Relationship between Microfinance Banks and Financing of Small Scale Enterprises in Lokongoma District of Kogi State, Nigeria

Duru, I. U.
Department of Economics, Salem University, Lokoja, Nigeria
E-mail: iud3x@yahoo.com

Ogbe, A. A.
Department of Management Sciences, Salem University, Lokoja, Nigeria
E-mail: austinalloy18@gmail.com

ABSTRACT

This study examines the relationship between microfinance Banks and the financing of Small Scale Enterprises in the Lokongoma District of Kogi State using descriptive research design. The aim is to ascertain the extent to which microfinance banks have discharged their responsibilities of financing small scale enterprises in Nigeria. The instrument for data collection is structured questionnaire. Twenty Small Scale Enterprises and five Microfinance Institutions were randomly and purposively selected for the study. The study reveals among others that the beneficiaries from the products of microfinance banks enjoyed increase in income, equipment, creation of employment, and improvement in standard of living. However, it is also revealed that the major problem confronting Microfinance Institutions is default in payment of loans. The study therefore recommends among others that MFIs should endeavour to give out loans to Small Scale Enterprises so that the purpose of their establishment will not be defeated without playing down on sagacious and subtle measures that will enhance prompt recovery of the loans. Also, for enhanced performance, the government should provide an enabling environment, as well as monitoring the MFIs that were primarily established for credit delivery to small scale enterprises in Nigeria.

Keywords: *Financing, Small Scale Enterprises, Microfinance Banks, Entrepreneurs, Microcredit, Nigeria.*

INTRODUCTION

Evolving strategies towards the promotion of entrepreneurship is a sine qua non for propelling economic growth and development of a nation. Also, for an economy to live up to expectation in the comity of nation's development, such economy must achieve accelerated economic growth and development which is also a prerequisite for improving the quality of life. Small Scale Enterprises are strategic to attainment of economic prosperity objective of any government. Small and Medium Scale Enterprises (SMEs), of whatever configuration, are an asset in the production chain of any economy, because of their impact on issues of job creation, provision of a wide variety of goods and services, income generation and efficient sources for micro-financing (SMEA, 2007). There is a general consensus among policy makers, development economists as well as international development partners that Small Scale Enterprises are potent driving force for industrial growth and indeed, overall economic growth and development in all economies but especially in developing and transition

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economies. “The International Year of Microcredit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance helps to alleviate poverty by generating income…” (Kofi Anan) (Srnec and Havrland, 2006). Therefore, it is a veritable tool for attaining one of the eight millennium development goals of eradicating extreme poverty by the year 2015. Poverty has been a major development problem of Nigeria. Provision of microcredit to Small Scale Enterprise seems to be one of the effective solutions to removing poverty from the people. It can help to improve their income. Microcredit can help entrepreneurs to establish their own businesses and decrease their vulnerability to poverty. All over the world, attainment of robust economic growth will not be possible without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The provision of microfinance services will greatly enhance the capacity of the poor segment of the population for entrepreneurship and enable them to engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth (CBN, 2005).

The significant interest that has been developed in the financial world and academia for the topic of microfinance cannot be underestimated. In fact, one of the most impressive developments in the world of social economic development in the last few years has been the successful explosion and impact of microfinance on society at large (Mejeha and Nwachukwu, 2008). Microfinance institutions provide small-scale financial services to poor people who are otherwise “excluded from the formal banking sector” (Morduch, 1999) and standard financial systems. Microfinance institutions have evolved since the late 1990s as an economic development strategy intended to benefit low-income people. The idea to establish microfinance institutions traces back to Muhammad Yunus, who developed it as a way to eradicate poverty in his home country Bangladesh.

In 1983, he founded Grameen Bank, the first institution which realized this concept and started to operate in the microfinance business in the proper sense. Together, Yunus and Grameen Bank were laureates of the 2006 Nobel Peace Prize awarded “for their efforts through microcredit to create economic and social development from below” (The Norwegian Nobel Committee, 2006). Although it is now widely acknowledged that Small Scale Enterprises play a central role in local and national economies, especially in developing countries, the Small Scale Enterprises continue to decline at high rates due to insufficient access to credit, there are still inadequate policy reforms and investment options that support sustainable development of Small Scale Enterprises.

