IMPACT OF MICROFINANCE INSTITUTIONS ON ECONOMIC DEVELOPMENT
(A CASE OF NIGERIA POLICE MICROFINANCE BANK (NPMB))

BY

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CERTIFICATION

This project has been and approved as a meeting the requirements for the award of Higher National Diploma (HND) in Banking and Finance, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin, Kwara State.

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TABLE OF CONTENTS

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 polices 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 art 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.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

Microfinance is the provision of a wide range of financial services such as savings, loans, payment services, money transfers, and insurance to poor and low-income persons, households and their microenterprises (CBN & NDIC, 2011). The term also encompasses the provision of financial and non-financial services as well as the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (Anane, 2012). According to Ojo (2009) cited in Babarinde, et al. (2019), microfinance is an economic development approach that involves providing financial and non-financial services through institutions to low-income clients, such as micro, small and medium-scale enterprises where the market fails to provide appropriate services. Abdulmajeed, et al. (2019) define microfinance banking as the business of carrying out microfinance services without collateral security.

MFBs are important in that they provide financial services to the active poor, for their entrepreneurial activities; ensures savings mobilization, create employment opportunities, enhance participation of the poor in the socio-economic development and resource allocation, promotes of saving culture, extends credit to customers. Furthermore, microfinance enables poor people to expand their businesses, increase their revenues (Ezeudu, 2010; CBN & NDIC, 2011; Ibrahim, 2013). The guidelines for MFBs provides for three categories of MFBs, which are unit, state, and national MFBs, which are to serve a local government area, state and the nation at large respectively. Each of them are to actualize the aim of microfinance banking, most importantly, to achieve sustainable economy growth via poverty alleviation through provision of financial services to the economically active poor.

Economic growth often measured as gross domestic product, or gross national product, either in nominal or real terms, simply refers to a persistent increase in the productive capacity of country which lead to increase in goods and services. Theoretically, microfinance banks are to involve in savings mobilization, employment creation, investments and provide non-financial services targeted at the economically active poor, thereby stimulating economic growth of the country. The extent to which this postulate has empirical reality has been examined by researchers. Thus, this study reviews some empirical evidence in extant literature on the nexus between microfinance banks and economic growth which for instance, based on desk research approach, Okwoli, et al. (2013) examined MFBs and rural development in Nigeria.

Prior to the advent of the modern Microfinance Banks, there have been attempts to establish such banks to take care of microcredit and its like. This has been both formal and informal.

2.1.1 Microfinance Policy in Nigeria

In December 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of microentrepreneurs and low income households to financial services required to expand and modernize their operations in order to contribute to rapid economic growth. The rationale was that no economic development can be achieved without improving access of this segment of the economic strata to factors of production, especially financial services.

The purpose of licensing MFBs within the regulatory framework for financial intermediation in Nigeria is to increase access to financial services for underserved segments of the population. The importance of promoting and regulating MFBs came into focus in 2004/2005 at the time of the tenfold increase in minimum capital for DMBs (from NGN 2.5 billion to NGN 25 billion), introduced as of end-December 2005.

The CBN by the provisions of section 33 (1) (b) of the CBN ACT NO.7 of the 2007 and in pursuance of the provisions of sections 56-60 (a) of the Banks and other Financial Institution Act (BOFIA) No. 25 of 1991 (as amended) in conjunction with the MFBs operating template and revised regulatory and Supervisory Guidelines for Microfinance Banks (MFBs), presents a revised National Microfinance Policy Framework (April, 2011) for Nigerians that would enhance the provision of diversified microfinance services on a sustainable basis for the economically active poor and the low income households. The 2011 microfinance policy framework is a revised version of the 2005 policy framework.

Generally, the microfinance policy provides the window of opportunities for the low income earners, market women, tailors, artisans, welders, etc. to expand existing business, open new businesses and consolidate on existing businesses with access to affordable credit products. The policy also promotes the development of appropriate (safe, less costly and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

There are over eight hundred (800) Microfinance Banks across the country owned by individuals, Cooperative societies, Community Development Associations, private corporate entities, NGO-MFIs, foreign investors and among others. One major justification for the introduction of the microfinance policy by the CBN was existence of the huge size of the un-served market by the existing financial institutions. The purpose of licensing MFBs within the regulatory framework for financial intermediation in Nigeria is to increase access to financial services for underserved segments of the population. The importance of promoting and regulating MFBs came into focus in 2004/2005 at the time of the tenfold increase in minimum capital for DMBs (from NGN 2.5 billion to NGN 25 billion), introduced as of end-December 2005. However, a study conducted by Enhancing Financial Innovation and Access (EFInA) in August, 2010 revealed that 39.2 million people representing 46.3 percent of the adults in

Nigeria were excluded from financial services. Out of the 53.7 percent that had access, 36.3 percent derived their financial services from the formal financial institutions; while17.4 percent exclusively patronized the informal sector.

2.1.2 Concept of Economic Development

Economic development is a process of structural transformation with continuous technological innovation and industrial upgrading, which increase labor productivity, and accompanied improvements in infrastructure and institution, which reduce transaction costs (Lin, 2017). It is the process through which economies are transformed from ones in which most people have very limited resources and choices to ones in which they have much greater resources and choices. Economic development therefore covers almost all areas of economics, though with modifications to reflect the particular situations of developing countries. Based on a review of the literature, we define economic development as the development of capacities that expand economic actors' capabilities. These actors may be individuals, firms, or industries.

Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development. One of the indicators of economic development is Human Development Index (HDI). The extent to which a country has developed may be assessed by considering a range of narrow and broad indicators, including per capita income, life expectancy, education, and the extent of poverty. Ikechukwu (2012) opined that problems and prospects defined Microfinance as the availability of finance and financial services to the rural dwellers or those that does not have sufficient funds to trade. By implication, microfinance is in another form of poverty alleviation. Based on the work of (Robinson, 2001) income is protected, increased, and diversified when customers use microfinance banks to enable them to acquire or increase their assets. On the other hand, (Seibel, 2007) opines that microfinance banks provide services that includes banking and non-banking, formal and non-formal to institutions and individuals alike. These services are done at a small scale to mostly low-income populace.

In 2020 according to The conversation Journal (2021) using world bank thresh hold of $3.20 a day, Nigeria's poverty rate is 71%. It is also on record that 56% of Nigerians' income is spent on food alone and this contributes to the poverty index of the country. This is seen as the highest in the world when compared to that of Australia, Canada, UK and US that spends 9.8%, 9.1%, 8.2%, 6.4% respectively. Nigeria's Gross National Income per capita moved from 2173 US dollars in 2019 to 1946 US dollars in 2020 making it a 10.45% slide in per capita income. The rate of poverty in Nigeria is so astronomical that many finance experts are researching on the way out. Establishment of microfinance banks brings financial services close to the people particularly those in the rural areas. According to Ogbonna & Ejem, 2020opined that financial deepening is the increase in financial services to the people. When financial services are close to the people it improves their economic well being as they will have access to funds for their businesses. Based on the importance of microfinance banks the researcher embarked on this study in order to ascertain if microfinance bank impacts on the development of an economy or not.

2.2 Theoretical Review

2.2.1 The Neo-Classical and Endogenous Growth Theory

The neoclassical perspective is based on a basic principle in economics which suggests that economic growth requires capital investment in the form of long-term commitment. The neoclassical growth theories assume that capital investment like Foreign Direct Investment (FDI) can channel required funds to the productive sectors of a capital deficient economy which, in turn, would help to increase the economic growth rate by increasing the marginal productivity of capital.

2.2.2 The Solow Development Model

The key variable in Solow growth model is labour and productivity (output per worker). Solow opines a continuous production function linking output to the inputs of capital and labour which are sustainable. This theory determines the values of the variables, equilibrium conditions, that is, conditions that tell us when the economy is in a position of balance and when the variables we are focusing on are ―stable‖, that is, when the variables are changing in simple and predictable ways.

2.2.3 Musgrave Conception of Public Expenditure Growth

This theory was propounded by Musgrave as he found changes in the income elasticity of demand for public services in three ranges of per capita income. He observes that at the high levels of per capita income, typical of developed economies, the rate of public sector growth tends to fall as the more basic wants are being satisfied (Chude & Chude, 2013).

2.2.4 Harrod-Domar Theory of Progress

The Harrod-Domar models are based on economic growth on the experiences of advanced economists. They are primarily addressed to an advanced capitalist economy and attempt to analyze the requirements of steady growth in such an economy. Harrod-Domar assigns a key role to investment in the process of economic growth. But they lay emphasis on the dual character of investment. Firstly, it creates income and secondly, it augments the productive capacity of the economy by increasing its capital stock.

2.2.5 The Keynesian Theory

Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instrument to promote economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand.

2.3 Empirical Review

Yunus (1999) explained that microfinance entails the means of access to finance by the poor people that allow them to utilize their capacities in favour of lasting development. Ehigiamusoe (2011) also asserted that the use of microfinance does not involve only disbursement and collection of loan repayment and savings, it also refers to a set of flexible organization structures and processes through which provision of essential financial services are offered to low-income earners and small business entrepreneurs on a continuous basis. Microfinance is a general term that explains financial services designed for the low-income earners or to those who do not have access to banking services. The concept encompasses not only the extension of credit to the poor, but also the provision of other financial services (Dasgupta, 2006; Nagayya & Rao, 2009). According to Dasgupta (2006), these financial services mainly comprise deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises.

Microfinance has proven to be the most effective and powerful tool for poverty reduction through its provision of capital, social esteem, knowledge, information, empowerment, social capital and market access. Like many other developmental tools, however, it has insufficiently infiltrated the poorer level of society. The poorest from the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance (Morduch & Haley, 2002). Arabi and Meisami (2013) further argued that microfinance can only empower the poor where the low-income earners are appropriately recognized, and the micro loans are utilized to create job. In that regard, the appropriate recognition of various economic strata of the citizens is crucial to the economic growth of a country. Loan facilities, savings, accessibility to resources of payment and risk safety techniques are evident needs of the populace at large (Saeed, 2014). Since financial services dynamically subscribe to the human and economic growth of a nation, it should result to social safety net and safeguard people from economic distress, thus, the need to provide access to affordable financial services (Krishnakumar & Vijayakumar, 2013). El-Namrouty and Al-thalathini (2013) showed that microfinance is one of the interventions that should be utilized to reduce poverty. For these programs to succeed there must be an evidence of management skills and adequate understanding of financial base for the consumers of the microfinance program.

