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# Microfinance banks and growth of micro and small scale enterprises in Sub-Sahara Africa

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**Abstract**
In this study the authors examines how microfinance banks stimulated economic growth and development through creation of credit for micro and small enterprises. The effect is poverty reduction in Sub-Sahara Africa and empowerment of the poor to become economically active. The findings showed that micro finance is capable of putting Sub-Sahara African economies on the path of sustainable economic development like it has done in other economies, such as Ireland, Indonesia and Bangladesh. However for the above objectives to be achieved, certain conditions need to be in place. This include: adequate supervision of micro finance banks to ensure that micro credits gets to the targeted population, appropriate regulations of micro finance banks to ensure that only those who have the ability to repay loan benefit from micro credit. It is recommended that the capital base of micro finance banks should be increased so that their services can reach more people.

**Keywords:** 1. Microfinance banks 2. Microcredit 3. Microenterprise 4. Small scale enterprise 5. Poverty.

## 1. Introduction

Most economics in developed and developing countries have adopted different strategies, targeted at reducing poverty. The issue of poverty reduction occupies a central position in the economic policy of most governments all over the world, especially in the developing countries. Emphasis on poverty reduction as a tool for sustainable development is based on the argument that, economic development is the responsiveness of every sector of a nation's economy towards the economic growth of the nation. Every sector in the economy is expected to contribute her quota to the growth and development. The poor are not excluded from the task of development, since they form part of the human resources of every nation. Based on the above argument, various governments at different times have adopted different methods to equip the poor people in their society, so that the poor can also contribute their own quota to national development. One of the concepts that have gained wide acceptability in recent times is the concept of micro financing. According to Khan (2020), micro financing is the provision of finance to the poor who are conventionally excluded from banking services by commercial banks. Although micro financing has a long history in countries that have practiced it before now, the concept was popularized in the 70s and 80s.

Ezeanyeji, Imoagwu and Ejefobihi (2019), argued that micro financing involves the provision of financial products and services to small and micro businesses. Similarly, micro finance banks and institutions have been used to provide micro loans to micro and small enterprises (Al-Absi, 2019) Bulla, Maronga and Ngacho (2019), argued that in spite of the economic benefits of micro and small scale enterprises, they have been denied financial support by the conventional banks. Conversely, one of the strategies which have been adopted by government, international donor agencies,non-governmental organizations interested in poverty reduction and empowerment of the poor is the microfinance credit system. The scheme which became popularized in the early 1970s involves creation of financial services in the form of deposit mobilization and credit allocation for the working poor.

Furthermore,Trombetta, CalvoandCasadio (2017) and Scanlon, Scanlong and Scanlon (2018) observed the similarity of the roles of micro finance bank in Ghana, and Senegal. They posits that scarcity of capital has been the major obstacle to the growth of micro and small scale enterprises in both economics and by extension the economic growth of both nations and other emerging economics. The concept of microfinance banksand micro credit was adopted by these economies to stimulate economic growth and the result has been successful to a great extent.

Nearly all developing countries are expecting one form of economic crisis or the other. The crises ranges from hunger, disease, bad roads, constant power outage, low agricultural production,highinterest rate, and high cost of living to low per capita income. Nigeria as one of the developing nations has adopted various policy measures to address the above named problems. The measures includes: Operation feed the nation (OFN), Green revolution, Directorate of food, road and rural infrastructure. Others are: Petroleum trust fund, Better life for the rural women, Community bank (now Macro finance bank) and Peoples bank. In recent time, additional programmes have been introduced, which includesthe Trade money, Youth empowerment programe (N power) and Y Yes programmes. One other programme is the “victim support fund” (VSF). For the development of agricultural and related occupations in the war ravaged areas of North Eastern Nigeria. Through the programme, families are re-united and a monthly stipend is paid for their up-keep. The programme which started in 2015, provides drugs to hospitals in the most affected areas of Bonu, Yobeand Adamawa States. The policy has raised a number of questions such as: What are the challenges and prospects of micro financing in Nigeria and Sub-Sahara Africa?. Will the policy succeed in equipping the poor for sustainable development or will it fail like the previous programmes?