Sustainable development of Small Scale Enterprises requires substantial financial resources but so far the financial resources mobilized remain insufficient particularly in developing countries. Due to social and economic constraints, most developing countries are not able to mobilize adequate public funding for the sector. One of the problems that bedeviled the Nigerian economy is the poor performance of the Small Scale Enterprises of the economy. This parlous state of affairs with the Small Scale Enterprises is due to many problems which include poor access to finance, weak purchasing power amongst a generality of the population that directly translates to depressed demand, a high cost operating environment arising from collapsed infrastructure and exchange rate. Despite their proactive nature, growth of Small and Medium Scale Enterprises (SMEs) have been blighted, because of inadequate access to finance, production schedules and marketing. This undoubtedly is a reflection of the changes in the monetary policies of our nation. The dismal performance of the conventional finance sectors triggered the advocation for micro – financing by policy makers, practitioners, and international organizations as a tool for poverty reduction. Lack of financial inputs and access to microfinance services is often a problem for entrepreneurs engaged in Small Scale Enterprises. Credit is the prime input for sustained growth of Small Scale sector and its availability is thus a matter of great importance.

The relevant research questions based on the above scenarios will then be - do microfinance banks make loans accessible to Small Scale entrepreneurs? Do Small Scale Enterprises face challenges while trying to access financial capital from microfinance banks? What are the challenges confronting Small Scale Businesses? Small Scale Enterprises play a crucial role in the growth of an economy. Its development has been accepted as one of the strategies to achieve the objective of promotion of entrepreneurship for solving the problem of unemployment and rapid industrialization (Mali, 2000). The basic rationale of developing these industries are that they provide immediate large scale employment , ensure more equitable distribution of income, encourage decentralization of industries and eradicate poverty and unemployment in an economy.

Extensive research has been carried out on the role of financial institutions on the financing of Small and Medium Scale Enterprises (SMEs). This research will therefore focus on microfinance banks which have not been fully exploited in terms of its contributions to the development of Small Scale businesses. A study of this nature is equally very important because it is going to enlighten the government and the public on the role microfinance banks are playing in the SMEs sector. Also, this will help researchers in the field of microfinance to gain a wealth of insight about realities on ground and relative merits of various poverty reduction approaches in various contexts.

The study will provide a guide for all institutions involved in microfinance as to how to fashion out their programmes so that they will not just throw money down the drain but implement proper programmes which will be beneficial to their clients. Certainly, Nigeria's vision of being counted among the first twenty economies in the world by 2020 cannot be accomplished in a socio-economic milieu of hunger, poverty and unemployment among a large segment of its population. This work therefore attempts to examine the role of microfinance banks in the financing of Small Scale Enterprises in Nigeria and the rationale for the growing emphasis on them as accelerators of development. Specifically, the work will determine the constraints to the procurement of the loan and the constraints facing Small Scale Businesses generally.

Impact of Microfinace on Small Scale Enterprises

The fight against poverty and unemployment cannot be won without putting in place a well focused microfinance policy to strengthen the existing microfinance institutions in poverty reduction, unemployment reduction and wealth creation through empowering the people engaged in Small Scale Industries, by increasing their access to factors of production, especially credit. The potential of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services which would enable them engage in economic activities, and be more self reliant, thus increasing employment opportunities, enhancing household income and creating wealth (CBN, 2004). The experience of many countries indicate that entrepreneurship which manifest in the form of Small and Medium Scale Enterprises (SMEs) can meaningfully contribute to the attainment of country's economic development objectives. These objectives include output expansion, employment generation, location of industries among regions of a country, income redistribution, promotion of indigenous entrepreneurship and technology, as well as production of intermediate goods to strengthen, inter and intra industrial linkages. These among others, explain the increased interest, which many countries have shown in the promotion of entrepreneurship (Abu and Ezike, 2012).

The impact of microfinance on the financing of Small Scale Industries has been analyzed at the individual, household and enterprise levels. The empirical findings concerning this issue are mixed, which show that the influence of microfinance on financing of Small Scale Industries differs across sectors and countries. For instance, Brune (2009) examines empirically the impact of micro-finance institutions on development. Using data of Micro Finance Institutions operating in selected African and Asian countries and choosing average savings and loan balances per client as proxies for development; he concluded that there is empirical evidence for significant positive impact of micro-finance institutions on development. Oni and Daniya (2012) examine the role of government and other financial institutions particularly micro finance institutions in the development of small and medium scale enterprises in Nigeria. Employing principally existing literatures and record relevant to the subject matter of the study, they discovered that financial institutions provide the necessary financial lubricants that facilitates the development of Small and Medium Scale Enterprises, but, a lot still need to be done by the government in terms of policy formulation in order to complement the efforts of financial institutions.