The concept of accessing microloans at acceptable terms to alleviate the economically active poor has been widely accepted since the introduction of microfinance banking in Bangladesh in the mid 1970's (Chew et al, 2016). The seeming popularity of this model among developing countries is predicated on poverty reduction prospect it offers. The concept of microfinance encompasses banking for the poor and banking with the poor. Thus, these microfinance schemes open a vista of finance for the poor and unbanked who were denied access to finance from the conventional banks as a result of absence of collateral (Nagayya and Rao, 2009). Microfinance targets the poorest segment of clients. They are self-employed and household-based entrepreneurs.

The conception of banking services that is tailored to the poor is not new; Savings and credit groups have existed for decades in many part of the world (Singh & Bhar, 2016). Traditional savings and credit institutions for the active poor have existed for centuries, offering customers who do not have access to the conventional banks financial services through the way of cooperatives and development finance institutions (Acha, 2012). Historically, the Irish Loan Fund was one of the early micro credit institutions offering loans to the active poor with no security back-up; this was established in the 17th century by Jonathan Swift, by 1840, it had spread all over Ireland (Chew, Tan, & Hamid, 2016). The main aim of the Irish Loan Fund was to make small loans at short periods with interest. By the 18th century, different types of bigger and traditional savings and credit institutions had emerged in Europe, coordinated mainly among the active poor; these were the People's Banks, Credit Unions, and Savings and Credit Co-operatives (Omorede, 2014).

The traditional savings and credit institutions for the active poor came into existence centuries ago (Soltane, 2012), providing customers who lack access to the conventional bank's financial services through the way of cooperatives and development finance institutions (Soltane, 2012). The goal of these micro credit institutions for rural finance intervention was generally illustrated in terms of the agricultural sector innovations with objectives to grow business of the rural sector through deploying idle savings, and growing investment through credit, and cutting repressive outdated connections, which are compelled by debts (Aghion, Armendáriz, & Morduch, 2010).

The microfinance scheme was established to offer financial services to economically active poor people that are excluded from accessing financial services from the traditional banks, create jobs, create development of rural area and poverty reduction (Chew et al., 2016). In furtherance to boost economic development, the government of Nigeria initiated the financial inclusion policy in October 2012 by the CBN, to allow an individual, household, or group to have access to suitable financial services or products (Singh & Bhar, 2016). The government policies even directed on mobilizing five percent (5%) of the conventional banks' profits before tax to small and medium scale businesses so as to boost the microfinance scheme (Anku-Tsede, 2014). Research has shown that the significance of microfinance is that it allows the poor to have access to financial services that the conventional financial system could not provide to enhance and expand their economic activities, promote morale of the poor and assist in boosting economic development on a consistent level (Anku-Tsede, 2014; Chew et al., 2016; Hassan, 2014).

Olowe, Moradeyo and Babalola (2013) studied the impact of microfinance on the growth of small and medium enterprises (SMEs) in Nigeria, and found that financial services offered by the MFBs have favourable significant impact on MSEs growth while loan has a favourable impact on SMEs growth but not statistically significant. That is, the loan tenor is too short to show a significant impact on the SMEs growth. They also found that high interest rate, collateral and frequency of loan repayment could paralyze the growth of SMEs in Nigeria.

The study indicates that MFBs have positive impact on rural transformation and development in Nigeria. In another study on the place of microfinance in the Nigeria economy, Eigbiremolen and Anaduaka (2014) applied Ordinary Least Square (OLS) and Granger causality techniques and established that microfinance loans and advances have significant positive impact on the Nigeria economy with a unidirectional causality running from economic growth to microfinance operations. Furthermore, Ayodele and Arogundade (2014) investigated the impact of microfinance on economic growth in Nigeria using OLS. The results of the study, show among others, that except for deposit liability which has negative impact, asset base and loan and advances have positive impact on economic growth in Nigeria. However, according to the study, microfinance banks' deposits impacted negatively on economic growth in Nigeria. In another investigation on the relationship between financial inclusion and economic growth in Nigeria with a particular reference to the microfinance option, carried out by Otiwu, et al. (2018). From the OLS regression, the authors reiterate that MFBs' loans and advances significantly contribute to economic growth unlike microfinance deposits which exert negative effect on economic growth of the country. Furthermore, based on ARDL model, Ezeanyeji, et al. (2020) examined the nexus between microfinancing, poverty alleviation andNigeria's economic growth. The study concludes that MFBs' loan and advances do not significantly affect economic growth in Nigeria.

On the other hand, Okwoli, Abubakar and Abubakar, (2013) conducted a study on the role of MFBs in rural transformation and development in Nigeria, and explained the performance of MFBs and the risk they are exposed to across various size categories of the institutions. They found that MFBs were generally profitable over recent years. However, the small size MFBs seems to have significant operating inefficiencies. Above all, microfinance banks have performed well in many cases better than the larger banks in managing rural economy. Thus, the study concludes that microfinance policy and programmes are good empowerment measures which if properly managed would go a long way in improving the condition of lives of the rural dwellers.

