its area includes the traditional emirate Zaria and Jema'a town. Kaduna; was substantially reduced in size when its northern half became Katsina state in 1987. Kaduna is bordered by the states of Zamfara, Katsina, and Kano etc the north; Bauchi and Plateau to the east; Nassarawa to the south and Niger to the west; Abuja capital territory also borders Kaduna state to the southwest.

The Kaduna River a Tributary of the Niger River flows roughly from east to west through the centre of the state. The state's natural vegetation consists largely of savannah woodlands. Much of the area suffered greatly in the past from Hausa Fulani slave raid from the north, and many walled settlements remained in the vicinity of Zaria. Almost all of the state Hausa and Fulani inhabitant; are Muslims; in the south, however there are about 30 other ethnic group; in the state, not all Muslims of which the largest is the Gbagyi (Gwari).

Kaduna state produce” cotton and peanuts (groundnuts) for exports, Other cash crops include; shea nut ginger and peppers; vegetables grows in the riverine floodplains, brown sugar produced from sugarcane; onions; and soya beans. Tobacco is a major cash crop, around Zaria (where cigarettes are made) sorghum and millet are staple foods. Cattle, chicken, guinea fowl, and hides and skins are tanned for export.

Kaduna, the state capital is Nigeria’s largest textile manufacturing centre and has other major industries as well including an oil refinery. Another industrial centre, Zaria processes tobacco and cotton seeds and manufactures textiles bicycles, and printed matter. Traditional crafts, especially cotton weaving and dyeing (with locally grown indigo), leather processing raffia weaving, and pottery designing (notably among the Gbagyi), also retain considerable economic importance. Tin mining continues near Kafanchan on western edge of the Jos Plateau, and tantalite is also found there.

2.11 SOME REVIEW OF RELATED WORK ON MICROFINANCE INSTITUTION IN NIGERIA

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 changed 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 develop.

Microfinance institutions have rapidly evolved in the last decade and ha.ve been obit to enhance socio economic activities of rural people and women through so many ways.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter focuses on the various techniques employed by the researcher in the course of collecting the data and analyzing the collected, with a view to obtaining relations to the problems already stated in the introductory chapter of the study. The chapter contains the sources of data, the method of analysis and the decision criteria.

3.1 RESEARCH DESIGN

In this study the research design used is the survey method. It is used because the study involves getting people's views on the roles of microfinance institutions in financing small scale businesses. Under this design, the study will be limited to cross sectional descriptive (Explanatory) design which according to Asika (2006) is geared towards collecting data to answer research questions or explain the relationship among variables. The independent variable to this study is credit advancement of SMEs, while change in performance of SMEs, (SME) is the independent variable.

3.2 POPULATION OF THE STUDY

The population of this studies consist of five micro finance institutions in Kaduna metropolis namely, Nakowa micro finance with 34 staff, Angwan rimi micro finance banks with 40 staffs, and Kagoro micro finance bank with 45 staffs , Tudun wada micro finance bank with 41 staffs, and Grook micro finance bank with the 47 staff

There by giving a total population of 270 staff of micro finance institutions in Kaduna metropolis area under study.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUES

The sample size chosen for this study is a one hundred and thirty eight (.138) staff of the five micro finance banks that form the population of the study. The sample size was determined using Yamane's (1966) formula

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

Where n = sample size;

N = population of the study

E = level of significance (0.05)

$$N = \underline{209}$$

$$1+209(0.05)^2$$

$$= 137.27$$

3.4 SOURCES OF DATA

In this research both primary data will be used. The primary data are collected through the administration of questionnaires will be organized in two sections, section A and B. The first section (A) is designed to collect data on the respondent, characteristics and nature of business. The second section (B) seeks to gather information to facilitate the measurement of the operations of MFIs on the performance of SMEs in Kaduna.

