THE IMPACT OF MICRO-FINANCE ON SMALL SCALE BUSINESS IN NIGERIA

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Abstract

This study examines the performance of Micro finance Institutions (MFIS) in Lagos State, based on the development of small and medium Scale Industry. Simple random sampling technique was employed in selecting the 110 (SMES)s 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. Commercial banks traditionally lend to medium and large enterprises, which are judged to be creditworthy. They avoid doing business with the small and medium scale industry because the associated cost and risks are considered to be relatively high. Microfinance institutions (MFIs) have therefore become the main sources of funding small and medium scale industry in Africa and in other developing regions.

Keywords: Micro finance, Small scale Enterprises, Micro Enterprises Economic development, Loans.

INTRODUCTION

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 plunge the country into economic embarrassment and posed a major challenge to the Government.

However, with the trend of this event, the Government under vision 20:2020 program came up with undoubtedly consolidated empowerment program called the National Economic and Empowerment Development Strategy(NEEDS) and other reforms which imperatively leads to the recognition given to the development of SMEs

The SME sector is positioned generate employment, create wealth, reduce the prevalence of poverty and sustain economic growth and development.

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro-enterprises. Microfinance services are provided by three types of sources:

- Formal institutions, such as rural banks and cooperatives
- Semiformal institutions, such as non-governmental organizations; and
- Informal sources such as money lenders and shopkeepers

Institutional micro finance is defined to include micro finance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

According to Ojo (2009), emphasized that the goal of Micro Finance Institutions as development organization is the service the financials needs and underserved market as a means of meeting development objectives.

M.S Robinson asserts that “if it were widely available, institutional commercial micro finance could improve the economic activities and the quality of life of hundreds of millions of people in the developing world”. However it is generally agreed that micro-credit given to those of the poor who do not have a capacity to repay can increase their poverty.

The extensive reliance of poor households on informal arrangement reflects the importance of financial services for their lives.

Until the early 1960s, many economists viewed the continued existence of small-scale industries in less developed countries as justified by scarify of capital and administrative experience. It was often argued that with economic growth, the small, traditional type of enterprise would, in one sector after another, be superseded by modem forms of large-scale production. In order to ensure
an orderly transition, small industries were seen to deserve support, but mainly in sectors where modern methods could not immediately be applied. In the mid-160s a new approach to small to medium-scale enterprise (SME) development began to emerge due to several factors. First, there was growing concern over low employment elasticity of modern large-scale production. It was claimed that even with more optimal policies, this form of industrial organizational was unable to absorb a significant proportion of the rapidly expanding labour force (Cherney et al 1974; ILO, 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large-scale, capital intensive techniques was partly to blame (McCormick, 1988; House, 1981; Cherney et al 1974). Third, empirical studies revealed that the causes of poverty were not confined to unemployment, and that most of the poor were employed in a large variety of small-scale production (Noor Mohamed 1985).

This suggests a new role of small industries, in what has come to be labeled "the urban informal sector". Small, labor-intensive industries were seen not only to increase employment, but also to increase the living standards of the poor. They were also thought to be capable of providing a new dynamic of economic growth. The new objective was not just to stop to retreat, but to promote the small-scale sector (House, 1981; Schmitze, 1982; GiamartinoS, 1991). This change in approach was accompanied by a shift of focus towards a "rurally orientated smallholder" (ROSH) industrialization strategy, well articulated in Kilby (1975), Child (1976), House (1978), Noor Mohamed (1’985), and Olofin (1990), among others. While the Word Bank (1992) and others have tended to favour the ROSH implementation strategy by assigning the major role to the private sector, there are those who favour its implementation by assigning a major role to government (Olofin 1990, Noormhamed, 1985). Assigning the major role to the private sector has its appeal in the fact that the private sector has the resources needed to implement the strategy. But the proponents of assigning the role to the government are aware that in many developing economies; government is the major mover of the economy with only a small and sometimes weak private sector. Thus, they argue that assigning such an important role to the private sector would not work. Besides, for the strategy to produce an optimal effect on the well being of the people, the social environment has to be considered something the private sector may not be willing to do.

Kilby (1969) sees SMEs as a quasi sponge for urban employment and a provider of inexpensive consumer goods with little or no import content, serving an important pressure-releasing and welfare-augmenting function. SMEs also contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of the small-sector.

