Chapter 4

Microfinance Banks and their Impact on Small and Medium Scale Industries for Economic Growth

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ABSTRACT

The contribution of Small and Medium Scale Enterprises (SMEs) has been recognized as the main sustenance of an economy because of their capacity in enhancing economic growth and development. SMEs have been lacking access to relatively cheap and effective source of finance, which has been identified as the major factor hindering their contribution to economic growth; however, the advent of microfinance banks has brought a great relief to the sector through their sound, effective, and efficient micro-financing credit facilities. This chapter is survey-based, using primary source to gather data through questionnaire, while the chi-square was used to test the formulated hypotheses. The research found that MFBs have a positive impact on SMEs, which led to economic growth through business expansion and employment creation. The research recommends that there is need to sustain the developmental polices introduced by the government such as the SURE-P programme. In addition, government and multinational companies need to provide basic infrastructure and other alternatives for accessing funds by the SMEs to ensure sustainability of start-up businesses.

INTRODUCTION

The issue of sustainable development in the Third World countries like Nigeria has been a growing concern to both the government and the private sector. The huge amounts of money the government has been investing on this platform over the years have not yielded any meaningful result. Poverty is a characteristic of Nigerian households or individuals. It has been realised in recent years that there are limits to which government can singly promote development. Most of the traditional functions being carried out by the government in most countries ranging from the

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provision of economic development are becoming increasingly difficult to accomplish. Nigeria as a nation has her own peculiar developmental challenges because of maladministration, corruption, infrastructural decay, insecurity of lives and properties, unstable macroeconomic regime and unpredictable fiscal policies by successive administrations (Fasua, 2006).

Thus, both the public and the private sectors of the economy and every segment of the society need to be involved in the industrial development process of the country. It is on this basis that government begins to engage in privatization policy with the view of allowing the private sector to participate in the economic development of the nation. Consequently, various governments worldwide begin to find pathways to involve the private sector in the developmental process of their country’s economy. One of the responses to the challenges of development in the developing countries is the encouragement of entrepreneurial development scheme. Nigeria had even taken more robust step by including entrepreneurial studies in the academic curriculum of her educational system. The belief of such policy makers is that such decision will inculcate entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through small scale enterprises (Fasua, 2006). Entrepreneurship is *sine qua non* to national development, poverty eradication and employment generation. It is the bedrock of any nation’s industrialization.

Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organised private sector groups. Year in year out, the governments at federal, state and even local levels through budgetary allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the SME sub-sector of the economy and hence made policies for energizing the same. There have also been fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutions all geared towards making the SME sub-sector vibrant. Just as it has been a great concern to all and sundry to promote the welfare of SMEs, it has also been a great cause of concern to all, the fact that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMEs.

It has been shown that there is a high correlation between the degree of poverty hunger, unemployment, economic well being (standard of living) of the citizens of countries and the degree of vibrancy of the respective country’s SMEs. If Nigeria were to achieve an appreciable success towards attaining the Millennium Development Goals for 2015, one of the sure ways would be to vigorously pursue the development of its SMEs. The decreasing level of Nigeria’s per capita income, which declined from $870 in 1981 to $260 in 1998, and $205 in 2004 as well as a low level of agricultural, industrial and infrastructural development (irrigation, road and railway networks) all represent disturbing indices, which also contribute to the dismal performance and contribution of our SMEs (World Development Report, 1997-2005).

**Statement of the Problem**

The small scale industries play a vital role to any nation’s economic well being, because of this, there a need for sound, effective and efficient microfinance bank. The economic growth and development of a nation is a function of a well developed small scale industries and its microfinance bank industry. Thus, economic activity as it is known could not be smooth sailing without the continuing flow of money and credit to small scale industries through the microfinance banks and other agencies created by the government. The increasing tendency for greater challenge taking has resulted into failure of a large number of the small scale industries in Nigeria. Therefore,
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