The general objective of this study is to: examine the contribution of Micro Finance Banks (MFBs) to the growth of Micro and Small Scale Enterprise (M & SSE) in Sub-Sahara Africa while the specific objective are: (i)evaluate the concept of Micro Finance (MF) (ii) examine the effect of micro finance bank’s loans on micro and small scale enterprises.

Most studies on poverty alleviation and micro credits are country based. None seem to have under taken a comparative study of the Sub-Sahara African continent as a whole. The relationship between microfinance banks credit and economic growth of micro and small scale enterprises. This is the knowledge gap which the study seek to fill.

## 2. Review of Related Literature

With the exception of few countries, poverty is believed to be wide spread in Sub-Sahara Africa when compared to othersub-continents. It is on this basis that this section reviewed related literature on Micro Finance Banks (MFB) contribution to the growth of micro and small scale business enterprises (M&SSE). By extension, MFB contribution to poverty reduction in Sub-Sahara Africa. The following literatures were reviewed in accordance with the objectives of the study as follows:

Khan (2020), opines that micro and small scale enterprises is the most popular type of business in Nigeria. They serve as source of self-employment to a lot of people and provide jobs to millions. Most of these businesses has remained small due to their inability to attract funds from the commercial banks. Other difficulties observed include, poor record keeping, low educational background of the business owners, lack or inadequate collateral, inadequate working capital, poor management skill and practice among others.

Furthermore the practice of micro financing in Nigeria is as old as the Nigeria economy they argued. The main source of credit available to micro and small scale enterprises, the rural dwellers and the urban poor is microfinance banks. In consideration of the important role of micro finance banks as a vehicle for channeling credit to micro and small scale enterprises, the federal government of Nigeria introduced the new micro finance policy. The policy gave a time frame within which all existing community banks are to convert to micro finance bank.The study revealed that the impact of microfinance bank on growth of micro and small scale enterprises in Damaturu, Capital of Yobe State, Nigeria is not significant. The result could be attributed to two factors, interest rate and religious belief. Damaturu is pre-dominantly an Islamic town. The Muslim religion prohibit the payment of interest on loan.

Gelgalu (2018), examined the factors affecting the performance of micro and small scale enterprises in Southern Ethiopia. The author argue that the economic activities of micro and small scale enterprises is important to individual, large scale industry and government. To the individual, they provide employment, to the large scale industry they complement their activities. They supply raw agricultural materials to the industry and help to evacuate waste materials produced by the big entities. To the government they pay tax and raise the standard of living of both employees and employers.

In spite of the important roles of micro and small scale enterprises in the economy of many nations, they are however faced with certain challenges. These obstacles include, poor investment climate, such as high tax rate. Others include epileptic power supply, high cost of doing business, low education, lack of business skill and inadequate access to finance and high interest rate. The authors further argue that the share of credit to micro and small scale business in Wolkite town, Eithiopia is on the decline in spite of the micro and small scale enterprises contribution to the economy. The finding reveals that financing institutions are not willing to grant credit facilities to the entrepreneurs and when they do, they charge them high interest rate, when compared to what they charge large scale industries. Hence the main source of finance available to the micro and small enterprises is micro finance banks, which has in no small way contributed to their growth.

Seck (2019), asserted that in Senegal financial system, micro finance banks contribute to the economic growth of the macro entrepreneurs by increasing employment generation and income level. Also micro finance institutions, as they are called in Senegal are faced with the challenges of meeting medium and long term credit proposals. It has been argued that microfinance institutions inabilities to finance small scale enterprises, medium and long term projects is attributable to the microfinance banks sources of funding, which are usually short term sources. To solve the financing problem two alternatives have been suggested. The first option is for the microfinance institutions to be self-financing while the second options is for them to establish external refinancing relationship with commercial banks.The option of external refinancing is very important, especially when viewed against the back ground that micro and small scale enterprises are under-funded in Sub-Sahara Africa, Senegal inclusive. It has been observed that micro and small scale enterprises are the main drivers of the Senegalese economy. As at 2016, their total turnover was 3450.3 billion FCFA while they employ about 45% of the active population.