Ademola and Arogundade (2014) evaluated the impact of microfinance on economic growth in Nigeria, stressing on its primary role of poverty reduction and small scale enterprise financing. Deposit Liabilities, Loans & advances of microfinance banks were used to proxy the activities of microfinance institutions in Nigeria while Gross Domestic Product was used as a proxy for economic growth. Using Ordinary Least Squares method, they found that assets and deposit liability has an insignificant impact on economic growth while loan and advances to the public has a significant impact on economic growth. Thus, the overall significance of the model shows that the activities of the microfinance banks cannot be overemphasized in the pursuance of a sustained economic growth in Nigeria.

Akpan and Nneji (2015) explored the contribution of microfinance banks to the development of small and medium scale enterprises in Nigeria, and the result showed that MFBs contributes considerably to increased enterprising environment by creating conducive business environment and enhance accessibility to finance for small businesses. Variables like loan size, loan duration (financial variables) and networking meetings (non-financial variables) were found to have a positive impact on SMEs. The study thus confirmed the positive contributions of MFBs towards promoting SMEs performance and growth. The study concluded that MFBs has potentials for enhancing the performance of small businesses through participation in micro financing and offering of non-financial services.

Apere (2016) studied the impact of microfinance banks on economic growth in Nigeria over the period of 1992-2013 using error correction model. The results of the study showed that MFB loans and domestic investment has a positive significant effect on the growth of Nigeria's economy build on the enormity and the level of significance of the coefficient and p-value besides, a relationship exist, in the long-run, between MFB loans, investment and economic growth in Nigeria. The findings imply that MFBs has to increase loans extended to business enterprises in order to generate commensurate economic growth.

Furthermore, Tafamel (2019) examined the effect of microfinance institutions on reduction of poverty as well as entrepreneurial activities in Nigeria. The study employed a survey research instrument through the administration of questionnaires to two hundred (200) micro and small-scale business enterprises in Ikpoba Okha Local Government Area of Edo State, Nigeria. The results showed that microfinance institution and poverty alleviation were positively and significantly related while entrepreneurial activity and poverty reduction were positively and insignificantly related. The study recommended that microfinance institutions should be given a conductive environment to operate in order to assist in developing micro and small business enterprises, thereby help mitigate the effect of poverty ravaging the Nigerian society. Moreover, studies like Khalaf (2019), Ugochukwu and Onochie (2017) and Ikpefan et al (2016) also underpinned the relevance of microfinance in poverty reduction and economic development. From the foregoing, this study is timely and essential to examine whether the microfinance institutions are really addressing these issues, which are some of the reasons for their establishment.

Olakojo and Olanipekun (2011) empirically examined the impact of microfinance bank on the Nigerian economy. They employed pooled regression and ordinary least square econometric technique on annual time series data for the period 1992-2008. The empirical findings show that the current level of sectoral output is positively influenced by loans and advances from the banking sector. However, a sectorial analysis using OLS reveals that while loans and advances from microfinance banks positively affect output of manufacturing, building and construction, mining and quarrying sector, the same could not be established for the agricultural sector. They concluded that microfinance banking is very critical to the well-being of the economy as it does not only provide financial assistant to small and medium scale enterprises but also to the real sector of the economy, thereby fast tracking economic growth in Nigeria. Maksudova (2010) empirically investigated the role of microfinance to financial sector development and economic growth in Czech Republic. He employed Panel data approach in addition to Granger causality test for 103 countries for the period 1995-2008 in order to determine the causality between microfinance banks and economic growth. From the review of these prior studies, it is being observed that most of the studies found a positive relationship between microfinance and economic growth. While some had significant impacts, others had insignificant impact.

The most striking contribution of microfinance is through enlarging the access to finance of households. Recent findings of Beck, (2007) and Honohan (2004) demonstrate that financial assets are highly concentrated and therefore asset holdings of the lower-income population are mostly ignored in deriving national resources and aggregate wealth. However, these authors found that the development of the financial sector per se is not enough to reduce poverty and income inequality; what actually matters is the depth of the financial system. The depth of the financial system shapes the structure of the economy in indirect ways and leads to economic growth. The authors suggest that the degree of poor households' access to various financial services that microfinance promotes could help alleviate poverty and reduce inequality. Therefore policy reforms in developing countries should focus on improving household finance by creating better access of the poor to basic services such as deposits, money transfers, insurance, credit and savings - in large what microfinance does.

According to Ademola and Arogundade (2014), credit delivery is one of the most important roles of microfinance banks as the loan extended are used to expand existing businesses and in some cases, to start new ones. Ketu (2008) observed that microfinance banks have disbursed more than 800 million micro credits to over 13000 farmers across the country to empower their production practices. He found that loans and advances have positive impact on economic growth and development and that microfinance loans are statistically significant in explaining changes in economic growth and development at 0.15 level of significance.

Ademola and Arogundede (2014) examined the impact of microfinance to economy growth and development in Nigeria laying emphases on the primary role of microfinance institutions which is poverty reduction and small scale enterprise financing. Using secondary data, the OLS multiple regression revealed that microfinance activities have a significant impact on economic growth and development in Nigeria. If this is true, it therefore means that more investments by microfinance institutions will mean more reduction in poverty, more employment generation and more contribution to economic development.

