Journal on Banking Financial Services & Insurance Research
Vol. 7, Issue 11, November 2017, Impact Factor: 5.601 ISSN: (2231-4288)
www.skirec.org Email Id: skirec.org@gmail.com

MICROFINANCE INSTITUTIONS AND THEIR POTENTIALS FOR RURAL DEVELOPMENT IN NIGERIA: A STUDY OF LAPO MICROFINANCE BANK, UDENU LOCAL GOVERNMENT AREA, ENUGU STATE

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ABSTRACT

This study centred on Microfinance Institutions and their Potentials for Rural Development in Nigeria: A Study of Lapo Microfinance Bank, Udenu Local Government Area, Enugu State. Before the establishment of microfinance institutions, it was observed that many people especially the rural dwellers were not able to obtain loans from other financial institutions which might have negatively affected the pace of rural development in Nigeria. The broad objective of this study is to examine the relationship between microfinance institutions and rural development in Nigeria. Some of the specific objectives of the study include; ascertaining the roles of microfinance institutions on rural development in Nigeria, assessing the rate at which rural dwellers repay their loans from microfinance institutions among others. The study adopted survey design. The research instrument was questionnaire. The population of the study was 50 drawn from the organization of the study. The entire population was used as the sample size since the population is not up to hundred. The researcher used content validity to validate the instrument. The reliability of the instrument was tested using test re-test method. The hypotheses were tested using Chi-Square method. Some of the findings revealed that microfinance institutions play significant role in the development of rural areas in Nigeria, the rate at which rural dwellers repay their loans from microfinance is low. The researcher recommends that rural dwellers should endeavour to increase the rate at which they repay the loan they borrowed from microfinance banks and bank management should do more work on the areas of mobilization and sensitization of these rural dwellers on the gains of obtaining credit facilities from microfinance banks among others. In conclusion therefore, microfinance institutions have strong relationship with the development of rural areas in Nigeria and the establishment of the institutions has positive effect on rural development and it has made it easy for the rural dwellers to have access to credit facilities.

KEYWORDS: Microfinance institutions, Potentials, Rural development, Microfinance Bank

1.1 INTRODUCTION

The operations of microfinance institutions date back to the pre-independence period in Nigeria when traditional thrift saving systems and activities of local people could not really handle the growing expansion and needs of the rural people and transformation. Also, the failure of conventional banking in Nigeria to meet the socio-economic complexities of the rural communities that consistently experiences rapid growth and changes as well as government desire to reach rural areas in development, gave rise to the emergence of microfinance institutions as a way of providing financial answers to the low income people so as to finance and improve their income generating activities (Okpara, 2012:44).

Akpan, (2009:12) is of the view that formal banking operations started in Nigeria before the nation's independence in different forms as a reaction to rural economic growth and social development. It was intensified during the post-independence era and to this day, rural banking operation services have become more pronounced with the provision of micro credit to rural dwellers intended to boost small and medium scale investment predominantly financed and supervised by commercial banks. Throughout the country, traditional group networks served as proprietors of financial exchange. They were led by traditional money lenders who offered limited services and loans at disproportionately high interest rates.

Nevertheless, it was documented that as early as 1936, the Government of Nigeria supported such exchanges as long as cooperative groups maintained their ordinance of coupling credit with regular and compulsory savings. The collapse of the barter system of exchange before now and subsequent monetization of the economy in recent times, have motivated the need for some form of mobilization of savings through either formal or informal method among rural community dwellers to boost socio-economic development. This has given credence to a type of banking transaction known as rotational saving which ultimately is now common in rural community's arid urban centres. Glaringly and very fundamentally too, there was a great concern and gap by the different commercial banks in the country to handle the socio-economic needs of the rural communities and dwellers following the hard financial policies in individual or group assessing of loans and other facilities by the poorer people who are predominantly rural dwellers (Oleka, 2011:27).

Rural development is not only concerned with increased income per capita of people living in those areas but also include the reduction or elimination of poverty, inequality and unemployment among the rural folks. Therefore, rural development must be considered as an overall economic development strategy, if a larger proportion of the rural people are to benefit from the development (Olaunbosun, 2012).

The post war years experiences has proved beyond doubt that the so-called grackle-down process based mainly on town-oriented economic development programs in developing countries has failed to contribute to the improvements on socio-economic conditions of the rural poor. The rural poor must therefore be reached directly if they are to share the benefits of any economic development in a developing country (Ugwuanyi, 2010).

Rural areas experience universally wide varieties of social, economic, political and moral problems such as lower per capita income, lower educational level, fewer employment opportunities, limited educational and cultural facilities, confined social environments, migration, less developed health services, fewer commercial facilities, declining small towns, and less confidence in the future prospects (Ozoani, 2010).

In fact, the social, political and economic gap has increased year by year between the town and the rural areas, however, lately many donor agencies and development planners have realized the importance of rural areas and the rural people in the economic emancipation of many countries especially the poor developing countries (Olashoro, 2008).

The contribution of rural areas to the national economic development is usually limited; however, the future potential for the contribution is great, especially in developing countries. Therefore, rural development will become a key factor during the next decade or so in the overall economic development of many developing countries (Okpara, 2012).