Ezeanyeji, Imoagwu,andEjefobihi (2019), posits that small and medium sized enterprises is an instrument for sustainable economic development in many nations through the instrumentality of its job creation. They observed that commercial banks do not like lending to small scale enterprises because of huge credit maintenance cost and presume high risk of operating in the sector.In 2005, a reformation was carried out by the central bank of Nigeria, which transform the then community banks to micro fiancé banks. According to the authors, the reform has three objectives, namely: (i) to have a channel for social-economic growth and rural transformation through the granting of loans to micro and small scale enterprises. (ii) to reduce the burden of high interest rate charge by conventional banks on micro and small scale enterprise (iii) to serve as financial advisers, technical and management support to micro small scale enterprises.

Ifeonu&Olieh (2016), looked at microfinance banks from the perspective of its contribution to economic growth of Nigeria, from its inception in 2005 till 2014. They also analyze poverty alleviation programme of the government of Nigeria. They concluded that micro finance banks is one of the innovations that incorporate financial inclusions for the poor. There is the need for the scheme to reach more of the rural people and the urban poor for it to successfully play the role of savings mobilization and granting of credit to the target population.

Ageless, Calara and Guzman (2019), opines that micro enterprises are major instrument of economic development all over the world, the Philippines inclusive. Micro enterprises has been very useful in two areas. First, it aided poverty reduction in most economies. Secondly it provide employment to both the entrepreneur and those working in the enterprise. In spite of their popularity, micro enterprises are confronted with the challenges of growth. While most studies identified finance as a major factor restraining the growth of micro enterprises, the authors held different view. They contend that in Philippines and India, micro finance banks has always provided credit facilities to micro enterprises. The educational level of the entrepreneur and his management skill is the main contributor to his business growth, they argued. Their findings revealed (i) growth of micro and small enterprises has been slow due to inability to effectively utilize available capital. (ii) micro enterprises increase their capital were not used for expansion purpose. (iii) Growth of micro and small scale enterprises is not a function of access to finance in the Asia, the countries of India and Philippines. (iv) the main hindrances to growth of micro and small enterprises is the low level of educational qualification of the business owners and their management style. These findings contradict the previously held view that access to finance is the main constrain to the growth and development of micro and small enterprises.

## 3. Methodology

Data for this study were sourced mainly from secondary sources. Articles on the various aspects of micro financing were down loaded from the internet and working papers were consulted. Whilequantitative data were obtained from CBN (2019), Statistical bulletinvolume 30. Also consulted were text books and academic Research Journals. These materials were extensively analyzed. Micro finance banks loans to micro and small scale enterprises (MSE) were proxy for Depended variables while deposits received by micro finance banks (DRM), shareholders' funds (SHF) and unclassified income received by micro finance banks (UCI) were proxy for Independent variables. The ex-post facto research method was adopted in this study. The method was considered adequate because existing data were used. The choice of the CBN statistical bulletin was considered reliable due to the fact that the Central bank of Nigeria is responsible for the supervision of banks and other financial institutions in Nigeria.

## 4. Discussions

In this section, the researchers examines the role of micro finance banks under the following headings viz:

- The concept of micro finance
- Effect of micro finance banks on Micro & Small Scale Enterprises.
- Microfinance Bank and African Economy.
- Conclusion.