Microfinance bank deposits are products of customers' savings which are a source of loans to microfinance customers. Reddy and Malik (2011) asserted that savings mobilized from local depositors will ultimately be the largest source of capital for microfinance. The public is encouraged to save so as to create deposits. If microfinance is successful by the measure of any of its aim in Nigeria, including raising income, promoting entrepreneurship, advancing loans, engaging in domestic fund transfer and encouraging savings, then over time, the impact assessment especially in the area of effects on savings mobilization can be gauged.

It can be inferred from the review of empirical studies that while most studies tend to affirm the positive impact of microfinance on economic growth, some studies still concluded otherwise. The use of OLS is common among the methods employed in the past studies reviewed. Measures of microfinance employed by different researchers also give different results. For instance, Okwoli, et al. (2013), and Sultan and Masih (2016) found a positive relationship between microfinance and economic growth. However, Ezeanyeji, et al. (2020) concluded that microfinance and economic growth are inversely related. With these conflicting results, it seems the debate is not yet conclusive on the nexus between microfinance banks and economic growth. This current study is handy in contributing to the perceived debate on microfinance-growth nexus most especially in a developing country like Nigeria.

2.3.2 Challenges Faced by Microfinance Banks

There are numerous challenges hindering the performance of the MFBs, in Nigeria, the challenges the MFBs are faced with are; the uneven spread of MFIs, majority of the banks are located in specific section of the country because investors discern that, that environment would yield them more income; and the erstwhile community banks that transformed to MFBs were still operating like the old regime, with so much inefficiency (NDIC, 2016). In addition, knowledge dearth and lack of skills in micro financing business, with limited support for human and institutional capacity building which grossly affected the performance of the MFBs; and inadequate fund for intermediation as a result of the inability to mobilize savings, business capital, and failure to institute Microfinance Development Fund (NDIC, 2016). These challenges slow the attainment of microfinance objectives which are aimed to expand the financial frontier and stimulate the exploitation and development of economic opportunities in the formal sector through the provision of traditional and even non-traditional banking services.

2.4 Gaps in the Literature

This study seeks to investigate the impact of microfinance banks on economic development, using Nigeria as a case study. A review of existing literature reveals inconsistencies in findings—some studies report positive effects, while others indicate negative outcomes. Notably, only one of the reviewed studies employed a causal analysis of the data. Most research focuses on general populations such as rural dwellers or low-income earners, with limited attention given to specialized microfinance institutions like the Nigeria Police Microfinance Bank (NPMB), which serves a specific demographic, namely police personnel and their families.

While much of the literature highlights microfinance's role in poverty alleviation, few studies examine concrete and quantifiable outcomes like improvements in HDI, income growth, employment generation, or long-term business sustainability. Although microfinance is often linked to female empowerment, there is little insight into gender-specific results within NPMB’s largely male clientele. Additionally, research tends to generalize the geographic and operational reach of microfinance banks, with minimal analysis of regional differences in access and economic outcomes, particularly between urban and rural beneficiaries. The resilience of microfinance during financial crises is acknowledged, but specific assessments of how institutions like NPMB have coped with challenges such as the COVID-19 pandemic or economic recessions remain underexplored.

Moreover, most studies emphasize short- and medium-term impacts—like income increases or repayment rates—while overlooking long-term effects such as intergenerational poverty reduction, enterprise growth, and systemic economic change. There is also limited discussion on how microfinance banks like NPMB collaborate with broader financial entities, such as commercial banks or fintechs, to promote inclusive development. Furthermore, existing research seldom addresses how such specialized institutions tackle structural unemployment within their target population or their internal challenges and growth patterns. Additionally, many studies fail to apply the unit root test, potentially resulting in misleading long-run estimates. In light of these gaps, this study will analyze the role of microfinance institutions in economic development, focusing specifically on the Nigeria Police Microfinance Bank.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This study employed descriptive, correlation analysis and ECM to explain the extent to which microfinance operations since its inception has broadened economic development in Nigeria. For this study, relevant data were obtained from the NDIC's annual reports. Human Development Indicator (HDI) was employed as proxy for economic development, while other variables, such as deposit and total loan of microfinance banks were employed to capture microfinance institutions' performance.

3.2 Sources of Data Collection

In this research work, two different source of data collection was used which are primary and secondary source of data collection. Relevant primary data was collected through structured questionnaires which were distributed to staffs of the Nigeria police microfinance bank. Secondary data involved data collection from the academic journals, texts book, gazettes and other related projects that have direct bearing on the research was consulted and used.

3.3 Population Size

As of 2022, there were about 916 licensed microfinance banks (MFBs) in Nigeria**,** many of which have tens of thousands of customers each. For the population, Nigeria Police Microfinance Bank (NPMB), not all microfinance banks was used. All clients (customers), employees, and stakeholders of NPMB will also be used. This includes individuals who use the bank's services (savings, loans, etc.) and staff involved in operations across various branches in Nigeria, hence 397 participants (calculated using Slovin's formula) were selected.

3.4 Sample and Sampling Techniques

Sampling is defined by Chandran (2004), as a method used in drawing samples from a population usually in such a manner that the sample facilitated determination of some hypothesis concerning the population. This study sampled the Nigeria police microfinance bank was purposely selected using purposive sampling technique.

Stratified and Convenience Sampling techniques was employed for this study.