Al-Khazali (2011) investigates the role of the Jordanian commercial banks in financing small-scale projects by employing descriptive statistics and study samples from three banks (Arab Bank, Kuwait Bank and Cairo Bank). In the light of the findings of statistical analysis and testing of the study hypotheses**,** the study came to the following conclusions: There is statistically significant relationship between the role of Jordanian commercial banks in financing small-scale projects and reducing unemployment. Also, there is statistically significant relationship between the role of Jordanian commercial banks in financing small-scale projects and reducing poverty. Idowu, Ambali and Otunaiya (2008) in their study, empirically examine the effect of microfinance on piggery business in Osun State, Nigeria. Using descriptive statistics and Tobit regression methodology on a sample of three hundred and twenty pig farmers from Osun State, obtained through a multi-stage sampling process, their study revealed that majority of the pig farmers were still in their active age (66% are below 50 years), married and educated (26% had first degree). Also, majority of the farmers sourced for loan through cooperative societies and have stocking of pens as primary motive. The result reveals that level of education, years of experience in piggery farming and number of pigs had significant positive effect on fund security. Suberu, Aremu and Popoola (2011) assess the impact of microfinance institutions on small scale enterprises in Nigeria through the use of descriptive statistics. Simple random sampling technique was employed in selecting the small scale enterprises used in the research. Their findings reveal that significant number of the small scale enterprises benefited from the microfinance institution loan even though only few of them were suitable to secure the required amount needed. Also, it was found that microfinance institutions have grown phenomenally in the last ten years. Majority of the small scale enterprises acknowledged positive contributions of microfinance institutions loan towards promoting their market excellence and overall economic competitive advantage.

Oni, Paiko and Ormin (2012) in their research, assess the contributions of Micro Finance Institutions (MFIs) to the sustainable growth of Small and Medium Enterprises. Employing descriptive method of analysis, they conclude that Micro Finance Institutions does and could contribute to the sustainable growth of SMEs in the country. However, the study also found among others that MFIs services outreach to SMEs at present is poor. Edafiaje (2011) equally examines the role of Microfinance Banks (MFBs) in financing small scale enterprises in Ozoro and Warri parts of Delta State, Nigeria, through the use of descriptive statistics. The study showed that Microfinance service, particularly, those sponsored by government, has resulted in an increased level of credit disbursement and gains in agricultural production and other activities. Onyeneke and Iruo (2012) in their study, determine the effect of microfinance on small-scale poultry production in Imo State. Data collected were analyzed using descriptive statistics and regression analysis. The study revealed that microfinance contributes positively to poultry production in Imo State.

The study of Akande (2012) investigates the impact of Micro Credit on the performance of women owned micro enterprises in Oyo State. Data were sought through structured questionnaire and analysed using tables, frequencies, percentages, charts while chi square was used to test the study's hypothesis. The study shows that 46.67 percent of the respondents were aware of the existence of the micro finance banks but only 16.67 percent patronized them. Nevertheless, the performance of those that patronized them did not improve significantly; this was due to high interest rates and short repayment periods. Ayopo (2011) investigates the effects of micro-financing on Micro and Small Enterprises (MSEs) survival, growth, productivity and performance in South-west Nigeria. The study employed descriptive statistics through the survey of 443 micro enterprises and one hundred and eighty (180) small enterprises which were randomly selected using multi-stage random sampling technique. The findings revealed that micro finance and micro-financing enhance survival of Micro and Small Enterprises (MSEs) but not sufficient for growth and expansion of such Micro and Small Enterprises. The result also revealed that microfinance has positive effects on productivity and performance of local entrepreneurs. Yahaya, Osemene and Abdulraheem (2011) employed t-test and Analysis of Variance (ANOVA) to examine the effectiveness of microfinance banks in alleviation of poverty in Kwara State, Nigeria.

The results revealed that microfinance has significant role to play in the economy, as it helps reduce poverty by providing financial services to the active poor, help in generating employment and also provide small loans to grow small businesses. Nanor (2008) explored the impact of Microfinance on households' income, profit levels and expenditure on children education for participating households. The study was conducted in four selected districts in the Eastern Region of Ghana. The districts were Kwahu North, Manya Krobo, Yilo Krobo and West Akim. Employing a descriptive method of analysis, the results from the analysis showed that there was significant difference in the expenditure made on children's education by program households and non program households in all the districts except Manya Krobo. The results also showed that Micro-finance had positive impact on the household income of households in the Manya Krobo and West Akim districts. There was no impact on income in the other two districts. There was also positive impact on the profit levels in the Manya Krobo and West Akim districts. In the Yilo Krobo district, the impact on profit levels was negative.