### Concept of Micro Finance

In other to appreciate the depth of this study, some basic concepts such as micro credit and micro finance institution, need to be properly defined. Micro finance (MF), according to Consultative group to Assist the poorest (CGAP) 2005) and Sani, Mohd-Khan and Noor (2018),"Micro finance is the supply of loans, saving and other basic financial services to the poor" They explained further that the financial services of micro finance usually involve small amount of money, small loans, small savings etc. as such the term Micro financehelp to differentiate these service from those which formal banks provides. Still on the same subject, Choudhury and Goswami (2019) asserted that "Micro finance refers to loans, savings insurance transfer services and other financial products targeted at low-income clients. They equally defined Micro credit as a small loan to a client made by a banker or other institutions. Micro credit can be offered, often without collateral, to an individual or through group lending.Seck (2019), points out "Microfinance institution is an organization that provides microfinance service, ranging from small non-profit organizations to large commercial banks". On the other hand, Sani, Mohd-Khan and Noor (2018) noted that micro finance institution can be broadly defined as "any organization-Credit union, down-scaled commercial Bank, financial NGO, or Credit Cooperative that provides financial services for the poor", It is the author's view that micro financial is any scheme designed for the purpose of encouraging savings among the low-income group, providing them with credit facilities and other financial services through Commercial Banks and other financial institutions dedicated for that purpose. Micro finance is intended to serve two groups of people, the Urban low-income earner and the rural low-income earner. Emphasis is more on the rural dweller, because if micro credits are properly channeled to reach the targeted audience, it could be an effective vehicle for accelerating the growth and development of small and medium scale enterprises. Also, it will serve as an effective tool for the rapid transformation of the rural area into an economic viable zone. On this basis, it should be noted that micro credit is not meant for every person. It is meant for persons with basic income who will be able to repay back the loans granted to them, plus the interest at maturity. This point is very important as MF loan is not expected to be secured by traditional collateral securities usually demanded by conventional banks

It should be noted that what the very poor in the society need is grant and not loan. Since Micro finance Banks give out loans to persons with the ability to repay back, it is not meant for the very poor persons in the society.

**Effect of MFB on Micro and Small Scale Enterprises**

The concept of micro finance is not new. It has been there since ages. Some of the credit and thrift societies that have operated for ages include the: "Osusu" in Nigeria, "Susus" in Ghana, "Chit funds" in India,"tanda" in Mexico. Others include, 'Arisan' in Indonesia, "Cheetii in Sri Lanka, and "Pasanaku" in Bolinia. However formal savings institutions for the poor have also been around for decades. These were the cooperative societies which provided financial services to these customers who were traditionally neglected by the Commercial Banks. An Irish nationalist and author Jonathan Swift founded one of the earliest micro financial institutions around 1700. It has been argued that Friedrich Wilhelm Raiffeisem and his supporter developed the concept of the credit union. "Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the union expanded rapidly over a large sector of the Rhine Province and other region of the German States". (Choudhury and Goswami, 2019).

Furthermore, it is on record that Indonesian people's Credit Bank or the Bank Perkreditan Rakyat was establish in 1895. Today it is the largest micro finance Bank in Indonesia, with close to 9,000 branches. The same story could be told about Jonathan Swift bank. It started slowly in early 1700s and by 1840 it had 300 branches all over Ireland. Their mission was to make small loans to 20% of all Irish household annually. Micro finance has a long history of successes by countries which have adopted the concept. The success history spans across continents.Choudhury and Goswami, (2019)observed that Action international, an early pioneer, was founded by a law student, Joseph Blatchford, to address poverty in Latin American's Cities. It began as a student-run volunteer effort in the shanty town of Caracas with $90,000.00 raised from private companies. Action today is one of the premier micro finance organizations in the world, with a network of leading partners that spans Latin America, the United States and Africa". Other success story of Micro finance include, Sewa bank, established in 1973 in India by a group of self-employed woman. Grameen bankis another MF Institution, established by professor MuhammedYunus in Bangladesh. The objective of Prof. Yunus was to address the banking problem faced by the poor through a programme of action – research. For the purpose of ascertaining the effect of MFBs on African economies, the countries of Cameroon, Nigeria and Uganda is chosen as the sample size of this study.

**Microfinance Banks and Sub-Sahara African Economy**

Most countries in Sub-Sahara Africa have adopted micro-financing as a strategy for poverty reduction. Uganda was one of the first countries to adopt the macro concept of micro-financing. The successes recorded, attracted the attention of other countries. Hence nearly all the countries in sub-Sahara Africa now operate one form of micro-finance bank or micro-finance institution. A detailed examination of micro-finance banks on the economics of Nigeria, Cameroon and Uganda gives a clear picture of micro-finance banks impact on the Sub-Sahara African economy. Below is a detail study of micro-finance bank in the aforementioned countries.