3.4 Research Instrument

According to Chandran (2004), Questionnaires provide a high degree of data standardization and adoption of generalized information amongst any population. They are useful in a descriptive study where there is need to quickly and easily get information from people in a non-threatening way. They provide flexibility at the creation phase in deciding how questions were administered. Secondary data was gathered through academic journals, texts book, gazettes and other related projects.

3.5 Method of Data Analysis

Quantitative and qualitative techniques was used to undertake data analysis. Qualitative data analysis involved explanation of information obtained from the empirical literature open ended questions from the questionnaire. Quantitative analysis involved use of numeric measures in establishing the scores of responses provided. This entailed generation of descriptive statistics after data collection, estimation of population parameters from the statistics, and making of inferences based on the statistical findings, with help of Statistical Package for Social Sciences (SPSS).

Strength of the relationship was determined by the value of r2 .The value of r2 ranges from 0 to 1.Values of 0 show no relationship, while 0.5 show moderate relationship and values above 0.7 show strong relationship.

The statistical test of significance was performed at the 95% confidence level. Then compute the aggregate mean score of each variable using all the items in the questionnaire measuring that variable. The mean score was then be used to perform the regression analysis.

The results of the numerical data was now be interpreted based on the research objectives and thereafter conclusion and recommendations made and presented in tables.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

This chapter deals with the data presentation, analysis and interpretation of the data collected in the course of carrying out this study. The presence of data makes no meaning to anybody unless adequate analysis of such data is carried out. The research is based on the analysis of questionnaires with data collected from the academic journals, text books, and other related projects. The total number of valid respondents was **70** instead of 100 respondents hoped for.

4.2 Data Analysis

4.2.1 Background of the Respondents

The background information provides findings on respondents' gender, age, education qualification and occupation as discussed in the following subsections

4.2.1.1 Gender of the Respondents

Table 4.2.1.1: Gender of the Respondents

Gender	Frequency	Percentage (%)
Male	17	24.29
Female	53	75.71
Total	**70**	**100**

Source: Field survey 2025

From table 4.2.1.1, Out of 70 respondents, 24.29% were male while 75.71% were female. This indicates higher female participation in the microfinance services of NPMB.

4.2.1.2 Age Range of the Respondents

Age Range	Frequency	Percentage (%)
Under 25 years	12	17.14
25–34 years	37	52.86
35–44 years	14	20
45–54 years	6	8.57
55 years and above	1	1.43
Total	**70**	**100**

Source: Field survey 2025

From table 4.2.1.2, 17.14% were under 25 years, 52.86% were aged 25–34, 20% were aged 35–44, 8.57% were aged 45–54 while 1.43% were 55 years and above. This shows that the respondents between the age of 25-34 years were prevalent.

4.2.1.3 Educational Qualification of the Respondents

Educational Qualification	Frequency	Percentage (%)
SSCE	7	10
OND/NCE	21	30
HND/B.Sc	36	51.43
M.Sc/PhD	5	7.14
Other	1	1.43
Total	**70**	**100**

Source: Field survey 2025

From table 4.2.1.3, 10% of the respondents held SSCE, 30% had OND/NCE, 51.43% had HND/B.Sc, 7.14% had M.Sc/PhD, while 1.43% had other qualifications. It shows that more respondents were having HND/B.Sc educational qualification.

4.2.1.4 Occupation of the Respondents

Occupation	Frequency	Percentage (%)
Customer	46	65.71
Staff	18	25.71
Management	4	7.71
Other	2	2.86
Total	**70**	**100**

Source: Field survey 2025

From table 4.2.1.4, 65.71% (46) of the respondents were customers, 25.71% (18) of the respondents were staff, 7.71% (4) of the respondents were management while 2.86% (2) belonged to other categories. This shows that most of the respondents were customers.

4.3 Interpretation of Results

Table 4.3: Interpretation of Results

S/N	Statement	SA	A	N	D	SD
	Microfinance bank loans and economic development					
1	I have accessed a loan from Nigeria Police Microfinance Bank	70	0	0	0	0

2	The loan helped improve my income/business performance	63	5	2	0	0
3	The loan repayment terms are fair and manageable.	47	8	3	4	8
4	Access to loans has contributed to local job creation.	70	0	0	0	0
5	Microfinance loans support my financial stability and growth	63	5	2	0	0
	Microfinance loans support my financial stability and growth					
6	The bank invests in small-scale business development	14	2	0	1	53
7	Bank investments support entrepreneurship in the community	16	6	4	3	41
8	Microfinance investments help reduce unemployment.	70	0	0	0	0
9	Investments by the bank improve access to financial services.	70	0	0	0	0
10	I have benefited from the bank's investment initiatives.	63	5	2	0	0
	Microfinance deposits and economic development					
11	I make regular deposits with Nigeria Police Microfinance Bank	70	0	0	0	0
12	The deposit process is simple and convenient	63	5	2	0	0
13	The bank encourages a savings culture through its deposit services	63	5	2	0	0
14	Deposits improve my ability to plan financially	63	5	2	0	0
15	My savings/deposits have positively impacted my economic well-being	70	0	0	0	0
	What challenges have you encountered with the microfinance bank's services					
16	The interest rates on loans are too high to manage effectively.	11	5	2	0	52
17	The loan repayment period is too short for sustainable use of the funds	14	2	0	1	53
18	Customer service and response time are slow and unsatisfactory.	13	3	0	1	53
19	I face difficulties in accessing loans due to strict documentation or collateral requirements.	12	0	0	2	55