3.5 METHODS OF 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:

$$X^2 = \sum_{ei} \frac{(D_i - C_i)^2}{E_i}$$

Where X^2 = calculated value of chi-square

D_i - observed frequency

C_i — expected frequency

E_i - 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 [able value at the same degree of freedom at D.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 cbi-sqm.re (X^2). In order 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 or freedom, the null hypothesis would not rejected and alternatively hypothesis will be accepted.

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

Where: R = number of rows

C = Number of columns

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter presents and analyzes data gathered from both primary and secondary sources. This chapter contains the percentages of responses to relevant questions which will enable the researcher to test the stated hypotheses. The primary data were derived from two main soirees, the managers and staff of micro-finance institutions and on the other the managers Kaduna state metropolis. The chapter also contains the summary

4.1 DATA PRESENTATION AND ANALYSIS

A total number of twenty (20) questionnaires were issued to staff of Microfinance Institutions; only eighteen (18) was successful and completely returned These 18 are treated as the total required and used in analyzing the data. 1 ills summed up 90% of the total response.

TABLE 4.1 GENDER DISTRIBUTIONS

Sex	Number	Percentage (%)
Male	11	55
Female	9	45
Total	20	100

Source: field survey 2012

The above table shows the gender distribution of the Respondents. From the table, Out of this number 11 were males, representing 55% of the Respondents, while 9 of them were females, representing 45% of the

total Respondents. This implies that more male staff responded and is a true reflection of gender distribution in most organizations in Nigeria which have more male staff than female,

Table 4.2. AGE DISTRIBUTION

Response	Numbers	Percentage (%)
Under 30 years	8	40
31-40 years	3	15
41-50 years	6	30
51 and above	3	15
Total	20	100

Source: Field Survey 2012

Table 4.3. Presents the age distribution of the respondents. Those under 30 years representing are 8 representing 40%, those between 31 - 40 are 3 representing 15%, Those between 41-50 years are 6 represented 30%, while those between 51 years and above are 3 representing 15%. This implies that majority of respondents are between 30 years, which is common feature among the workforce in microfinance institutions.

Table 4.3. LENGTH OF SERVICE

Response	Numbers	Percentage %
Below 1 year	2	10
1 -2 years	5	25
3-5 years	8	40
6 years and above	5	25
Total	20	100

Source: Field Survey, 2012

The table above represents the length .of service years put in by Respondents. It indicates that majority of the Respondents have served over 2 years, hence have enough experience on the subject matter. Only 10% of the Respondents are new comers in the industry.

TABLE 4.4. EDUCATIONAL-QUALIFICATION

Response	Numbers	Percentage (%)
School cert & below	6	30
Diploma/NCE	3	15
HND/BSC	8	40
Master degree & above	3	15
TOTAL	20	100

Source: Field Survey, 2012

In table 4.2.4 above, out of 20 respondent, 6 representing 30% have school leaving certificate, 3 representing 15 % have Diploma/NCE, 8 of the Respondents (40%) have HND/BSc, while 3 have masters degree and above Representing 15%. This implies that the Respondents cut across all level of academic qualification necessary for effective and efficient labour force and are well informed or enlightened.

TABLE 4.5. OFFICER STATUS

Response	Numbers	Percentage (%)
Top Management	6	33.33
Middle Management	3	16.17
Supervisory Management	2	11.11
Junior Staff	7	38.89
Total	18	100

Source: Field Survey, 2012

Table 4.5. above shows the distribution of the Respondents according to their official status. Out of the 18 Respondents. 2 representing 11.11% are Supervisory Management cadre, while 7 representing 38.89% are Junior Staff, while 3 representing 16.17% are middle management cadre. Only 6 representing 33.33% are of top management cadre. This indicates that the Respondents cut across all strata of the micro finance Banks workforce.