Every rural community runs after a rural cultural pattern that determines and influences the beliefs, attitudes and behaviours of these rural dwellers. Hence, this study is on microfinance institutions and their potentials for rural development in Nigeria: A study of Lapo Microfinance Bank, Udenu Local Government Area, and Enugu State.

1.2 STATEMENT OF PROBLEM

Before the establishment of microfinance institutions, it was observed that many people especially the rural dwellers were not able to obtain loans from other financial institutions which may negatively affect the pace of rural development. This may be attributed to a number of challenges such as the high level of interest rate, lack of collaterals required by the commercial banks before loans can be granted which necessitated the establishment of microfinance banks to address these economic imbalances. If the banking industry cannot meet the demands of Nigerians especially the rural poor, this shows that there is a gap which need to be filled and this can be done through the contribution of government by establishing more microfinance banks in Nigeria to help in alleviation of poverty among the rural dwellers.

Another problem observed is the inability of prospective borrowers of most microfinance banks to repay their loans as at when due. This may be attributed to high rate of poverty in the country. The high rate of poverty can be attributable to unemployment, high rate of inflation, non-payment of salaries, mismanagement of loan granted to rural dwellers, infrastructural deficiencies, such as power, road network, communication amongst others coupled with all kinds of political, economic and bureaucratic bottlenecks.

1.3 OBJECTIVE of the Study

The broad objective of this study is to examine the relationship between microfinance institutions and rural development in Nigeria.

The specific objectives of this study are;

To ascertain the roles of microfinance institutions on rural development in Nigeria

To identify the effects of microfinance institutions on rural development in Nigeria

To establish the contribution of microfinance institutions to rural development

To assess the rate at which rural dwellers repay their loans from microfinance institutions

To proffer possible solutions to problems encountered by microfinance institutions on rural development

1.4 RESEARCH HYPOTHESES

1. **Ho:** Microfinance institutions do not play significant role on rural development.
2. **Ho:** Microfinance institutions has positive effects on rural development
3. **Ho:** Microfinance institutions do not contribute to rural development.
4. **Ho:** The rate at which rural dwellers repay their loans from microfinance institutions is low

REVIEW OF LITERATURE

2.1 CONCEPTUAL REVIEW

2.1.1 OVERVIEW OF MICROFINANCE ACTIVITIES IN NIGERIA

The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self-Help groups (SHGs) or rotating savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loan-able funds (Olashoro, 2008). In order to enhance the flow of financial services to Nigeria rural areas, government has, in the past, initiated a series of publicly financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural Banking Programme, sectorial allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (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 Programme (NAPEP) with the mandate of providing financial services to alleviate poverty (Olashoro, 2008). Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived, due to the unsustainable nature of the programmes (Olashoro, 2008). Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply-led approach to a demand- driven strategy. The number of NGOs involved in microfinance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and the declining support from development partners amongst others. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the Trusteeship Act as the sole package or part of their charity and social programmes of poverty alleviation. The NGOs obtain their funds from grants, fees, interest on loans and contributions from their members. However, they have limited outreach, due, largely, to unsustainable sources of funds (Olashoro, 2008).

2.1.2 CONCEPT OF RURAL DEVELOPMENT

Rural development is that part of development that seeks to enhance the quality of life in the rural areas by providing basic infrastructural facilities (Ezeah, 2005). Indeed, the basic objective of rural development is reduction in poverty and improvement of the quality of life of the rural people. Bello-Imam (1998) in this vein defined rural development as spatially sectional but determined and conscious attempt to focus on the general upliftment of the living conditions of men in the rural areas. So, rural development in Nigeria entails the process of making life more satisfying and fulfilling to the millions of Nigerians who live in the rural areas.

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Rural development is a many sided process or a multi-dimensional process involving the totality of the rural man and his environment. In essence, development in this context entails developing the rural human person and as well as his environment. Emphasizing the aspect of human development as an essential part of rural development, Mustapha (1989) notes that rural development implies a broad based re-organization and mobilization of the rural masses so as to enhance their capacity to cope effectively with daily tasks of their lives and with changes consequent upon it. It is perhaps, in this direction, that Ele (2006) posits that it is not enough to provide for the rural people; they should be enabled to develop themselves and their environment. The foregoing entails that development can only be meaningfully achieved when the population becomes agents of its own development.

