

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Microfinance has increasingly been acknowledged as a transformative tool for economic development, particularly by empowering entrepreneurs to create jobs and commercialize innovations. Nations with strong entrepreneurial ecosystems, such as the U.S., Netherlands, and Japan, have demonstrated how supportive policies can harness entrepreneurship for poverty reduction and social inclusion. In developing nations, where approximately 1.4 billion people live on less than a dollar per day, traditional poverty alleviation efforts have often failed to reach the poorest. In this context, microfinance offers essential financial services—such as collateral-free loans, savings, and insurance—that enable low-income individuals to start and sustain small-scale businesses. These activities boost household income, build assets, and promote economic resilience.

In Nigeria, microfinance has evolved from earlier initiatives like People's Banks and Community Banking, taking shape as formal microfinance banks (MFBs) since 2005. These institutions serve economically active but underserved populations, offering services including savings, credit, and fund transfers. The sector has seen rapid growth, with a 594.9% increase in intermediated credit between 2005 and 2016, coinciding with a 14.4% improvement in the Human Development Index (HDI). While this suggests a positive trajectory, the direct impact of microfinance on HDI and broader development outcomes requires more empirical validation. Globally, microfinance institutions have shown resilience during financial crises, outperforming traditional banks during periods such as the East Asian and Latin American financial downturns. This resilience, combined with local economic support, highlights microfinance as a potential shock absorber in fragile economies.

In Nigeria, microfinance has played a strategic role in tackling unemployment, youth restiveness, and poverty by promoting self-employment through support for traders, artisans, and farmers. However, the sector faces notable challenges, including high default rates, limited funding, operational inefficiencies, and inadequate human capital. Macroeconomic instabilities such as inflation and exchange rate volatility further constrain its effectiveness. Despite these hurdles, microfinance remains a critical channel for achieving inclusive growth and financial inclusion. As such, ongoing research, including this study, aims to assess how microfinance institutions contribute to economic development in Nigeria, with a focus on poverty alleviation, job creation, and the identification of sector-specific challenges that must be addressed to enhance impact.

## **1.2 Statement of Research Problem**

Despite these efforts, Nigeria continues to grapple with widespread poverty, unemployment, and financial exclusion, especially among rural and low-income populations. Traditional banks often exclude these groups due to high collateral demands and steep interest rates. In response, microfinance has emerged as a potential tool for inclusive development by offering financial services tailored to the needs of the underserved. However, while the sector has grown significantly in terms of credit distribution, there is still a lack of concrete evidence showing a direct correlation between microfinance expansion and improvements in key development metrics such as poverty reduction, job creation, and human development.

Academic interest in microfinance has increased, but methodological challenges have hindered robust impact evaluations. Issues such as self-selection bias, non-random placement of MFIs, and data limitations complicate efforts to assess their real impact. While anecdotal evidence suggests some positive outcomes, empirical findings remain mixed and inconclusive. This underscores the need for targeted case studies, such as examining the role of Nigeria Police

Microfinance Bank, to better understand how microfinance institutions contribute to economic development and whether they can effectively bridge the financial access gap in Nigeria.

### **1.3 Research Questions**

1. To what extent does microfinance bank loans impact on economic development in Nigeria police microfinance bank?
2. What is the relationship between microfinance bank investment and economic development in Nigeria police microfinance bank?
3. What is the relationship between microfinance deposit and economic development in Nigeria police microfinance bank?

### **1.4 Research Hypothesis**

The following are the null hypotheses that were used for the study:

Ho1: There is no significant relationship between micro finance bank loans and economic development in Nigeria police microfinance bank

Ho2: There is no significant relationship between micro finance bank investment and economic development in Nigeria police microfinance bank

Ho3: Microfinance deposit has no significant impact on economic development in Nigeria police microfinance bank

### **1.5 Significance of the Study**

The results of this study will be of immense benefit to various stakeholders in the microfinance banking sector of the Nigerian economy, Secondly, it will also assist microfinance banks managers in the banking sector in managing their investment more effectively by adopting appropriate policies and strategies that will take cognizance of risks peculiar to the microfinance bank in the Nigerian banking sector. Thirdly, it will also enhance the knowledge of researchers and students in banking and finance, management sciences or any other relevant departments on the impact of microfinance institutions on economic

development and thus stimulate their interest in this area. Such interest could lead to further researches which may seek to verify the results of this study or to replicate same using different methodologies or different populations.

