CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The impact of microfinance in the economic growth and development of a state cannot be overemphasized. The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "Ajo" in Nigeria, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (Archives 2006). Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions CGAP (2006). Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions (e.g. commercial banks). It is about extending the frontiers of financial service provision. The provision of About: Department of Accounting and Finance, Faculty of Business and Social Sciences, University of Ilorin, Ilorin, Nigeria. Such financial service requires innovative delivery channels and methodologies. Jolaoso (2018) indicated that there are ample evidences that policies designed to foster economic growth significantly reduce poverty but that policies aimed significantly at alleviating poverty are important. For example, program that provide credit and build human capital try to eliminate the causes of poverty; it is therefore relative to the establishment of microfinance banks a strategy for poverty alleviation in Kwara state.

According to Muktar (2009) credit has been recognized as an essential tool for promoting small and medium enterprises (SMEs). Over the years, several traditional microfinance institutions, such as self help groups, esusu, and rotating savings and credit associations (ROSCA) have been set up to provide credit to both the rural and urban dweller in Kwara state. When the civilian administration came into office on 29th of May 1999, it paid attention to poverty reduction. This was based on the fact that robust economic growth cannot be achieved without putting in place well focused program to reduce poverty through empowering the people by increasing their access to factor of production, especially credit.

In recent decades, the integration of Information Technology (IT) into the financial services sector has fundamentally transformed the way banks and financial institutions operate. Globally, the banking industry has leveraged IT to improve operational efficiency, reduce transaction costs, streamline internal processes, and deliver more personalized and convenient services to customers. This transformation has not been limited to commercial banks alone; microfinance banks (MFBs) — which traditionally serve the low-income and financially underserved populations — are also increasingly embracing IT solutions to remain relevant and competitive.

Information Technology tools such as mobile banking, internet banking, automated teller machines (ATMs), core banking applications, and Management Information Systems (MIS) have become critical in the delivery of financial services. According to Ayo and Ukpere (2010), the adoption of IT in banking enables faster processing of transactions, enhances data accuracy, improves customer interaction, and supports better decision-making through real-time information access. These benefits are particularly crucial for microfinance institutions, which often operate under limited financial and human resources and must efficiently manage high volumes of small-value transactions.

In Nigeria, the financial sector has been undergoing rapid digitization. However, many microfinance banks are still in the early stages of IT adoption, particularly in less urbanized states like Kwara. The challenges faced by these institutions range from high cost of IT infrastructure, lack of technical expertise, poor digital literacy among customers, to cyber security concerns. Despite these challenges, some progressive MFBs have taken steps to integrate IT into their operations, with varying levels of success.

Balogun Fulani Microfinance Bank Ltd, located in Kwara State, serves as a compelling case study for examining the impact of IT on financial performance in the microfinance sub-sector. As one of the region's established MFBs, the bank has begun implementing IT solutions in areas such as electronic payment processing, customer record management, and online transaction services. These efforts aim to improve service delivery, broaden financial outreach, reduce overhead costs, and boost revenue generation.

However, the extent to which IT adoption has contributed to the bank's financial performance remains underexplored. There is limited empirical evidence detailing how technological innovations have affected key financial metrics such as revenue growth, cost efficiency, loan recovery rates, and customer satisfaction in microfinance banks, especially in the context of Kwara State. This study seeks to fill this gap by investigating the role IT plays in shaping the financial outcomes of Balogun Fulani Microfinance Bank.

The growing importance of IT as a strategic resource for microfinance banks necessitates a focused inquiry into its measurable contributions. According to Oladejo and Akinjare (2014), IT is no longer a mere operational support tool but a critical enabler of business transformation, especially in emerging markets. By aligning IT investments with business goals, microfinance banks can enhance their service capabilities, maintain regulatory compliance, and improve stakeholder confidence.

In addition, customer expectations are evolving rapidly. Modern banking clients demand real-time access to financial services, minimal transaction errors, and secure platforms. Microfinance banks that fail to meet these expectations risk losing relevance in an increasingly digital financial ecosystem. Therefore, understanding the relationship between IT usage and financial performance is key for decision-makers in the sector, especially when allocating limited resources.