Table 4.6. Microfinance Institutions have Adequate Credit Facilities to Meet Their Demands

RANGE OF RESPONSE	NO. OF RESPONSES	PERCENTAGE (%)
Strongly agree	8	44.4
Agree	5	27.8
Disagree	3	16.7
Strongly disagree	2	11.1
Total	18	100

Source: field survey, 2012

The above table shows that 8 (44.4%) of the respondents are of the view that MFIs have the adequate facility to meet up their demand, while 5 (27.8%) of the respondents have a contrary opinion as they constitute mainly cooperative societies who are not easily recognized by the Kaduna state ministry of poverty alleviation without going through cumbersome process as such, their access to funds is limited. It therefore follows that most MFIs mainly Microfinance Banks, have a credit facility to meet their demand.

Table 4.7. The Central Bank Policies Enable your Microfinance Institution to Discharge its Obligations to Small Scale Businesses Effectively.

RANGE OF RESPONSE	NO. OF RESPONSES	PERCENTAGE (%)
Strongly agree	5	27.8

Agree	9	50
Disagree	3	16.7
Strongly disagree	1	5.6
Total	18	100

Source: field survey, 2012

The above table shows that 14 (77.8%) of the respondents agrees that the Central Bank policies enable microfinance institution to discharge their obligations to small scale businesses efficiently. While 4 (22.3%) are of a contrary opinion, that the Central Bank policies do not enable micro finance institutions to discharge its obligations to small scale businesses efficiently.

Table 4.8. Showing the response rate of SM'Es to the Loan Services of MFI is satisfactory

RANGE OF RESPONSE	NO. OF RESPONSES	PERCENTAGE (%)
Strongly agree	8	44.4 .
Agree	5	27.8
Disagree	3	16.7
Strongly disagree	2	11.1
Total	18	100

Source: field survey, 2012

From table 4.3, 15 (83.4%) of the respondents are of the view that response rate of small business to their services is satisfactory, while 3 (16.7%) have a contraiy view. This is a result of the fact that SMEs have to comply with conditions like; having an account with the bank, having a good account turnover, being transparent and having a good character for MFIs, and on the other hand, being an active member for cooperative societies. It therefore implies that the response rate of small businesses to the activities of MFIs is high.

Table 4.9 Showing the Casual Relationship between the Availability of Loans to SMEs and Their General Performance

RANGE OF RESPONSE	NO. OF RESPONSES	PERCENTAGE (%)
Strongly agree	6	33.3
Agree	8	44.4
Disagree	3	16.7
Strongly disagree	1	5.5
Total	18	100

Source: field survey, 2012

From table 4.4, 14 (77.7%) which constitute the majority are of the opinion that the availability of credit facilities to SMEs has helped to improve their general performance. According to the MFIs, the SMEs are able to have a good account turnover after accessing loans which 'suggest their increase in productivity; while a minority of 4 (44.2%) has a contrary view because they feel that the performance of SMEs depends on good management practices not money alone.

Table 4,10 Our bank extend loans to small scale business that have viable proposals.

RANGE OF RESPONSE	NO. OF RESPONSE	PERCENTAGE (%)
Yes	3	16.7
No	15	83.3
Total	18	100

Source: field survey, 2012

Table 4.11 Showing the attempts by SMEs to Secure loans MFIs in

Kaduna.

RANGE OF RESPONSE	NO. OF RESPONSE	PERCENTAGE (%)
Yes	13	72.22
No	5	27.78
Total	18	100

Source: field survey, 2012

From the table above, 13 (72.22%) of the respondents have approached an MFI for a loan. Out of 15 respondents that applied for loans only 5 (27.78%) were successful because first, they were able to meet the conditions of the MFIs and secondly the members of the cooperative society. The others were not successful mainly due to complex processes and couple with the fact that they applied before the MFBs were still Community Banks. On the other hand, 5 (25%) have not applied for loans because they feel more comfortable getting funding from other sources than going through the cumbersome lending process of MFIs. Therefore it follows that the majority have responded to the services of MFIs.

4.12. Suggest how best the activities of micro finance banks could be managed to achieve objectives and contribute to the small scale business in Kaduna metropolis.