The United Nation (1956) defined rural development to be the process by which the efforts of be people themselves are united with those of the governmental authorities to improve the economic, social and cultural condition of communities, to integrate them into the life of the nations, and to enable them to contribute fully to national progress. Ugwu (1993) views rural development as "any method by which people discover their fit needs, plan for achievement of their set goals, either worthy of their own resource or through the help of outside agencies where possible" Owuamalam (1978) expresses his own idea that rural development draw great inspiration from the desire for a change through voluntary methods as through the participation of individuals and groups in the development process for the achievement of definite groups" The International Co-operative Administrative Magazine (1956) describes rural development as "a process of social action in which the people of rural areas organize themselves for planning needs and problems, execute these plans with a maximum of reliance upon rural resources; and supplement these resources when necessary with services and materials from government and services from non-governmental agencies outside the rural areas. The World Bank (1995) defined rural development as a strategy designed to improve the economic and social life of a specific group of people – the rural poor. Accordingly, it involves extending the benefits of development to the poorest among those living in rural areas. This group include small scale farmers, tenants and landless. The development requirement of the rural areas should, therefore, be multidimensional. In this direction, Olayiwole and Adeleye (2005) identified and classified the infrastructural development requirements of the rural areas into three. One is the basic infrastructure which entails the availability of good roads, water (pipe borne water), rural electricity, storage, and processing facilities etc. Ozoani, (2010:73) provided a working definition of rural development, which cuts across most of the segmented issues focused upon by most researchers on the subject. They define rural development as a programme which addresses the following important issues regarding rural poverty. Thus, a rural development programme seeks;

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i. To achieve significant improvement in the productivity and out-put of the rural producers such that their own basic needs are met while also satisfying the growing and diversified food and raw materials of the country.

ii. Seeks to achieve a drastic reduction on the poverty of these most vulnerable low income groups.

iii. Seeks improvement in the standard and quality of rural life through the provision of better health facilities, improved water supply, electricity road and other infrastructures.

iv. Seeks for the development and diffusion of appropriate rural technology innovation such that the productivity of rural producers could be enhanced and the drudgery of life of the rural population reduced.

v. Seeks the diversification of the rural economy through the development of rural commerce, rural transport and exploitation of new market outlets and opportunities.

2.1.3: JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE INSTITUTIONS

From the appraisal of existing microfinance oriented institution in Nigeria. The following facts have become evident (Ugwuanyi, 2010).

1. Weak institution Capacity: The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to unreliable management, weak-internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well- defined operations, restrictive regulatory and supervisory requirements among others.

2. Absence of Technology Platform: The absence of appropriate network platform for information communication technology to driven down cost and achieve economic of scale is a major impediment to profitable operations.

3. The Need for increased Savings Opportunity: The microfinance institution would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, less convenient and easy accessible) savings. Products that would be attractive to rural clients and improved the saving level of the economy.

4. The Increasing Interest of Local and International Investors in Microfinance: Many local and international investors have expressed interest in investing in the countries microfinance sub-sector. Thus, the establishment of microfinance policy framework for Nigerian provides an opportunity for them to participate in financing the economic activities of low income households and the economically active poor.

2.1.4: THE ROLE OF MICROFINANCE INSTITUTIONS IN THE SOCIO-ECONOMIC DEVELOPMENT OF RURAL COMMUNITIES

In the past decades, creating access to financial services for small-scale businesses in the rural communities had been tasking. In response to these demands, microfinance banks have emerged and developed across the country.

Olatunhosun, (2012:33) opined that lending to micro-enterprises is no longer just a nice thing but is equally profitable. That microfinance has been acknowledged as an important instrument for meaningful development. Strategy for delivering financial services to the poor has become a feature of development agencies. It is worthwhile to note that regulatory agencies in most countries have formulated policies, regulatory and supervisory guidelines for microfinance practice basically to expand access to financial services to the poor or owners of micro enterprises. Microfinance is usually conceived as the provision of small units of financial services to low income clients who are usually excluded from mainstream financial systems. Service users include artisans, small holder farmers, food processors, petty traders and other persons who operate micro-enterprises. A critical assessment in the practice according to Ozoani, (2010:63) portrays microfinance as meaning more than delivery of small units of financial services.

It goes beyond disbursement and collection of loans. It also refers to the flexible structures and processes by which affordable financial services are delivered to the owners of micro enterprises on a sustainable basis.

Microfinance recognizes the peculiar challenges of owners of micro and small enterprises especially in accessing financial services. In service delivery design, it takes into account the inability of the poor to provide tangible collateral required by formal financial institutions.

In the same vein, Olashoro, (2008:25) highlighted the roles of microfinance policy as it is the most effective poverty alleviation intervention tool worldwide;

It enables its clientele to become more self-reliant in their business endeavours especially in the face of mass unemployment in the country.

It helps to enhance the mobilization of local savings into productive ventures.

It helps to increase access to finance which will equally result in finances deepening.

It causes growth and improves income distribution of the populace.

2.1.5 THE MICROFINANCE POLICY

The specific objectives of this microfinance policy are the following:

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

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

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

iv. Contribute to rural transformation; and

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

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

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

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

iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.

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

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

2.1.6 THE GOALS OF MICROFINANCE BANKS

The establishment of microfinance banks has become imperative to serve the following purposes:

(i) Provide diversified, dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth, individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than I % of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

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(vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government (Ozoani, 2010).

2.1.7 POLICY MEASURES AND INSTRUMENTS IN THE ESTABLISHMENT OF THE FRAMEWORK FOR MICROFINANCE BANKS

Private sector-driven microfinance banks shall be established. The banks shall be required to be well-capitalized, technically sound, and oriented towards lending, based on the cash flow and character of clients. There shall be two categories of Micro Finance Banks (MFBs), namely:

(i) Micro Finance Banks (MFBs) licensed to operate as a unit bank, and

(ii) Micro Finance Banks (MFBs) licensed to operate in a state.