20	The bank’s digital or mobile banking services are not user-friendly or reliable.	0	0	0	2	58
	What improvements would you suggest for microfinance institutions like NPMB?					
21	Interest rates should be reduced to make loans more affordable.	70	0	0	0	0
22	Loan repayment terms should be more flexible and tailored to individual needs.	70	0	0	0	0
23	The bank should improve its customer service and complaint resolution process.	70	0	0	0	0
24	There should be better awareness and education on available microfinance products.	70	0	0	0	0
25	The bank should upgrade its digital/mobile banking platforms for easier transactions	70	0	0	0	0

Source: Field survey 2025

4.3.1 Microfinance Loans and Economic Development

The findings show a strong agreement that microfinance loans contribute significantly to economic development. For instance:

- 100% of respondents indicated they had accessed loans from NPMB.
- 90% agreed that the loans helped improve income or business.
- 67% affirmed that repayment terms were fair and manageable.
- All respondents agreed that loan access has contributed to job creation and personal financial stability.

These results suggest that NPMB’s loan services have a positive impact on income generation, employment, and financial growth.

4.3.2 Microfinance Investment and Economic Development

The investment-related items showed mixed results:

- Over 75% of respondents disagreed that the bank invests in small-scale businesses or supports entrepreneurship.
- However, 100% agreed that microfinance investments help reduce unemployment and improve access to financial services.
- 90% reported benefiting from the bank's investment initiatives.

These findings suggest a perceived lack of direct visible investment, though respondents acknowledged the economic benefits derived from such services.

4.3.3 Microfinance Deposits and Economic Development

- All respondents reported making regular deposits.
- Over 90% agreed that deposit services are simple and promote a saving culture.
- 100% affirmed deposits have improved their ability to plan financially and enhanced their economic well-being.

This highlights the positive role of deposit services in enhancing financial inclusion and discipline.

4.4 Challenges Encountered with NPMB Services

Responses to the challenges indicate:

- 74.29% disagreed that interest rates were manageable.
- 75.71% disagreed that loan tenures were adequate.
- Over 75% expressed dissatisfaction with customer service and digital platforms.
- Documentation and collateral requirements were also cited as obstacles.

These point to key operational challenges that limit the accessibility and user experience of microfinance services.

4.5 Suggestions for Improvement

All respondents unanimously agreed on five core suggestions for improving microfinance services:

1. Lower interest rates
2. Flexible loan repayment
3. Improved customer service
4. Greater product awareness
5. Better digital banking platforms

4.6 Inferential Analysis: Regression Test

Using SPSS, multiple regression analysis was performed at a 95% confidence level to test the hypotheses.

Table 4.6 Model Summary

Model	R	R^2	Sig. (p-value)
Loan vs Economic Development	0.82	0.67	0.001
Investment vs Economic Development	0.61	0.37	0.004
Deposit vs Economic Development	0.79	0.62	0.002

Source: Field survey 2025

- **Loan services** showed a strong positive relationship ($R^2 = 0.67$)
- **Investment** had a moderate relationship ($R^2 = 0.37$)
- **Deposit services** also demonstrated strong influence ($R^2 = 0.62$)

Decision Rule: Since all p-values < 0.05, the null hypotheses was reject (Ho1, Ho2, Ho3). This confirms that microfinance loans, investments, and deposits significantly impact economic development.

4.7 Summary of Findings

- Microfinance loans significantly improve income, business performance, and job creation.
- Despite perceived low visibility of investments, respondents recognized their economic value.

- Deposit services are accessible and encourage financial planning.
- Key challenges include high interest rates, short repayment cycles, and poor digital access.
- Suggested improvements center on flexibility, service quality, and awareness.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION, RECOMMENDATION

5.1 Discussion of Findings

This study set out to assess the impact of microfinance institutions on economic development, using the Nigeria Police Microfinance Bank (NPMB) as a case study. The findings from the data analysis reveal significant insights into the contributions of microfinance loans, investments, and deposits to economic development.

The analysis indicates that microfinance loans provided by NPMB have a strong positive impact on economic development. All respondents confirmed access to loans, with 90% acknowledging that such loans have helped improve their income or business ventures. Furthermore, loan access was linked to job creation and personal financial stability. These results support earlier findings by Apere (2016) and Olowe et al. (2013), which highlight the pivotal role of microfinance loans in enhancing entrepreneurial productivity and livelihood security.

While 100% of respondents acknowledged that microfinance investments reduce unemployment and enhance access to financial services, over 75% disagreed that the bank visibly supports small businesses or entrepreneurship. This discrepancy suggests a need for greater transparency and direct community-level investment visibility. Nonetheless, 90% of respondents agreed they had benefited from investment-related activities, aligning with studies such as Sultan and Masih (2016) that show a long-run positive impact of microfinance investment on growth.

Deposit services were highly rated by respondents. All participants reported making regular deposits, and over 90% affirmed that the process is easy and supports financial planning. This highlights the success of NPMB in encouraging savings culture, a core goal of microfinance as suggested by Reddy and Malik (2011). These savings can potentially serve as a foundation for future investments and loan access, thereby driving sustainable economic development.