4.2 TEST OF HYPOTHESES

Hypothesis that were earlier developed in the chapter are now tested using chi-square method (χ^2) so as to confirm their validity or otherwise. The researcher chooses the 0.05 level of significance the formula for the calculations χ^2 is as follows:

$\chi^2 = \sum \frac{(O-E)^2}{E}$ where:

O=Observed frequency of any value

E-Expected frequency of the value

To find the:

HYPOTHESIS I

H₀= Microfinance do not support the operations of small scale businesses in Kaduna metropolis.

H₁= Microfinance support the operations of small scale businesses in Kaduna metropolis.

Table 4.11 Is Use In Testing the Hypothesis.

Range of	Observed	Expected	(O-E)	(O-E) ²	(O-E) ²
Response	Frequency	Frequency			
Strongly agree	8	3.6	4.4	19.36	5.38
Agree	6	3.6	1.4	1.96	0.5
Disagree	3	3.6	-0.6	0.36	0.1
Strongly disagree	2	3.6	-1.6	2.56	0.7
Total	18				10.28

Source: Questionnaire Administered 2012.

$$X^2 = \text{Calculated} = \frac{(O - E)^2}{E} = 10.28$$

X = tabulated at 5% of significance and (K - 1) degree of freedom

$X^2_{0.05, (2-1)}$

59

= $X^2_{0.05, 4} = 9.488$

X^2 Calculated (10.28) > X^2 tabulated is (9.488) we therefore reject the null hypothesis (H_0) which states that; Microfinance do not support the operations of small scale businesses in Kaduna metropolis and accept the alternative (H_1) which states that; Microfinance support the operations of small scale business in Kaduna metropolis.

HYPOTHESIS II

H_0 = Small scale businesses have not benefited on the credit scheme designed for them by microfinance institutions in Kaduna state metropolis.

H_1 = Small scale businesses have benefited on the credit scheme designed for them by microfinance institutions in Kaduna State metropolis.

Table 4.12 is used In Testing the Hypothesis

Range of Response	Observed Frequency	Expected Frequency	(O-E)	(O-E) ²	(O-E) ² /E
Yes	15	10	5	25	2.5
No	5	10	-5	25	5
Total	20	-	-	-	(O-E) ² = 7.5 E

Source: Questionnaire Administered 2012.

$$X^2 = \text{Calculated} = (0-E)^2 = 7.5$$

$$X^2 = \text{Tabulated at 5\% significance and } (k-1) \text{ degree of freedom } X^2_{0.05, (2-1)}$$

$$= 1 \times 20.05, 1 = 3.841$$

$X^2 = \text{calculated } (7.5) > X^2 \text{ tabulated } (3.841)$, we therefore reject the null hypothesis which states that; Small scale businesses have not benefited on the credit scheme designed for them by microfinance institutions in Kaduna State metropolis and accept the alternative hypothesis which states that; Small scale businesses have benefited on the credit scheme designed for them by microfinance institutions in Kaduna State metropolis.

HYPOTHESIS III

H_0 small scale businesses are not making good use of their advances from microfinance institution in Kaduna metropolis.

H_1 = small scale businesses are making good use of their advance from microfinance institutions in Kaduna metropolis.

Table 4.13 Is Used in Testing the Hypothesis

Range of Response	Observed Frequency	Expected Frequency	(0=E)	(0=E) ²	(Q±E) ²
Strongly Agree	15	4	11	121	30.2
Agree	4	4	0	0	0
Disagree	1	4	-3	9	2.5
Strongly disagree	0	0	0	0	0
Total	20	-	-	-	32.45

Source: Questionnaire Administered 2012.

$$X^2 - \text{Calculated} = \frac{(Q-E)^2}{E} = 32.45$$

X^2 tabulated at 5% level of significance (K - 1) degree of freedom X^2

0.05, (2-1)

$= 1X^2 0.05, 4 = 9.488$

X^2 Calculated (32.45) > X^2 tabulated is (9.488) we therefore reject the null hypothesis (H_0) which states that; Small scale Businesses are not making good use of their advances from microfinance institutions in Kaduna metropolis, and accept the alternative hypothesis (H_1) which states that; Small Scale Businesses are making good use of their advances from microfinance institutions in Kaduna metropolis.