The recognition of these two categories of banks does not preclude them from aspiring to having a national coverage, subject to their meeting the prudential requirements. This is to ensure an orderly spread and coverage of the market and to avoid, in particular, concentration in areas already having large numbers of financial institutions.

An existing NGO which intends to operate an MFB can either incorporate a subsidiary MFB, while still carrying out its NGO operations, or fully convert into a MFB.

(i) MFBs licensed to operate as a unit bank (aka. Community Banks)

MFBs licensed to operate as unit banks shall be community-based banks. Such banks can operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks shall be N20 million for each branch (Ozoani, 2010).

(ii) MFBs Licensed to Operate in a State

MFBs licensed to operate in a State shall be authorized to operate in all parts of the State (or the Federal Capital Territory) in which they are registered, subject to meeting the prescribed prudential requirements and availability of free funds for opening branches. The minimum paid-up capital for this category of banks shall be N1.0 billion.

2.1.8 OWNERSHIP OF MICROFINANCE BANKS

Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed microfinance banks. Universal banks that intend to set up any of the two categories of Microfinance banks as subsidiaries shall be required to deposit the appropriate minimum paid-up capital and meet the prescribed prudential requirements and if, in the view of the regulatory authorities, have also satisfied all the requirements stipulated in the guidelines.

No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one Microfinance bank under a different or disguised name.

2.1.9 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

i **Universal Banks**: Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the microfinance bank regulatory and supervisory guidelines.

ii **Community Banks**: All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks licenced to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank licensed to operate in a state if it meets the specified capital and other conversion requirements.

iii **Non-Governmental Organization**: Microfinance Institutions (NGO-MFIs: This policy recognizes the existence of credit only, membership based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and not to mobilize deposits from the general public.

The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN. NGO-MFIs that wish to obtain the operating license of bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines. Transformation of the existing NGO-MFIs: Existing NGO-MFIs which intend to operate Microfinance bank can either incorporate a subsidiary Microfinance bank while still carrying out its NGO operations or fully converted into Microfinance bank. NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating license and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

2.1.10 FRAMEWORK FOR THE SUPERVISION OF MICROFINANCE BANKS

i Licensing and Supervision of Microfinance Banks: The licensing of microfinance banks shall be the responsibility of the Central Bank of Nigeria. A licensed institution shall be required to add "microfinance bank"; after its name. All such names shall be registered with the Corporate Affairs Commission (CAC), in compliance with the Companies and Allied Matters Act (CAMA,) 1990.

ii Establishment of a National Microfinance Consultative Committee: A National Microfinance Consultative Committee (NMFCC) shall be constituted by the Central Bank of Nigeria (CBN) to give direction for the implementation and monitoring of this policy. Membership of the Committee shall be determined from time to time by the CBN. The Microfinance Support Unit of the CBN shall serve as the Secretariat to the Committee.

iii Credit Reference Bureau: Due to the peculiar characteristics of microfinance practice, a credit reference bureau, which shall provide information on microfinance clients and aid decision making, is desirable. In this regard, the present Credit Risk Management System in the CBN shall be expanded to serve the needs of the microfinance sector.

iv Rating Agency: The CBN shall encourage the establishment of private rating agencies for the sub-sector to rate microfinance institutions, especially those NGO-MFIs which intend to transform to microfinance banks.

v Deposit Insurance Scheme: Since microfinance banks are deposit-taking institutions and in order to reinforce public confidence in them, microfinance banks shall qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

vi Management Certification Process: In order to bridge the technical skills gap, especially among operators of microfinance banks, the policy recognizes the need to set up an appropriate capacity building programme for microfinance banks. To this end, the CBN shall put in place a microfinance bank management certification process to enhance the acquisition of appropriate microfinance operational skills of the management team of microfinance banks. A transition period of twenty four (24) months shall be allowed for the take-off of the programme, with effect from the date of launching the policy.

vii Apex Associations of Microfinance Institutions: The establishment of an apex association of microfinance institutions to promote uniform standards, transparency, good corporate practices and full disclosures in the conduct of microfinance institutions' businesses shall be encouraged.

viii Linkage Programme: The policy recognizes the importance of the provision of wholesale funds for microfinance banks to expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between universal/ development banks, specialized finance institutions and the microfinance banks to enable the latter source for wholesale funds and refinancing facilities for on-lending to their clients.

ix Establishment of a Microfinance Development Fund: In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a microfinance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building, and other promotional activities. The Fund would be sourced from governments and through soft facilities from the international development financing institutions, as well as multilateral and bilateral development institutions.

x. **Prudential Requirements:** The CBN recognizes the peculiarities of microfinance practice and shall accordingly put in place appropriate regulatory and prudential requirements to guide the operations and activities of the microfinance banks.

xi. Disclosure of Sources of Funds: Licensed microfinance banks shall be required to disclose their sources of funds, in compliance with the Money Laundering Prohibition Act 2004.