**Microfinance Bank and Micro and Small Enterprises in Cameroon**

In Cameroon, microfinance bank is known and referred to as microfinance institution (MFI). According to Ngwa (2019) by 1980, MFI was already well established in Cameroon. The factor that accounted for the growth was the crises in the financial sector which lead to the collapse of many conventional banks. As a result, people started patronizing MFI's by opening account with them.

Writing on the same subject matter, Forbeneh and Chi (2018), argued that the growth of microfinance institution in Cameroon was occasioned by the global financial crises of the 80's.

They furtherargued that state owned enterprise were privatized in addition to deregulation of the financial market. The effect was the emergence of small scale enterprises.

Thus the government encouraged the growth of small and medium scale enterprises (SMEs) for two reasons. First as a means for poverty reduction.

Secondly as a tools for employment generation. It has been argued that SMEs are the main source of employment in Cameroon. In spite of the important roles of SME in the economy finance has been identified as an obstacle to growth. Result of their findings show that SMEs are unable to access bank credit due to the unwillingness of conventional banks to grant them loan. Similarly, SMEs are unwilling to apply for bank credit.

Ngwa (2019) opins that the gap created by commercial banks refusal to fund SMEs was filled by microfinance institutions. MFI has provided series of services to SMEs. The service range from providing start-up capital, granting credit, serving as business consultants and other services to SMEs. Unlike commercial banks, MFI do not demand for collateral securities before granting SMEs loan.

**Microfinance Banks and Micro and Small Scale Enterprise Growth in Nigeria**

The concept of Microfinance has gained popularity since its introduction in 2005.Although MFB has contributed in different ways to the economic growth of Nigeria, DejiPopoola (MD Citiserve Micro Finance Bank) accused MFB of going into none core areas, such as LPO finance and other financing option which would guarantee faster and bigger returns. The table and diagrams below illustrate the contribution of microfinance banks and Deposit money banks loans to the micro and small scale sector of the economy.

**Table 1 Micro Finance Bank Allocation of Loans and Advances to Micro and Small Scale Enterprises by Microfinance Banks for the period: 1992 - 2018**

| Year | MSE | DRM | SHF | UCI |
|---|---|---|---|---|
| 1992 | 135.80 | 639.60 | 227.00 | 24.20 |
| 1993 | 654.50 | 2,188.20 | 625.30 | 246.60 |
| 1994 | 1,220.60 | 3,216.70 | 935.40 | 323.10 |
| 1995 | 1,129.80 | 2,834.60 | 861.00 | 287.90 |
| 1996 | 1,400.20 | 2,876.30 | 870.70 | 572.80 |
| 1997 | 1,618.80 | 3,181.90 | 1,385.80 | 26.80 |
| 1998 | 2,526.80 | 4,454.20 | 1,479.30 | 406.70 |
| 1999 | 2,958.30 | 4,140.32 | 1,858.40 | 2,842.40 |
| 2000 | 3,666.60 | 7,689.40 | 2,773.60 | 1,518.31 |
| 2001 | 1,314.00 | 3,294.00 | 1,034.80 | 543.65 |
| 2002 | 4,310.90 | 9,699.20 | 3,825.60 | 1,896.99 |
| 2003 | 9,954.80 | 18,075.00 | 7,011.10 | 3,525.58 |