HYPOTHESIS IV

H_0 = the loan given out by microfinance institutions in Kaduna have not improved the general performance of the Small Scale Businesses in Kaduna State.

Table 4.14 Is Used in Testing the Hypothesis

Range of Frequency	Observed Frequency	Expected Frequency	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
Strongly Agree	17	4	13	169	42.2
Agree	3	4	-1	1	0.25
Disagree	1	4	-3	9	2.25
Strongly	0	0	0	0	0
Total	20	-	-	-	44.7

Source: Questionnaire Administered 2012.

$X^2 = \text{Calculated} = \frac{(O-E)^2}{E} = 44.7$

E

χ^2 tabulated at 5% level of significance (K - 1) degree of freedom $\chi^2_{0.05, (2-1)}$

0.05, 4 = 9.488

χ^2 Calculated (44.7) > χ^2 tabulated is (9.488) we therefore reject the null hypothesis (H_0) which states that; the loan given out by microfinance institutions in Kaduna have not improved the general performance of the Small Scale Businesses in Kaduna State, and accept the alternative hypothesis (H_1) which states that; the loan given out by micro finance institutions in Kaduna have improved general performance of the Small Scale Businesses in Kaduna State.

4.3 DISCUSSION OF FINDINGS

From the results and discussion afore, it emerged that the role of microfinance institutions in Kaduna metropolis 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 has show 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

5.0 INTRODUCTION

This chapter attempts to give a summary of the research, it summarizes the work of the five chapters. Also, it deals with the conclusion (summary of findings) and necessary recommendation

5.1 SUMMARY

Chapter one shows that the growth and development of any country is substantially dependent on the growth and dynamism of its SMEs driven largely factors which include; favorable government policy and incentives, technical assistance, and financial assistance. The absence of these factors heralded the institutionalization of several microfinance institutions to meet the increasing number of small scale businesses and support poor households. This chapter further formal/traditional and informal/modern microfinance institutions. Again this chapter explains that the microfinance has emerged as an effective strategy for poverty reduction across developing countries as well as a strategy for achieving Millennium Development Goals. It concludes that the microfinance institutions have been performing bellow capacity but the additional liquidity provided by the micro finance bank, it is expected that the microfinance policy objectives will be realized.

This chapter also contains the statement of the problem, statement of research question, objective of the Study, scope and limitation of methodology of the study and definition of terms chapter two also highlights the importance of microfinance given several scholars. These scholars can be said to fall under two schools of thoughts. The fist school is opinion that money or credit has a direct impact on the growth of existing enterprise as well as leads to the establishment of new ones. The other school is opinion that

the effectiveness of microfinance is not attainable despite the availability of credit due to the factors like high interest rate, loan repayment problem, and unchanging levels of poverty and failure to cater effectively for their target group. This chapter also contains the over view of microfinance activities in Nigeria as well as the participation institution. This further brings to highlights the various microfinance models, roles of SMEs as wells as the challenges of micro finance. Chapter three was on research methodology. The research methodology contains the method of data collection, sampling data analysis and difficulties encountered in the course of obtaining the data. Chapter four contains the frequencies of response gathered through the administration of questionnaires. It further presents the testing of hypothesis using the chi square statistical technique. Chapter five states the chapters' summary, conclusion and recommendation of the study.

5.2 CONCLUSION

This study has assessed and observed that the transaction between the microfinance Institutions and small and medium Enterprises in Kaduna town has been enhanced following the inauguration of the Kaduna state is promising, the extent to which the SMEs should benefit from the loan scheme has not reached the optional potential as some SMEs are still unable to access these loans due to reasons which include:

Inadequate knowledge on the part of small scale entrepreneurs on improved lending conditions of MFIs. In the cause of this study, the researcher deduced that a good number of small scale entrepreneurs are indifference about accessing these loans because they assume that the lending conditions of MFIs are similar to that of commercial Banks which is cumbersome and therefore prefer to raise funds through other sources.