Xii Corporate Governance for Microfinance Banks: The board of directors of microfinance banks shall be primarily responsible for the corporate governance of the microfinance banks. To ensure good governance of the banks, the board of directors shall be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the banks and the means to attain same, as well as the mechanism for monitoring management's performance. Thus, while management of the day-to-day affairs of the banks shall be the responsibility of the management team, the board of directors shall, however, be responsible for monitoring and overseeing management's actions. Consequently, the licensed microfinance banks shall be expected to operate under a diversified and professional board of directors.

xii Regulatory incentives: The new window of opportunity for the emerging microfinance banks in bringing financial services to people who never had access to such services before would require the support of government and those of regulatory authorities. The CBN shall collaborate with the appropriate fiscal authorities in providing a favourable tax treatment of microfinance banks' financial transactions, such as exemption from value added tax (VAT) on lending or tax on interest income or revenue.

Similarly, the principle of exemption from profit tax shall be applied to any microfinance bank that does not distribute its net surplus but ploughs it back and reinvests the surplus to finance more economically beneficial micro, small and medium entrepreneurship. Furthermore, a Rediscounting and Refinancing Facility (RRF) shall be made available to microfinance banks for purposes of providing liquidity assistance to support and promote microfinance programmes. This would enable microfinance banks that have met the CBN prudential requirements to, on a sustainable basis, provide and render micro credits and other services to their clients (Ele, 2006).

2.1.11 THE ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

The roles and responsibilities of stakeholders shall include the following:

Government

Government shall be responsible for:

(i) Ensuring a stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability.

(ii) Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions.

(iii) Instituting and enforcing donor and foreign aid guidelines on micro-finance to streamline their activities in line with this policy and

(iv) Setting aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents.

Central Bank of Nigeria (CBN)

The roles of the CBN shall include the following:

(i) Establishing a National Microfinance Consultative Committee.

(ii) Evolving a clear micro-finance policy that spells out eligibility and licensing criteria, provides operational/prudential standards and guidelines to all stakeholders.

(iii) Evolving a microfinance sub-sector and institutional policies aimed at providing regulatory harmony, promoting healthy competition and mainstreaming micro financing with formal intermediation.

(iv) Adopting an appropriate regulatory and supervisory framework.

(v) Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines.

(vi) Promoting linkage programmes between universal/development banks, specialized finance institutions and the microfinance banks.

(vii) Continuously advocating market-determined interest rates for government-owned institutions and promote the channeling of government microfinance funds through MFBs; and

(viii) Implementing appropriate training programmes for regulators, promoters and practitioners in the sub-sector, in collaboration with stakeholders.

2.2 THEORETICAL FRAMEWORK OF THE STUDY

There many theories of banking which include among others; banking management theory, micro economic theory, banking industry theory and financial modernization theory. This work is built on financial modernization theory.

The theory is of the view that financial innovation has greatly changed the business of banking. Instead of just accepting deposits and making loans the old-fashioned way, banks nowadays are increasingly active in lending without putting loans on their balance sheets, through either securitization of their asset portfolio or outright loan sales. Banks also are shifting from interest-based revenues towards fee-based activities, including lines of credit and many types of credit guarantees. The 1999 Gramm-Leach Bliley financial modernization Act further legalizes the integration among commercial banks, securities firms and insurance companies under the financial holding company organizational structure, allowing banks to diversify into other nonbank activities. So far as of 12/7/01, 591 financial organizations have elected to become financial holding companies, though only a few firms are active in the full financial services especially on rural dwellers.

2.3 EMPIRICAL FRAMEWORK OF THE STUDY

Okpara (2012) conducted a study on “the relationship between establishments of microfinance banks and development of rural areas in Nigeria”. The broad objective of the study is to examine the relationship between establishments of microfinance banks and development of rural areas in Nigeria. Data were generated by means of two sets of questionnaires administered to some selected microfinance banks in the South-east, Nigeria. The study generated responses from five microfinance banks. The responses from the survey were statistically analysed using Chi-Square method. The result of the study indicates that there is strong relationship between establishments of microfinance banks and development of rural areas in Nigeria. Therefore, the study recommends that microfinance banks should be established in rural areas to facilitate rural development in Nigeria.

Oleka (2011) researched on “the role of microfinance banks in the development of rural areas in Nigeria. The study aims to examine the role of microfinance banks on the development of rural areas in Nigeria. Data were generated by means of questionnaires administered to some selected microfinance banks in the South-south region of Nigeria. The study generated responses from three selected microfinance banks in the region. The responses from the survey were statistically analysed using Pearson Product Moment Correlation. The findings of the study indicate that microfinance banks play significant roles in the development of rural areas.

Akpan (2009) carried out a study on “the rate of repayment of loans borrowed from the microfinance banks in Nigeria. The aim of the study is to determine the extent rural dwellers repay their loans from microfinance banks in Nigeria. Data were generated by means of two sets of questionnaires administered to some selected microfinance banks in the South-east, Nigeria. The study generated responses from six microfinance banks. The responses from the survey were statistically analysed using Chi-Square method. The result of the study indicates that the rate rural dwellers repay their loans from microfinance banks in Nigeria are low. Therefore, the study recommends that rural dwellers should endeavour to increase their rate of repayment of loans they borrowed from microfinance banks in Nigeria.