Most previous studies throughout African treat the information sector as essentially homogenous in its characteristics (Morris and Pitt, 1995; Bewayo, 1995; Ekpenyong and Nyong; 1992). Recent research suggests that government policy should be more narrowly targeted to sub-sectors within the informal sector (Parker and Torres, 1994). This study examines survey data in order to evaluate the characteristics of small-scale manufacturers that make it more difficult for them to be profitable and the particular problems that they face which may have contributed to their poor performance.
Since her independent in 1960, Nigeria has been trying to meet the yearnings and aspirations of her teeming population, especially in the area of provision of employment. Unfortunately, not much has been achieved in this respect. Given the importance of 'small' and 'very small' enterprise in the creation of employment, this study seeks to evaluate the financing of micro-enterprises in Lagos State of Nigeria by identifying the problems of financing very small enterprises (VSE's).

However, the growth of the country's economy has not been without problems. For instance, Omopariola (1978) notes three successive phases can be discerned in the economic history of Nigeria. The first phase, dating back to 1900, "was the peasant economy characterized by static, agrarian and subsistence product" and a "high birth rate which was equally matched by high death rate" (P.15 resulting in a low population growth rate. The second phase, which occurred in the middle of the nineteenth century, was 'a dynamic export-oriented economy’ Omopariola (1978) reiterated further that during this economic phase, "Nigeria had a steady growth in her economy which was stimulated primarily by agricultural exports during the first three decades of the twentieth century." (Ibid, p.16) the economic, starting from the collapse of international trade during the world economic crisis grinded to a halt in its growth in 1929 and remained more or less stagnant until 1945. Form 1954 until the outbreak of the war of unity (civil war) in 1967 and up to the end of the war in 1970, "Nigeria experienced steady economic growth" (Ibid, P. 16). The third Phase, which has its roots in 1960 when the country attained political independence from the British colonialists, has been described as the indigenized economy. This is still the phase under which the Nigerian economy is characterized.

Thus, over the years, the Nigerian economy has been going through a number of developmental stages and its growth has not been smooth. Although the economy continues to hold out a bright promise of growth, this has been hampered by factors such as under-productivity, unemployment, heavily depreciated national currency, inadequate infrastructure facilities and structural defects in the country's industrial framework. The scope of this study focuses on the latter factors, structural defects in the nation's industrial framework.

A business whether small or big, simple or complex, private or public, etc is created to provide competitive prices. Business in Nigeria has been classified as small, medium and large. However, a small scale industry can be defined by the criteria of project costs, capital, cost turnover by the employee, etc. the federal and state ministries of industry and commerce have adopted the criterion of value of installed fixed capital to determine what a small scale industry is, in this respect, the value has varied from N60,000 in 1972, N159, 000 in 1975, N250,000 in 1979, N500,000 in 1986, to a fixed investment of not more than N2,000,000 (Two Million Naira) in 1992. This figure is exclusive of a building and subject to government determination and land prevailing objectives of public policy. In the wake of SFEM, and SAP, this value has now been reviewed and subsequently, increased to five million naira. Since this happened, there may be a need to classify the small scale industry into MICRO and SUPER MICRO business, with a view to providing adequate incentives and protection for the former.

In the meantime, any business or enterprises below the upper limit of N250,000 and whose annual turnover exceeds that of a cottage industry currently put at N5,000 per annum is a small
scale industry. The National Directorate of Employment (NDE) concept of a small scale industry has been fixed to a maximum of N35,000.

Contributed significantly to the growth of the Gross Domestic Product (GDP), employment generation and exports. The sector now includes not only SSI units but also small scale services and business enterprise (SSSBEs) and is thus referred to as the small enterprises sectors.

LITERATURE REVIEW

Small scale business, small scale industries and small scale entrepreneurship are used interchangeably to mean a small scale industry firm. Its deliberation was to refer to the operational definition. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors, scholars, and schools have different ideas as to the differences in capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these features equally vary from one country to the other.