| | | | | |
|---|---|---|---|---|
| 2004 | 11,353.80 | 21,407.90 | 8,156.40 | 4,499.07 |
| 2005 | 28,504.80 | 47,523.70 | 18,107.30 | 16,865.06 |
| 2006 | 16,450.20 | 34,017.70 | 12,829.82 | 7,633.10 |
| 2007 | 22,850.20 | 41,217.70 | 21,810.70 | 11,733.10 |
| 2008 | 42,753.06 | 61,568.10 | 37,021.80 | 19,048.20 |
| 2009 | 58,215.66 | 76,662.00 | 45,166.00 | 23,952.40 |
| 2010 | 52,867.50 | 75,739.60 | 43,997.50 | 23,109.30 |
| 2011 | 50,928.30 | 59,375.90 | 29,094.80 | 19,847.50 |
| 2012 | 90,422.25 | 98,789.10 | 42,829.10 | 35,155.20 |
| 2013 | 94,055.58 | 121,787.60 | 64,939.00 | 36,347.20 |
| 2014 | 112,110.15 | 110,688.41 | 53,039.03 | 44,683.52 |
| 2015 | 187,247.34 | 159,453.52 | 91,376.50 | 57,481.77 |
| 2016 | 196,194.99 | 149,798.38 | 77,868.65 | 54,716.40 |
| 2017 | 194,024.94 | 186,405.86 | 91,486.51 | 79,370.66 |
| 2018 | 207,963.32 | 201,721.84 | 96,787.92 | 75,779.53 |
| 2019 | 262,630.00 | 260,810.46 | 117,983.43 | 91,630.47 |
| 2020 | 283,640.40 | 281,675.30 | 127,422.10 | 98,960.91 |

**Source**: Author's computation 2020 and CBN (2019) Statistical bulletin

Key:

MSE - Micro Finance Bank Loan to Micro and Small Sale Enterprises

DRM–Deposit Received byMicro Finance Banks

SHF - Shareholders' Fund

UCI – Unclassified Incomes

**Table 2 Log form of Micro Finance Bank Allocation of Loans and Advances to Micro and Small Scale Enterprises by Microfinance Banks for the period: 1992 - 2020**

| Year | LOG(MSE) | LOG(DRM) | LOG(SHF) | LOG(UCI) |
|---|---|---|---|---|
| 1992 | 4.911183 | 6.460843 | 5.424950 | 3.186353 |
| 1993 | 6.483872 | 7.690835 | 6.438232 | 5.507768 |
| 1994 | 7.107098 | 8.076111 | 6.840974 | 5.777962 |
| 1995 | 7.029796 | 7.949656 | 6.758095 | 5.662613 |
| 1996 | 7.244370 | 7.964260 | 6.769297 | 6.350537 |
| 1997 | 7.389440 | 8.065234 | 7.234033 | 3.288402 |
| 1998 | 7.834709 | 8.401603 | 7.299324 | 6.008076 |
| 1999 | 7.992370 | 8.328528 | 7.527471 | 7.952404 |
| 2000 | 8.207019 | 8.947598 | 7.927901 | 7.325356 |
| 2001 | 7.180827 | 8.099858 | 6.941963 | 6.298298 |
| 2002 | 8.368901 | 9.179799 | 8.249471 | 7.548023 |

| | | | | |
|---|---|---|---|---|
| 2003 | 9.205810 | 9.802285 | 8.855250 | 8.167800 |
| 2004 | 9.337308 | 9.971515 | 9.006558 | 8.411627 |
| 2005 | 10.25783 | 10.76898 | 9.804070 | 9.732999 |
| 2006 | 9.708093 | 10.43464 | 9.459527 | 8.940249 |
| 2007 | 10.03672 | 10.62662 | 9.990156 | 9.370169 |
| 2008 | 10.66320 | 11.02790 | 10.51926 | 9.854728 |
| 2009 | 10.97191 | 11.24716 | 10.71810 | 10.08382 |
| 2010 | 10.87554 | 11.23506 | 10.69189 | 10.04799 |
| 2011 | 10.83817 | 10.99164 | 10.27831 | 9.895833 |
| 2012 | 11.41225 | 11.50074 | 10.66497 | 10.46753 |
| 2013 | 11.45164 | 11.71003 | 11.08120 | 10.50087 |
| 2014 | 11.62724 | 11.61447 | 10.87878 | 10.70736 |
| 2015 | 12.14019 | 11.97951 | 11.42274 | 10.95922 |
| 2016 | 12.18686 | 11.91705 | 11.26278 | 10.90992 |
| 2017 | 12.17574 | 12.13568 | 11.42395 | 11.28188 |
| 2018 | 12.24512 | 12.21465 | 11.48028 | 11.23558 |
| 2019 | 12.47850 | 12.47155 | 11.67830 | 11.42552 |
| 2020 | 12.55546 | 1254851 | 11.75526 | 11.50248 |