Olashoro (2008) conducted a study on "the effect of microfinance banks on the development of rural areas in Ogun State. The broad objective of the study is to examine the effect of microfinance banks on the development of rural areas in Nigeria with particular reference in Ogun State. Data for this study were obtained from questionnaires, interviews and personal observation. A total of 30 respondents drawn from the residents were sampled for the study. Descriptive statistics and Likert Rating System were used in the analyses of the study. The result of the analyses showed that microfinance banks have positive effect on the development of rural areas in Ogun State.

METHODOLOGY

RESEARCH DESIGN

The study survey method was adopted in this study.

STUDY AREA

The study area of this work is Lapo Microfinance Bank. The bank is located in Udenu Local Government Area, Enugu state. The bank is situated at 178 Old Otukpa Road, Obollo-Afor, Udenu Loc al Government Area, and Enugu state. The Microfinance Bank is a pro-poor financial institution committed to the social and economic empowerment of low-income households through provision of access to responsive financial services on a sustainable basis. The institution was established in the late 1980s as a non-governmental organization (NGO) by Godwin Ehigiamusoe in response to the effects of the implementation of the Structural Adjustment Programme (SAP) in 1986.

In 2010, Lapo Microfinance Bank obtained the approval of the Central Bank of Nigeria (CBN) to operate as a state microfinance bank and in 2012; it got an approval as a National Microfinance Bank. Over the year, Lapo Microfinance Bank has emerged as a leading institution delivering a range of financial services to over a million people in Nigeria.

SOURCES OF DATA

Data for this study were sourced from both primary and secondary sources.

PRIMARY SOURCES OF DATA

Information was obtained directly from the field in the course of the study. A close ended questionnaire was used to obtain information from the respondents. The instrument was divided into two sections. Section "A" contained questions on the social and demographic background of the respondents while section "B" succinctly addresses contextual issues of primary concern to the subject matter of this research work.

SECONDARY SOURCES OF DATA

In the event of our investigation, relevant information were sourced from related published works such as textbooks, Newspaper, journals and other unpublished materials relevant to the study.

3.5 POPULATION OF THE STUDY

The population of the study is 50 drawn from categories of workers in Lapo Microfinance Bank in Udenu Local Government Area, Enugu State.

3.6 SAMPLE SIZE DETERMINATION

Since the population was small and it is not up to 100, the entire population was used as sample size for the study.

3.7 RESEARCH INSTRUMENT

The study adopted questionnaire administration to illicit response from the respondent. A total of 50 copies of questionnaire were distributed for this study. 46 copies of the questionnaire representing 92% were returned while 4 copies representing 8% were not returned.

3.8 VALIDITY OF THE INSTRUMENT

Uzoagulu (1998) defines validity as the appropriateness of an instrument in measuring what it tends to measure. The validity of the research instrument is the extent to which it measures what it purports to measure so as to ensure it is logical and correct in approach. The researcher used content validity to validate the instrument. A total of five experts three from academics and two from the organization of the study looked into the instrument to make sure that the instrument is in line with the objectives stated in chapter one of this study.

3.9 RELIABILITY OF THE INSTRUMENT

Reliability refers to the consistency of scores obtained by the same individuals when re-examined with the same test on different set of equivalent items or under other variable examining conditions (Anastasi, 1969 as cited by Ikeagwu, 1998). It is the accuracy of data by the degree of stability, repeatability and precision.

The researcher employed the test-retest method so as to obtain the measuring instrument. To do this, the researcher ensured that the same questionnaire items were administered to a selected group of workers of the organization of study on one occasion and after ten days, administered the same questionnaire items to the same group in order to ascertain the extent to which there is correlation between the two sets of scores obtained.

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Vol. 7, Issue 11, November 2017, Impact Factor: 5.601 ISSN: (2231-4288)
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3.10 METHOD OF DATA ANALYSIS

Basically, in statistics, the type of data collected determines the statistical tool to be used in the presentation and subsequent analysis. For this study, the data collected were in frequency tables. The responses from the respondents were expressed in percentages in relation to the number of respondents.

DATA ANALYSIS AND RESULTS

4.1 RESPONSE RATE

Earlier in this study, we had determined the same size to be 50. A total of 50 copies of questionnaire were distributed for this study. 46 copies of the questionnaire representing 92% were returned while 4 copies representing 8% were not returned.

Table 4.1: Questionnaire Response Rate

Features of Questionnaire	Number	Percentage (%)
Questionnaire administered	50	100
Questionnaire collected	46	92
Questionnaire rejected	4	8
Questionnaire used for analysis	46	92

Source: Field Survey, 2016

Table 4.2: Classification of respondents based on gender

Gender	Number of Respondents	Percentage (%)
Male	32	70
Female	14	30
Total	46	100

Source: Field Survey, 2016

The above table shows that 70% of the respondents are male while 30% of them are females.