1. In Nigeria, the Third National Development plan defined a small scale business as a manufacturing establishment employing less than ten people, or whose investment in machinery and equipment does not exceed six hundred thousand naira.
2. The Central Bank of Nigeria in its credit guidelines, classified small scale business as those businesses with an annual income/asset of less half a million naira (₦500,000).
3. The Federal Government Small Scale Industry Development Plan of 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding ₦150,000 in manufacturing and equipment alone.
4. The small scale industries association of Nigeria (1973) defined small scale business as those having investment (i.e. capital, land building and equipment of up to N60,000 pre-SAP Value) and employing not more than fifty persons.
5. The Federal Ministry of Industries defined it as those enterprises that cost not more than N500,000 (pre-SAP Value) including working capital to set up.
6. The Centre for Management Development (CMD) definition of small industry in the policy proposal submitted to the federal government ill 1982 defined small scale industry as, "a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing to 50 full-time workers.

Lastly, in the United States, the small business administration defines a small business as one that is independently owned and operated is not dominant in its field, and meets employment or sales standard develop by the agency. For most industries these standards are as follows. This also shows the same trend as in Nigeria, although the exchange value makes the financial criteria to be different.

However, Small and Medium Scale Using Japanese Experience, the size and importance of the role of medium- and small-scale industry in the whole of the Japanese manufacturing industry is not widely known in the third, world, neither is it known that there is a structure
linking these industries with the more internationally famous Japanese enterprises in business and technology.

The definition of medium- and small-scale industry has differed according to the period, varying in maximum complement from 10 to 20 to 100 employees. Today, government classification designates enterprises with less than 300 employees and capital of less than N100 million as medium- to small-scale. According to statistics, factories with fewer than 20 employees account for 87.3 percent of the total number in Japan, employ 20.1 percent of all workers, and contribute 12.6 percent of the total national output. Factories with more than 500 employees, on the other hand, comprise only 0.3 percent (1.807 total or all factories in Japan; they employ 20.5 percent or the nation's workers (2,246,000) and account for 38.3 percent or total output.

While in Japan factories with fewer than 100 workers make up 98.0 percent of the total and employ 58.0 percent of all workers, in the United States, the respective figures are 87.7 percent and 25.4 percent, and in West Germany the corresponding proportions are 72.6 percent and 18.7 percent. The percentages for factories in Japan employing more than 1,000 workers are 0.1 percent and 13.4 per cent, in the United States 0.6 per cent and 27.5 percent, and in West Germany 2.2 percent and, 38.0 percent.

Aside from the statistical significance of these comparisons, it is clear that even in highly industrialized countries, medium- and small-scale factories have a role, and that, depending on the type of technology and industry, an enlargement of scale may be unwise or impossible.

Many owners of small-and medium-scale enterprises are self-made men who accumulated technology and forged ahead on the road to self-reliance. The principal objective of the MF Policy is to create MFBs that are financially sound, stable, self-sustaining and integral to the communities in which they operate, with the potential to attract more resources and expand services to their customers.

in the Nigerian microfinance sector. For instance, the ACCION-Microfinance bank (provisional name) is currently well advanced in the process of creating a finance company under existing CBN incorporation rules with IFC equity, among other investors.

**RESEARCH METHODOLOGY**

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.
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 a cording to the research questions. Tables were used to present information to facilitate analysis, simple percentages while Chi-square was used to test the hypothesis.

The responses were of five-point scale which range from "strong agreed to the undecided ".

Thus;

Strongly Agreed = 5
Agreed = 4
Undecided = 3
Disagreed = 2
Strongly Disagreed = 1

MODEL SPECIFICATION.

The model specification for this analysis is a Chi-square, is a sample of statistic. It is computed as follows:

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

Where \( O \) = Observed Frequency
\( E \) =Expected frequency
\( d. f. = (r -1) (c-1) \)
\( a =0.05 \)
Decision Rule: Reject if $X_{2c} > X_2$ otherwise accept $H_i$.

**DATA PRESENTATION AND ANALYSIS**

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

<table>
<thead>
<tr>
<th>RESPONDENTS</th>
<th>FREQUENCY</th>
<th>PERCENTAGES %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>24</td>
<td>21.82</td>
</tr>
<tr>
<td>Agree</td>
<td>38</td>
<td>34.55</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>29</td>
<td>26.36</td>
</tr>
<tr>
<td>Undecided</td>
<td>8</td>
<td>2.27</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>


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 2: Will small and medium scale industry improve economic development in Nigeria?**

<table>
<thead>
<tr>
<th>RESPONDENTS</th>
<th>FREQUENCY</th>
<th>PERCENTAGES %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>42</td>
<td>38.18</td>
</tr>
<tr>
<td>Agree</td>
<td>23</td>
<td>20.90</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>16</td>
<td>14.55</td>
</tr>
<tr>
<td>Disagree</td>
<td>27</td>
<td>24.55</td>
</tr>
<tr>
<td>Undecided</td>
<td>2</td>
<td>1.82</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Survey 2013.