Kobla (2009) examined the impact of micro finance on Small Scale Enterprises in the South Tongu District through the use of descriptive statistics. They concluded that microfinance has the ability to reduce poverty in its clients when the products given to clients were incorporated with training, supply of equipment and regular monitoring. Also, the study revealed that beneficiaries who benefitted considerably from the products of microfinance enjoyed increase in income, increase in equipment, creation of employment, and improvement in standard of living. Odebiyi and Olaoye (2012) investigated the role of Microfinance banks in the development of Small and Medium Scale Aquaculture Enterprises in Ogun State, Nigeria. A Multistage random sampling technique was employed in selecting one hundred and twenty aquaculturists used in the study. Employing descriptive, budgetary analyses and profitability ratios, their study revealed a positive impact of microfinance bank loan on small and medium scale aquaculture development as it increased the revenue of the farmers, reduced rural-urban migration and increased overall yield and even generate employment opportunities. Magaji and Saleh (2010) employ regression and correlation analysis methodology to examine the role of Small Scale Industries in the economic development of Nigeria. Their study revealed that Small and Medium Industries have contributed significantly to the economy with a strong positive correlation between Nigerian gross domestic product and loan contribution to the industries. Ijaiya *et. al* (2012) in their study employed a multiple regression analysis to establish a relationship between microfinance and mortgage finance in Nigeria. The results showed that the credit facility provided by the informal microfinance in the study area is used for housing purposes by the respondents.

METHOD

This research is descriptive in nature and employs the survey method in assessing the impact of Microfinance Banks (MFBs) on Small Scale Enterprises (SSEs) financing in Nigeria. The researcher used descriptive statistics such as simple percentage, tables and charts to depict the relevant data. Data were collected through the use of questionnaire and personal interview. The questionnaire was designed for both microfinance institutions and Small Scale Enterprises. The SSEs were selected from across the various sectors namely manufacturing, commerce, trading and service among others operating in Lokongoma District of Kogi State. Microfinance institutions were also selected within the district. Twenty Small Scale Enterprises and five microfinance institutions were selected randomly and purposively and administered with the questionnaire. All the SSEs respondents filled and returned the questionnaire but only two MFBs responded to the questionnaire.

RESULTS AND DISCUSSION

Table 1 depicts that 25%, 35%, 20% and 20% of the respondents were in age categories of 18-27, 27-37, 38-47 and 48 years and above respectively. In terms of gender, 65% of the respondents were males while 35% of them were females. Out of the 7 females interviewed, 43% were married while 57% were single. Eight males representing 62% of the males were married while five representing 38% of males were single. This goes to suggest that males had interest and were able to access products of microfinance institution contrary to the general view that females had more interest in services of microfinance institutions. This is contingent on the fact that there were more male groups in Lokongoma District of Kogi State. In terms of sector or area of business, respondents were selected from the agro-business, trading, service and manufacturing sectors of the economy. The results show that most of the small scale entrepreneurs were into Trading and Service sectors representing 40% and 30% of the respondents respectively, while agro-business and manufacturing were representing 15% each.

Table 2 reveals that majority of the entrepreneurs established their businesses with their personal savings. Only a respondent representing 5% of the respondents admitted that his business was established by funds from Micro Finance Institutions. None of the enterprises were established with funds from Spouse/Relatives, Loans from non-governmental organization, Loans from non-banking Institutions and Loans from commercial banks. This is a pure indication that most of the entrepreneurs set up their businesses from their own funds through personal savings. In terms of constraints facing small scale entrepreneurs with reference to procurement of loans, 33.3% of the respondents were of the view that it was due to credit crunch on the part of Microfinance Institutions. On the other hand, 33.3% of them stated that it was as a result of their inability to present the required collateral. Finally, 33.3% of the respondents stated that it was due to the small scale nature of their businesses. From table 3, it is evident that the major problems confronting Small Scale Entrepreneurs in the study area are inadequate capital, poor electricity supply and low turnover. It was evident that the income level of the only micro entrepreneur that received support from MFI out of the twenty sampled has increased from what it used to be. This shows a positive impact on income level of clients. The higher income was informed by increased sales which resulted in higher profits. According to this research, only one clients out of twenty have procured new equipment. This implies that 19 of them are still using old equipment for running their businesses. After benefitting from micro loan, only 5% of the respondents were able to create employment opportunities for the people in the district. This 5% represent only one beneficiary out of the twenty. Looking at the actual impact of microfinance with respect to this, much impact has not been felt. This is because only one entrepreneur out of the twenty sampled was able to collect the loan and there is a limit to the number of jobs that one person can create. According to the data collected, the only beneficiary of the micro loan said his standard of living has improved. Also, examining the impact of microfinance from this angle, one can conclude that the role of microfinance in terms of financing of Small Scale Enterprises has not been felt much in the Lokongoma District of Kogi State. Furthermore, the study reveals that the interest rate charged by Microfinance Banks is still high.