Clients Apathy; some clients have decided to stop patronizing the Microfinance Institutions. They feel that the MFIs are unable to meet their needs considering the nature of their business and lending conditions are flexible to meet those needs.

The number of beneficiaries of the credit schemes can be increased in Kaduna town if there are complete and updated records of increasing number of SMEs

It was also discovered that scale business serves as a backbone for economic development not only for developing but for the developed countries. Therefore there is need for Government at all levels to make people aware of how to source fund through various institutions and ministries.

From the finding, it has shown that the loan given to small scale businesses has improved the performance and conditions of small scale Businesses in Kaduna State, thereby reducing rural and urban migration and assuring the attainment of self-reliance.

5.3 RECOMMENDATIONS

1. Information Dissemination and Involvement of Clients: Apart from the publications designed by the central Bank of Nigeria, the micro finance Institutions should expand their channels of promotion and improve their methods of marketing to genuinely meet the need of those small and medium Enterprises rather than interested in the commission attached. Secondly, according to Iganiga (2008), clients should not be seen as faceless customers of formal financial institution who are identified by their account number, clients of MFIs should be seen as partners. They should be constantly engaged. Some FMIs provide institutional structure for client's participation in government and management of the institutions.
2. 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).
3. Proper Documentation: The Kaduna State ministry of commerce & industry should frequently update the records of registered businesses as categorize them according to

their sizes. This will enhance further studies carried out by other researchers as inadequate information may also limit adequate planning and monitoring.

4. Training: should be given to staff of SMEs in order to develop their skills and become expert in the area of operation.
5. **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.

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APPENDIX

Department of Business Administration,
Faculty of Administration,
Ahmadu Bello University,
Zaria.

31 “December, 2012

Dear Sir/Madam,

I am an MBA student of (he department of Business Administration in Ahmadu Bello University, Zaria, am carrying out a research on the role of microfinance institution?, in financing small scale businesses in Kaduna metropolis. Please apply the needed information correctly.

The research work is only for academic purpose and all information obtained will be confidentially treated.

Please tick () the appropriate answers in the box provided or fill in the blank space.

Thanks for your anticipation cooperation.

NAME: YUSUF Usman Mok I

QUESTIONNAIRE

Please tick the option that is best to your opinion

Gender

a) Male []

b) Female []

2. Age

a) 20-30 years []

b) 31 -40 years []

c) 41 -50 years []

(d) 51 and above []

3. Length of services

a) Less than 1 year []

b) 1-2 years []

c) 3-5 years []

d) 6 years and above []

4. Educational Qualification

a) School Certificate and Below []

b) Diploma/KCE []

c) HND/BSC []

d) Masters degree and above []

Official Status

a) Top Management []

b) Middle Management []

c) Supervisor/ Management []

d) Junior Staff []

3. Do you agree the micro finance banks have any contributed to the improvement of small scales businesses?

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

5. Do you agree that microfinance banks have achieved the purpose for their establishment?

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

6. Microfinance institutions have adequate credit facilities to meet their demands

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

7. The Central Bank Policies Enable your Microfinance Institution to Discharge its Obligations to Small Scale Businesses Effectively.

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

8. The response rate of small businesses to your service is satisfactorily

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

9. Small business are making good use of the loan given to them.

(a) Strongly Agree []

(b) Agree []

(c) Strongly Disagree []

(d) Disagree []

10. Our bank extend loans to small scale business that have viable proposals

Yes [] No []

11. The performance of small scale business that operates with our bank have improved due to loan advances given to them.

Yes [] No []

4.12. Suggest how best the activities of micro finance banks could be managed to achieve objectives and contribute to the small scale business in Kaduna metropolis.