**Source**: Author's computation 2020 and CBN (2019) Statistical bulletin

Key:

LOG(MSE) - Micro Finance Bank Loan to Micro and Small Sale Enterprises

LOG (DRM) - Deposit Received byMicro Finance Bank

LOG (SHF) - Shareholders' Fund

LOG(UCI) – Unclassified Incomes

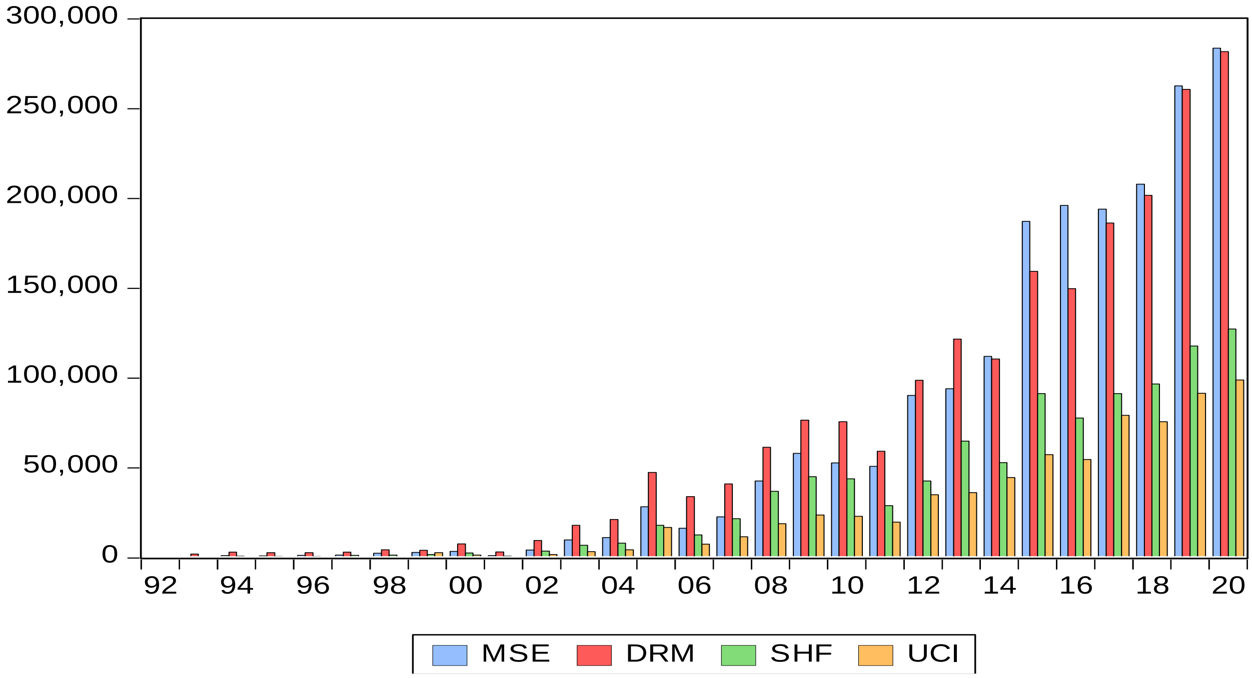



Fig. 1 Column chart representation of Micro Finance Bank Allocation of Loans and Advances to Micro and Small Scale Enterprises by Microfinance Banks for the period: 1992 – 2020