Table 4.3: Classification of respondents based on status

Age	Number of Respondents	Percentage (%)
Single	16	35
Married	30	65
Total	46	100

Source: Field Survey, 2016

The above table shows that 65% of the respondents are married while 35% of them are single.

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Vol. 7, Issue 11, November 2017, Impact Factor: 5.601 ISSN: (2231-4288)
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Table 4.4: Classification of respondents based on age

Age	Number of Respondents	Percentage (%)
20-30	9	20
31-40	21	46
41-50	10	22
51and above	6	12
Total	46	100

Source: Field Survey, 2016

The above table shows that 20% of the respondents are between the ages of 20-30 years, 46 % of them are between the ages of 31-40 years, 22% of them are between the ages of 41-50 while 12% of them are from 51 years and above.

Table 4.5: Classification of respondents based on academic

Academic	Number of Respondents	Percentage (%)
FSLC	8	17
SSCE/GCE/NECO	20	44
NCE	8	17
HND/B.Sc	10	22
Total	46	100

Source: Field Survey, 2016

The above table shows that 17% of the respondents are FSLC holders, 44 of them are SSCE/GCE/NECO holders, 17% of them are NCE while 22% of them are HND/B.Sc holders.

Table 4.6: Classification of respondents based on staff

Category of Staff	Number of Respondents	Percentage (%)
Non-Management Staff	38	83
Management Staff	8	17
Total	46	100

Source: Field Survey, 2016

From table 4.6 on category of staff, it is observed that 38 representing 83% of all the respondents of the study are non-management staff while 8 representing 17% of the respondents are management staff.

Table 4.7: Classification of respondents based on the number of years in the organization

Number of years worked	Number of Respondents	Percentage (%)
1-10	5	11
11-21	24	52
22-32	32	15
33 and above	10	22

Source: Field Survey, 2016

From table 4.6 on the number of years in the organization, 5 representing 11% of the respondents of the study have worked between 1-10 years, 24(52%) worked between 11-21 years, 22-32 worked for 32(15%) years while 10 (22%) worked for 33 years and above.

Table 4.8 Microfinance institutions play significant role in the development of the rural areas in Nigeria

Options	Number of Respondents	Percentage (%)
Strongly agree	19	41
Agree	13	28
Disagree	8	17
Strongly disagree	6	14
Total	46	100

Source: Field Survey, 2016

The above table shows that 19(41%) of the respondents strongly agree that microfinance institutions play significant roles in the development of the rural areas in Nigeria, 13(28%) agree, 8(17%) disagree while 6(14%) strongly disagree. Therefore, it can be concluded that microfinance institutions play significant role in the development of rural area in Nigeria.

Table 4.9: Microfinance institutions have positive effect on rural development in Nigeria.

Options	Number of Respondents	Percentage (%)
Strongly agree	25	54
Agree	10	22
Disagree	6	13
Strongly disagree	5	11
Total	46	100

Source: Field Survey, 2016

The above table shows that 25(54%) of the respondents strongly agree that microfinance institutions has positive effect on the development of the rural areas in Nigeria, 10(22%) agree, 6(13%) disagree while 5(11%) strongly disagree. Therefore, it can be concluded that microfinance institutions have positive effect on the development of the rural areas in Nigeria.

Table 4.10: Microfinance institutions contribute positively to rural development in Nigeria.

Options	Number of Respondents	Percentage (%)
Strongly agree	20	43
Agree	15	33
Disagree	7	15
Strongly disagree	4	9
Total	46	100

Source: Field Survey, 2016

The above table shows that 20(43%) of the respondents strongly agree that microfinance institutions contribute positively to rural development in Nigeria, 15(33%) agree, 7(15%) disagree while 4(9%) strongly disagree. Therefore, it can be concluded that microfinance institutions contribute positively to rural development in Nigeria.

Table 4.11: The rate at which rural dwellers repay their loans from microfinance institutions is high

Options	Number of Respondents	Percentage (%)
Strongly agree	8	17
Agree	10	22
Disagree	12	26
Strongly disagree	16	35
Total	46	100

Source: Field Survey, 2016

The above table shows that 8(17%) of the respondents strongly agree that the rate at which rural dwellers repay their loans from microfinance is high, 10(22%) agree high, 12(26%) disagree while 16(35%) strongly disagree. Therefore, it can be concluded that that the rate at which rural dwellers repay their loans from microfinance is low.

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4.2 TEST OF HYPOTHESES

The hypotheses will be tested using the chi-square formula stated below:

$$x^2 = \frac{\sum (0-\sum)^2}{\sum}$$

Where:

x^2 = calculated chi-square

0 = observed frequency

E = expected frequency

∑ = summation

The expected frequency (E) is calculated by adding all the observed frequency (0) and dividing by the number of observations.

DECISION RULE: If the calculated chi-square value (X^2) is greater than or equal to the table value at 0.05 level of significance, the alternate hypothesis (H_1) is accepted, but if the calculated chi-square value is less than the table value, the null hypothesis (H_0) is accepted.

TEST OF HYPOTHESIS ONE

H_0: Microfinance institutions do not play significant role in the development of the rural areas.