This study, therefore, aims to assess how Information Technology has been utilized in Balogun Fulani Microfinance Bank Ltd, the depth of its integration into core operations, and its overall impact on financial performance indicators such as profitability, operational costs, and customer satisfaction. The findings are expected to offer insights not only for the case study bank but also for other microfinance institutions seeking to improve their performance through technology adoption.

1.2 Statement of the Problem

Despite the growing awareness of the role Information Technology (IT) plays in transforming financial institutions globally, many microfinance banks in Nigeria, especially at the state level, still face critical challenges in adopting and effectively utilizing IT to enhance financial performance. While commercial banks have leveraged technology to optimize operations and reach wider markets, microfinance institutions — including Balogun Fulani

Microfinance Bank Ltd — often lag behind due to limited resources, infrastructural deficiencies, and inadequate strategic planning.

Microfinance banks are uniquely positioned to provide financial services to the unbanked and underbanked populations. However, achieving financial sustainability and delivering quality services remain a struggle, particularly in the absence of efficient technological systems. There is a growing expectation among customers for seamless, real-time, and secure banking experiences, but many microfinance banks still rely heavily on manual processes, which are prone to delays, errors, and inefficiencies. This undermines not only operational performance but also customer trust and retention.

Balogun Fulani Microfinance Bank Ltd, like many of its counterparts in Kwara State, has introduced some IT-based services, such as digital account management and mobile banking platforms. However, the extent to which these innovations have improved the bank's financial performance remains unclear. There is a lack of empirical evidence detailing whether IT usage has translated into measurable financial gains — such as increased revenue, reduced operational costs, improved loan recovery rates, or enhanced customer satisfaction.

In addition, the bank may face persistent challenges such as poor system integration, lack of staff training on new technologies, unreliable internet infrastructure, and resistance to change — all of which can limit the effectiveness of IT deployment. The absence of structured IT frameworks and performance metrics further complicates efforts to evaluate the success or shortcomings of digital transformation initiatives.

Consequently, it becomes imperative to critically investigate how Information Technology impacts financial performance in the context of a grassroots microfinance institution like Balogun Fulani Microfinance Bank. Without a thorough understanding of this relationship, the bank may continue to invest in IT solutions that yield little return or fail to address core performance issues. Furthermore, policymakers and stakeholders within the microfinance sector lack the necessary insights to formulate effective strategies for technology-driven growth and sustainability.

This study, therefore, seeks to bridge this knowledge gap by exploring how IT adoption influences key financial performance indicators in Balogun Fulani Microfinance Bank Ltd. The research will provide evidence-based recommendations for optimizing IT usage to enhance operational efficiency, profitability, and overall competitiveness.

1.3 Research Questions

1. What is the impact of information technology on the financial performance of Balogun Fulani Microfinance Bank Ltd?
2. What is the relationship between IT-based customer service delivery and customer satisfaction at Balogun Fulani Microfinance Bank?
3. How does the use of management information systems influence operational efficiency in Balogun Fulani Microfinance Bank?
4. To what extent does mobile banking affect customer outreach and deposit mobilization at Balogun Fulani Microfinance Bank?
5. How do internet and SMS banking services influence revenue generation in Balogun Fulani Microfinance Bank?
6. What is the correlation between staff IT literacy and the financial performance of Balogun Fulani Microfinance Bank?

7. How does information technology affect the accuracy of financial reporting in Balogun Fulani Microfinance Bank?

1.3 Objectives of the Study

The primary objective of this study is to assess the impact of IT on the financial performance of Balogun Fulani Microfinance Bank Ltd.

The specific objectives are to:

1. Examine the effect of information technology on the financial performance of Balogun Fulani Microfinance Bank Ltd.
2. Investigate the relationship between IT-based customer service delivery and customer satisfaction in Balogun Fulani Microfinance Bank.
3. Evaluate the influence of management information systems on operational efficiency in the bank.
4. Assess the extent to which mobile banking contributes to customer outreach and deposit mobilization.
5. Determine the impact of internet and SMS banking on revenue generation in Balogun Fulani Microfinance Bank.
6. Explore the correlation between staff IT literacy and the financial performance of the bank.
7. Analyze the effect of information technology on the accuracy of financial reporting in the microfinance bank.

1.5 Research Hypotheses

HO0: Information technology has no significant impact on the financial performance of Balogun Fulani Microfinance Bank Ltd.