**TEST OF HYPOTHESES**

**Hypothesis one**

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

Alternative hypothesis (Hi): Small and Medium Scale Industry will be improved with the introduction of microfinance.
DISCUSSION OF RESULT

Using table 1: The introduction of microfinance will improve the strategy of small-scale development in Nigeria especially in Lagos State?

<table>
<thead>
<tr>
<th>Responses</th>
<th>Code</th>
<th>Fo</th>
<th>Fe</th>
<th>Fo-Fe</th>
<th>(Fo-Fe)^2</th>
<th>(Fo-Fe)^2/Fe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>24</td>
<td>22</td>
<td>2</td>
<td>4</td>
<td>0.18</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>38</td>
<td>22</td>
<td>16</td>
<td>256</td>
<td>11.64</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>11</td>
<td>22</td>
<td>-11</td>
<td>121</td>
<td>5.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>29</td>
<td>22</td>
<td>7</td>
<td>49</td>
<td>2.23</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>8</td>
<td>22</td>
<td>-14</td>
<td>196</td>
<td>8.91</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>110</td>
<td>110</td>
<td></td>
<td>28.46</td>
<td></td>
</tr>
</tbody>
</table>

Therefore $X^2_c = 28.46$

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

\[
\text{df} = (5-1) \\
\text{df} = 4
\]

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 (Hi) 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 2: Will Small and Medium Scale Industry improve Economic Development in Nigeria?**

<table>
<thead>
<tr>
<th>Responses</th>
<th>Code</th>
<th>Fo</th>
<th>Fe</th>
<th>Fo-Fe</th>
<th>(Fo-Fe)²</th>
<th>(Fo-Fe)²/Fe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>42</td>
<td>22</td>
<td>10</td>
<td>100</td>
<td>4.5</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>23</td>
<td>22</td>
<td>1</td>
<td>1</td>
<td>0.09</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>16</td>
<td>22</td>
<td>-6</td>
<td>36</td>
<td>1.64</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>27</td>
<td>22</td>
<td>5</td>
<td>25</td>
<td>1.14</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>2</td>
<td>22</td>
<td>-20</td>
<td>400</td>
<td>18.18</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>110</td>
<td></td>
<td></td>
<td></td>
<td>2.55</td>
</tr>
</tbody>
</table>

Therefore $X^2_c = 25.51$

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

\[ = (5-1) \]

\[ = (4) \]

\[ \text{df} = 4 \]

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

**4.4 DECISION RULE: REJECT HO IF $X^2_C > X^2_T$ OTHERWISE ACCEPT Hi**

Hence the calculated is greater than the tabulated we therefore reject the Null Hypothesis (Ho:) and accept the alternative hypothesis (Hi).
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

SUMMARY OF FINDINGS

Based on the findings, the following were revealed.

i) Microfinance plays a great impact in the development of small and medium scale in Lagos State

ii) It can be concluded that there are various sources of funds available for the development of small and medium scale industry.

iii) There are various government policies affect the development of SME especially with regards to Microfinance bank

iv) Small and Medium Scale Industry improve Economic Development in Nigeria.

v) The introduction of microfinance will improve the strategy of small-scale development in Nigeria.

vi) The introduction of microfinance will improve accessibility to loan for small-scale industry in Nigeria.

vii) 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.

ix) That the establishment of Microfinance has contributed to the success of small-scale industries in Lagos state

x) 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 outreach performance of microfinance institutions (MFIs) in Lagos State in particular and Nigeria in general as 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.

This study examines the outreach performance of micro finance institutions (MFIs) in Lagos in particular finding out that with the introduction of micro finance access to funds by small and medium scale industry has in proved. The number of MFI branches increased five fold 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 paper 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 or 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 following recommendations are made in the course of this research: 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.

An apex regulatory institution should be established and charged with the responsibility of building capacity through the training or 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.

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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