Data from table 4.8 was used to test the hypothesis

Variable	O	E	0-E	$(O-E)^2$	$\frac{(0-E)^2}{E}$
Strongly Agree	19	11.5	7.5	56.25	4.89
Agree	13	11.5	1.5	2.25	0.20
Disagree	8	11.5	-3.5	12.25	1.07
Strong disagree	6	11.5	-5.5	30.25	2.63
Total	46	46			8.79

The calculated chi-square value = 8.79

Df= (C — 1) (R— 1) = (2— 1) (4— 1) = 3

Table value at 0.05 of significance and 3 degree of freedom (Df = 7.3777

Decision: Since the calculated chi-square (X_2) value (8.79) is greater than table value (7.3777), we reject the null hypothesis (Ho) and accept the alternate hypothesis (H_1). Therefore, Microfinance institutions play significant roles in the development of the rural areas.

Journal on Banking Financial Services & Insurance Research
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TEST OF HYPOTHESIS TWO

H_0: The rate at which rural dwellers repay their loans from microfinance institutions is low.

Data from table 4.11 was used to test the hypothesis

Variable	O	E	0-E	$(O-E)^2$	$\frac{(0-E)^2}{E}$
Strongly Agree	8	11.5	-3.50	12.25	1.07
Agree	10	11.5	1.5	2.25	0.20
Disagree	12	11.5	0.5	0.25	0.02
Strongly Disagree	16	11.5	4.5	20.25	1.76
Total	46	46			3.05

The calculated chi-square value 3.05

Df= (C 1) (R— 1) = (2—1) (4—1) = 3

Table value at 0.05 of significance and 3 degree of freedom (D 7.3777

DECISION

Since the calculated chi-square (X_2) value (3.05) is less than table value

(7.3777), we accept the null hypothesis (Ho) and reject the alternate hypothesis

(H_1). Therefore, the rate at which rural dwellers repay their loans from microfinance institutions is low

DISCUSSION OF RESULTS

Based on the data collected, presented and analysed, the following among other things were observed. Findings of the study showed that there is strong relationship between establishments of microfinance banks and development of rural areas in Nigeria. This finding was in line with Okpara (2012) who conducted a study on "the relationship between establishments of microfinance banks and development of rural areas in South-east, Nigeria". After the analysis of the data collected for the study and hypotheses tested, the result of the study indicates that there is strong relationship between establishments of microfinance banks and development of rural areas in Nigeria.

The findings of the study also indicate that microfinance banks play significant roles in the development of rural areas. This finding goes to corroborate the findings of Oleka (2011) who researched on "the role of microfinance banks in the development of rural areas in Nigeria. After the analysis of the data collected for the study and hypotheses tested, the findings of the study indicate that microfinance banks play significant roles in the development of rural areas.

The result of the study indicates that the rate rural dwellers repay their loans from microfinance banks in Nigeria are low. This finding is in line with the view of Akpan (2009) who carried out a study on "the rate of repayment of loans borrowed from the microfinance banks in South-south, Nigeria. After the analysis of the data collected for the study and hypotheses tested, the result of the study indicates that the rate rural dwellers repay their loans from microfinance banks in Nigeria are low.

The result of the analyses showed that microfinance banks have positive effect on the development of rural areas in Ogun State. The findings support the study carried out by Olashoro (2008) who conducted a study on "the effect of microfinance banks on the development of rural areas in Ogun State, Nigeria. After the analysis of the data collected for the study and hypotheses tested, the result of the analyses showed that microfinance banks have positive effect on the development of rural areas in Ogun State, Nigeria.

CONCLUSION

It can be concluded that microfinance institutions have strong relationship with the development of rural areas in Nigeria. Microfinance institutions to a very large extent contributed to rural development in Nigeria. The establishment of the institutions has positive effect on rural development and it has made it easy for the rural dwellers to have access to credit facilities.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations were made;

- Rural dwellers should endeavour to increase the rate at which they repay the loan they borrowed from microfinance banks.
- Bank management should do more work on the areas of mobilization and sensitization of these rural dwellers on the gains of obtaining credit facilities from microfinance banks.
- As a matter of urgency, microfinance banks should incorporate into their loans and advances department the services of monitoring agents who will ensure that bank loans are utilized on projects they are granted for.
- Government should device measures to nip in the bud the activities of selfish individuals who may want to convert microfinance banks into their family financial institution.
- More microfinance banks should be established in remote rural areas to facilitate the development of such areas.
- Microfinance banks should reduce interest rate in such a way that it will be affordable for poor rural dwellers to borrow money from the bank.
- The Central Bank of Nigeria shall supervise and regulate the activities of microfinance banks.

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Vol. 7, Issue 11, November 2017, Impact Factor: 5.601 ISSN: (2231-4288)
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- The Nigeria Deposit Insurance Corporation shall insure the deposits of microfinance banks and the provisions of this policy shall be subject to review from time to time at the full discretion of the regulatory authorities.

SUGGESTION FOR FURTHER STUDIES

Studies should be carried out on the extent of government support and financing of microfinance institutions and the extent microfinance institutions have focused attention to the development of rural areas in Nigeria.

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