

# PDF - THE IMPACT OF MICRO FINANCIAL INSTITUTIONS ON THE GROWTH ON SMALL AND MEDIUM SCALE BUSINESS IN LAGOS NIGERIA - researchcub.infoCHAPTER ONE

## 1.1 Background to the Study

Microfinance constitute the facilitation of financial services to meet the needs of low income individuals such as micro-entrepreneurs, through the provision of small loans (microloans), small savings deposits (micro-savings), micro-insurance and enhancing simple payments services required by micro-entrepreneurs and economically active poor people who cannot gain access to financial services provided by the formal banking sector.(USAID, 2000). The loans provided are small in amount and directed for entrepreneurial ventures. The loans are collateral free and grouped based and mostly direct to entrepreneur, generally with low interest charges or interest free .This is because of their ability to handle meager amount of money profitably (UNITUS, 2000)

The National Council of Industries define SMEs as those business enterprises having a total cost excluding land not more than two million naira (N2, 000,000) only. SMEs are also defined by the federal ministry of commerce and industry as those business enterprises with paid employees of up to 50 persons and with a total investment worth up to 750000 excluding cost of land. SMEs play significant roles towards the economic development of the nation. This roles include technological and industrial development, Employment generation, Technology acquisition, capacity building, promoting growth, increased standard of living, industrial spread, serving of large scale industries, export promotion, rural development, Innovation. The research seek to investigate the impact of micro financing on the growth of small and medium scale businesses in lagos Nigeria.

## 1.2 Statement of the Problem

Several years after the policy on micro financing, a greater number of the poor and vulnerable poor segment are yet to fully maximize the benefit of financial services of obtaining micro credit facility for entrepreneurial businesses. The National Council of Industries define SMEs as those business enterprises having a total cost excluding land not more than two million naira (N2, 000,000) only. SMEs are also defined by the federal ministry of commerce and industry as those business enterprises with paid employees of up to 50 persons and with a total investment worth up to 750000 excluding cost of land. SMEs play significant roles towards the economic development of the nation. This roles include technological and industrial development, Employment generation, Technology acquisition, capacity building, promoting growth, increased standard of living, industrial spread, serving of large scale industries, export promotion, rural development, Innovation. It is pertinent to note that while the microfinance bank are willing to disburse funds to this segment they are however constraint by limited financial resources to meet the large number of client wanting to obtain micro credit. Savings deposit is low due to the nature of the activities carried out by the segment. Consequently there is the need to re-appraise the activities of micro financing on the performance of small and medium scale enterprise with a view to determing the challenges Confronted by micro finance banks towards the effective delivery of their constitutional mandate to provide financial service to the economically active but poor segment of the society. Therefore the problem confronting the research is to determine the impacts of micro financing on the growth of small and medium scale businesses in Lagos Nigeria

## 1.3 Objectives of the Study

To determine the impact of micro financial institutions on the growth of small and medium scale business in Lagos Nigeria

### 1.3 Research Questions

What is the nature of micro financial institutions and small and medium scale business in Lagos Nigeria?

What is the level of impact of micro financial institutions on the growth of small and medium scale business in Lagos Nigeria?

### 1.4 Significance of the Study

The study proffers an appraisal of the impact of micro financial institutions on the growth on small and medium scale business in Lagos Nigeria

### 1.5 Research Hypothesis

Ho The level of impact of micro financial institutions on the growth of small and medium scale business in Lagos Nigeria is low

Hi The level of impact of micro financial institutions on the growth of small and medium scale business in Lagos Nigeria is high

### 1.6 Scope of the Study

The study focuses on the appraisal of the level of impact of micro financial institutions on the growth of small and medium scale business in Lagos Nigeria

It shall also serve as vital source of information to policy makers

### 1.7 Limitations of the Study

The study was confronted by some constraint including logistics and geographical factors.

### 1.8 Definition of Terms

#### **SME**

The National Council of Industries define SMEs as those business enterprises having a total cost excluding land not more than two million naira (N2, 000,000) only. SMEs are also defined by the federal ministry of commerce and industry as those business enterprises with paid employees of up to 50 persons and with a total investment worth up to 750000 excluding cost of land

#### **MICROFINANCE BANK DEFINED**

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