## **1.6 Scope of the Study**

The study will be conducted at the Nigeria Police Microfinance Bank in Ilorin, Kwara State, and will focus on examining the impact of microfinance institutions on economic development. Specifically, it will explore the relationship between microfinance bank loans, investments, and deposits, and their contribution to economic development.

While acknowledging that various factors influence economic development, this research narrows its focus to microfinance as the primary factor. The study will use staff members of the Nigeria Police Microfinance Bank as its sample population.

The scope of the findings is limited by the respondents' literacy levels in understanding and answering the research questions, as well as the availability of relevant online information.

## **1.7 Limitation of the Study**

The limitations which include unavailability and inaccessibility of relevant data and material necessary for carrying out this study. Another is the unwillingness on the part of the respondents to give adequate and correct information necessary to carry out the work.

## **1.8 Definition of Terms**

**Microfinance institution:** An organization that provides financial services to low income clients including the self-employed

**Economic Development:** Economic development is the process of improving the economic well-being and quality of life of a community or nation through job creation, income growth, and the expansion of economic opportunities.

**Microfinance deposit:** refers to small savings or deposits made by individuals, often with limited financial resources, into accounts provided by microfinance institutions (MFIs).

**Microfinance bank investment:** refers to the allocation of funds or resources by a microfinance bank to generate financial returns while supporting economic activities with goal of achieving both financial sustainability and social impact

**Microfinance bank loans:** are small-scale loans provided by microfinance banks to individuals, small businesses, or low-income groups who may not qualify for traditional bank loans due to lack of collateral or credit history.

## **1.9 Plan of the Study**

This project aims to examine the role of microfinance institutions (MFIs) in promoting economic development, focusing on their impact on poverty alleviation, employment generation, and inclusive growth in Nigeria. To achieve this, the study will follow a structured plan comprising the following steps:

### **1. Introduction and Background Study:**

- Develop a comprehensive understanding of microfinance and its theoretical link to economic development.
- Review global practices and experiences with microfinance, with a focus on developing countries, particularly Nigeria.
- Outline the study's objectives, significance, and scope.

### **2. Literature Review**

- Conduct a detailed review of existing academic and policy-oriented literature on microfinance and economic development.

- Explore the historical evolution of microfinance, its operational models, and its integration into the financial system.
- Highlight empirical findings from previous studies to identify gaps in knowledge and areas for further exploration.

### 3. **Research Design and Methodology**

- **Research Approach:** Adopt a mixed-methods approach, combining qualitative and quantitative data collection and analysis to ensure comprehensive insights.

- **Data Sources:**

Primary Data: Conduct surveys and interviews with microfinance beneficiaries, staff of MFIs, and key stakeholders.

Secondary Data: Analyze reports from institutions such as the Central Bank of Nigeria (CBN), World Bank, United Nations Development Programme (UNDP), and other relevant organizations.

- **Sampling:** Utilize a random sampling method to select participants from Nigeria police microfinance bank to ensure diverse perspectives.
- **Analytical Tools:** Employ statistical tools such as regression analysis, trend analysis, and thematic analysis for qualitative data.

### 4. **Data presentation and Analysis**

- Conduct field visits to the selected MFI to collect firsthand data on their operations and impact.
- Administer structured questionnaires and conduct interviews to gather insights
- Identify key trends, patterns, and relationships between microfinance activities and socio-economic indicators such as employment rates, income levels, and the Human Development

- Analyze the collected data to evaluate the role of microfinance in economic development.
- Compare findings with global practices and benchmark

## **5. Summary, Conclusion and Recommendation**

- Summarize the key findings and contributions of the study.
- Propose actionable recommendations for enhancing the impact of microfinance on economic development.
- Highlight areas for future research to deepen understanding of microfinance's role in economic development.