Table 1: Demographic Characteristics of Respondents

Variable	**Items**	**Frequency**	**Percentage**
Age	18-27 years	5	25
	27-37 years	7	35
	38-47 years	4	20
	48 years and above	4	20
	Total	20	100
Gender	Male	13	65
	Female	7	35
	Total	20	100
Marital Status	Married	11	55
	Single	9	45
	Total	20	100
Education	Primary School	5	25
	Secondary School	10	50
	Technical & Vocational Education	2	10
	University or Higher Education	3	15
	Total	20	100

Source: Field Survey, 2012

Table 2: Distribution of Respondents based on Business Finance

Source of Funds	**Frequency**	**Percentage**
Own Savings	19	95
Loans from non-banking Institutions	0	0
Loans from Commercial banks	0	0
Loans from Micro Finance Institutions	1	5.0
Funds from Spouse/Relatives	0	0
Loans from Non-Governmental Organizations	0	0
Total	**20**	**100**

Source: Field Survey, 2012.

Table 3: Distribution of Respondents based on Problems Confronting Small Scale Businesses

Problems	**Frequency**	**Percentage**
Inconsistency of demand	1	5
Delay in Payment	1	5
Increased Cost of Raw Materials	1	5
Inadequate Capital	6	30
Poor Electricity Supply	6	30
Low Turnover	3	15
High Interest Rate	1	5
Family Issue	1	5
Total	**20**	**100**

Source: Field Survey, 2012

CONCLUSION AND RECOMMENDATIONS

This study examined the relationship between Microfinance Banks and financing Small Scale Enterprises in Lokongoma district of Kogi State, Nigeria. The aim was to ascertain the extent to which MFBs have discharged their responsibilities of financing small scale enterprises in the study area in particular and Nigeria in extension. Based on the result of the study, it is observed that microfinance banks have not actually impacted much on the growth of the SSEs in the district. The indicators that were used showed that the loans were not accessible to most micro entrepreneurs. The data collected revealed that most people could not access the loan due to lack of collateral and small scale nature of their businesses. For instance, out of the twenty Small Scale Enterprises sampled, only one was able to access the loan. Also, out of eight Small Scale Enterprises that applied for the loan, only one application was successful. For the Small Scale Enterprise that benefitted from the loan, there was an increase in income, employment generation, standard of living and increase in equipment. Though, microfinance has achieved a little significant improvement in the life of this beneficiary in the district, however, majority of the businesses in the district were still struggling to survive despite the existence of microfinance institutions in the district.

This is a clear indication that only few people engaged in micro business activities were assisted in the district while majority had been left out. The study therefore recommends that for enhanced performance, the government should provide an enabling environment, as well as monitoring the MFIs that were primarily established for credit delivery to small enterprises in Nigeria. In addition, the microfinance banks should be properly monitored to ensure that micro credit delivery to promote small businesses was in line with the Micro-finance Policy of 2005. Also, regulatory and statutory bodies should be made to monitor the interest rate on loans and advances as well as accessibility of Small Scale Entrepreneurs to finance. The repayment period should include a grace period and should not be harsh. Finally, the interest rate charged by MFIs should be moderate so that beneficiaries would not use the loan to service the interest and the principal. MFIs should endeavour to give out loans to Small Scale Enterprises so that the purpose of their establishment will not be defeated without playing down on sagacious and subtle measures that will enhance prompt recovery of the loans. Also, for enhanced performance, the government should provide an enabling environment, as well as monitoring the MFIs that were primarily established for credit delivery to small scale enterprises in Nigeria.

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