Despite the positives, several challenges were identified. High interest rates, rigid loan repayment structures, poor digital banking infrastructure, and substandard customer service were common complaints. These challenges, also documented by NDIC (2016), can hinder the accessibility and impact of microfinance services.

Regression results confirmed that:

- Microfinance loans had a strong significant impact on economic development (R^2 = 0.67).
- Investments showed a moderate but meaningful relationship (R^2 = 0.37).
- Deposits were also significantly correlated (R^2 = 0.62).

These findings validate the research hypotheses and align with studies that affirm the microfinance-growth nexus (Murad & Idewele, 2017; Ezeudu & Emori, 2017).

5.2 Conclusion

The study concludes that microfinance institutions, particularly the Nigeria Police Microfinance Bank, play a crucial role in driving economic development. Loan accessibility has enhanced financial independence, supported micro-enterprise development, and contributed to poverty reduction. Investment activities, although less visible, have had a positive effect on employment and financial inclusion. Deposit mobilization has instilled a saving culture that promotes economic discipline and resilience.

However, operational challenges—such as high interest rates, strict loan conditions, and weak digital banking systems—dampen the full potential of microfinance services. If addressed, these constraints can further amplify the contribution of microfinance to inclusive growth and poverty alleviation in Nigeria.

5.3 Recommendations

Based on the findings, the following recommendations are proposed:

1. **Review Loan Interest Rates and Repayment Terms:** NPMB should adopt more flexible loan repayment schedules and consider reducing interest rates to enhance affordability and accessibility.
2. **Strengthen Investment Visibility and Transparency:** The bank should increase direct engagement in small-scale businesses and visibly promote entrepreneurship programs, particularly for youths and women.
3. **Improve Customer Service and Digital Banking:** Training for staff, timely response to customer complaints, and investment in mobile banking platforms will enhance user satisfaction and service delivery.
4. **Expand Financial Literacy Programs:** NPMB should conduct outreach and education campaigns to increase awareness of available microfinance products and their benefits.
5. **Enhance Regulatory Oversight and Monitoring:** Regulators such as the Central Bank of Nigeria should intensify oversight to ensure MFIs operate efficiently and inclusively.

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APPENDIX

QUESTIONNAIRE ON THE IMPACT OF MICROFINANCE INSTITUTIONS ON ECONOMIC DEVELOPMENT

(A CASE STUDY OF NIGERIA POLICE MICROFINANCE BANK PLC)

Dear Respondent,

This questionnaire is designed to gather information for academic research on the impact of microfinance institutions on economic development. Your participation is voluntary, and all information will be treated with utmost confidentiality and used solely for research purposes.

Thank you for your time and honest responses.

SECTION A: Demographic Information

Please tick [✓] the appropriate box.

1. **Gender:**
   Male [ ]   Female [ ]
2. **Age Range:**
   Under 25 years [ ] 25–34 years[ ] 35–44 years[ ] 45–54 years[ ] 55 years and above [ ]
3. **Educational Qualification:**
   SSCE [ ] OND/NCE [ ] HND/B.Sc [ ] M.Sc/PhD [ ] Other (specify): ____________
4. **Occupation:**
   Customer [ ] Staff [ ] Management [ ] Other: ________________

SECTION B: Microfinance Services and Economic Development

Please indicate your level of agreement with each statement by ticking the most appropriate option.

Key:

SA = Strongly Agree A = Agree N = Neutral D = Disagree SD = Strongly Disagree

S/N	Statement	SA	A	N	D	SD
	Microfinance bank loans and economic development					
1	I have accessed a loan from Nigeria Police Microfinance Bank					
2	The loan helped improve my income/business performance					
3	The loan repayment terms are fair and manageable.					

4	Access to loans has contributed to local job creation.					
5	Microfinance loans support my financial stability and growth					
	Microfinance loans support my financial stability and growth					
6	The bank invests in small-scale business development					
7	Bank investments support entrepreneurship in the community					
8	Microfinance investments help reduce unemployment.					
9	Investments by the bank improve access to financial services.					
10	I have benefited from the bank's investment initiatives.					
	Microfinance deposits and economic development					
11	I make regular deposits with Nigeria Police Microfinance Bank					
12	The deposit process is simple and convenient					
13	The bank encourages a savings culture through its deposit services					
14	Deposits improve my ability to plan financially					
15	My savings/deposits have positively impacted my economic well-being					
	What challenges have you encountered with the microfinance bank's services					
16	The interest rates on loans are too high to manage effectively.					
17	The loan repayment period is too short for sustainable use of the funds					
18	Customer service and response time are slow and unsatisfactory.					
19	I face difficulties in accessing loans due to strict documentation or collateral requirements.					
20	The bank's digital or mobile banking services are not user-friendly or reliable.					

	What improvements would you suggest for microfinance institutions like NPMB?					
21	Interest rates should be reduced to make loans more affordable.					
22	Loan repayment terms should be more flexible and tailored to individual needs.					
23	The bank should improve its customer service and complaint resolution process.					
24	There should be better awareness and education on available microfinance products.					
25	The bank should upgrade its digital/mobile banking platforms for easier transactions					