HO1: There is no significant relationship between IT-based customer service delivery and customer satisfaction at Balogun Fulani Microfinance Bank.

HO2: The use of management information systems does not significantly influence operational efficiency in Balogun Fulani Microfinance Bank.

HO3: Mobile banking has no significant effect on customer outreach and deposit mobilization.

HO4: Internet and SMS banking do not significantly improve revenue generation in Balogun Fulani Microfinance Bank.

HO5: There is no significant correlation between IT literacy of staff and financial performance in Balogun Fulani Microfinance Bank.

HO6: Information technology has no significant effect on the accuracy of financial reporting in Balogun Fulani Microfinance Bank.

1.6 Significance of the Study

The integration of Information Technology (IT) into banking operations has become a crucial determinant of performance and sustainability in the financial services industry. However, its impact is less studied within the context of microfinance banks, particularly in emerging economies like Nigeria. This study is significant for several key reasons and to a range of stakeholders.

To the Management of Balogun Fulani Microfinance Bank Ltd, This study will provide evidence-based insights into how IT adoption affects the bank's financial performance.

Understanding the specific IT tools and systems that contribute to revenue growth, cost reduction, and customer satisfaction will help management make informed decisions regarding future investments in digital infrastructure. It will also highlight areas where IT utilization may be falling short, enabling corrective actions and strategic improvements.

To Other Microfinance Banks, **t**he study serves as a reference point for other microfinance banks operating in similar economic and technological environments. Lessons drawn from the experiences of Balogun Fulani Microfinance Bank can help other institutions optimize their IT strategies, avoid common pitfalls, and adopt best practices that enhance both operational and financial performance.

Findings from this research will assist regulators such as the Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC), and other stakeholders in evaluating the effectiveness of existing policies promoting digital transformation in the microfinance sector. The study will offer empirical support for drafting or revising frameworks aimed at strengthening IT adoption, improving financial inclusion, and ensuring sectoral sustainability.

This research adds to the limited body of literature on the role of IT in microfinance institutions, especially in sub-Saharan Africa. It provides empirical evidence from a real-world case in Kwara State, enriching the field of banking, information systems, and development finance. Scholars, students, and researchers can use the findings as a foundation for further studies and comparative analysis.

By identifying how IT affects customer satisfaction, transaction speed, and service reliability, this study indirectly benefits customers of microfinance banks. Improved IT-driven service delivery enhances financial access, empowers small business owners, and fosters economic growth at the community level. An efficient microfinance system contributes to poverty alleviation and promotes inclusive development.

The findings may also be relevant to vendors and consultants offering IT solutions to the microfinance sector. Understanding the needs, gaps, and impacts of digital tools on financial outcomes can inform the design of more tailored and impactful products for microfinance institutions in Nigeria and beyond.

1.7 Scope of the Study

The study focuses on Balogun Fulani Microfinance Bank Ltd, located in Kwara State, Nigeria. It examines IT tools such as online banking, automated teller systems, mobile banking, and management information systems in relation to financial performance from 2020 to 2024.

1.8 Limitation of the Study

Despite the relevance and importance of this study, it is subject to certain limitations which may affect the generalizability and scope of its findings. his study is limited to Balogun Fulani Microfinance Bank Ltd, located in Kwara State. As such, the findings may not be fully applicable to other microfinance banks within or outside the state due to possible differences in operational structures, IT infrastructure, customer base, and regulatory environments.

Access to internal financial records and confidential IT infrastructure details may be restricted due to organizational policies on data protection and confidentiality. This may limit the depth of empirical analysis.

The time allocated for conducting this research may restrict extensive fieldwork, data collection, and broader comparative analysis across multiple microfinance institutions. The study relies on responses from staff and customers through surveys or interviews. There is the possibility of bias in their responses due to fear of disclosure, personal opinions, or limited understanding of IT systems.

Information technology encompasses a wide range of tools and platforms. This study may not cover every IT component in depth due to scope constraints, potentially omitting some relevant technological aspects that influence performance. The fast-paced nature of technological advancement means that some IT practices or systems evaluated in the study may quickly become outdated, limiting the long-term applicability of the findings.

Despite these limitations, every effort will be made to ensure the study is conducted with rigor and provides valuable insights into the relationship between IT and financial performance in microfinance banking.