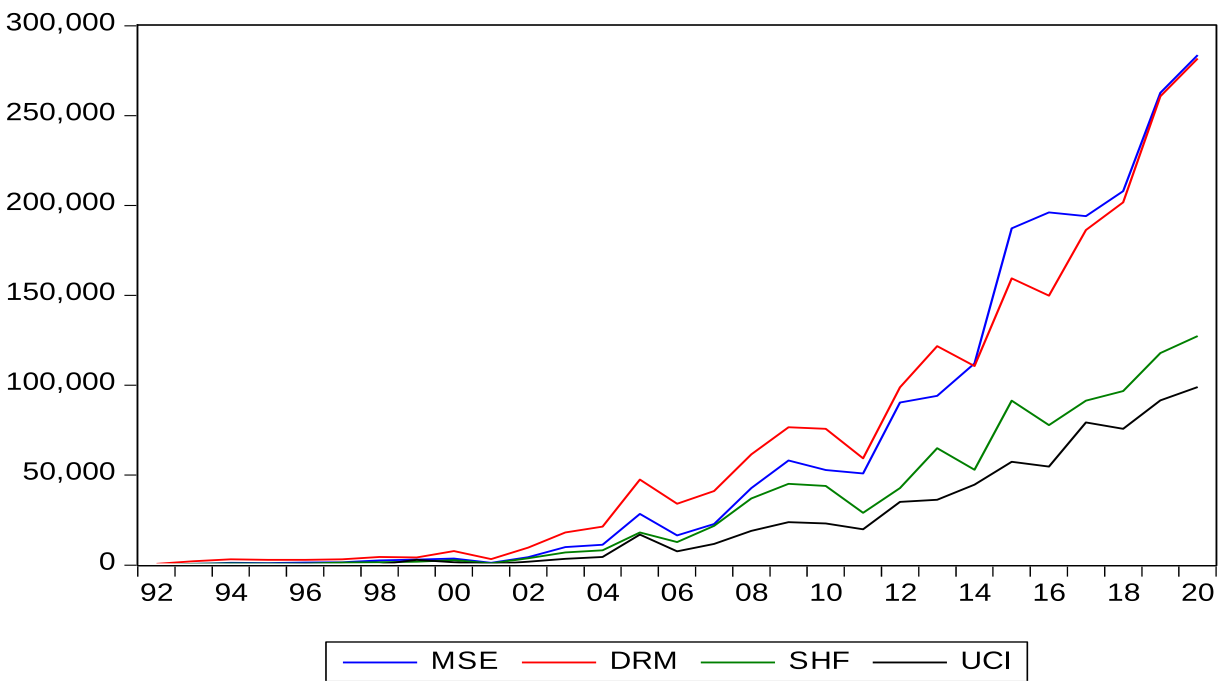



Fig. 2Line graph representation ofMicro Finance Bank Allocation of Loans and Advances to Micro and Small Scale Enterprises by Microfinance Banks for the period: 1992 - 2020

**Ordinary Least Square (OLS)**
**Table 3 Ordinary Least Square (OLS) Result**

| | | | | |
|---|---|---|---|---|
| Dependent Variable: LOG(MSE) | | | | |
| Method: Least Squares | | | | |
| Date: 04/03/21 Time: 13:58 | | | | |
| Sample: 1992 2020 | | | | |
| Included observations: 29 | | | | |
| | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| | | | | |
| C | -1.986369 | 0.645512 | -3.077198 | 0.0050 |
| LOG(DRM) | 0.879178 | 0.312833 | 2.810371 | 0.0095 |
| LOG(SHF) | 0.254423 | 0.265509 | 0.958244 | 0.3471 |
| LOG(UCI) | 0.045577 | 0.061536 | 0.740659 | 0.4658 |
| | | | | |
| R-squared | 0.992112 | Mean dependent var | | 9.652316 |
| Adjusted R-squared | 0.991166 | S.D. dependent var | | 2.167386 |
| S.E. of regression | 0.203713 | Akaike info criterion | | -0.216764 |
| Sum squared resid | 1.037478 | Schwarz criterion | | -0.028172 |
| Log likelihood | 7.143080 | Hannan-Quinn criter. | | -0.157699 |
| F-statistic | 1048.169 | Durbin-Watson stat | | 0.639940 |
| Prob(F-statistic) | 0.000000 | | | |
| | | | | |

Source: Author's Computation using E-views 9.0 (2020)

Estimation Command:
=========================
LS LOG(MSE) C LOG(DRM) LOG(SHF) LOG(UCI)

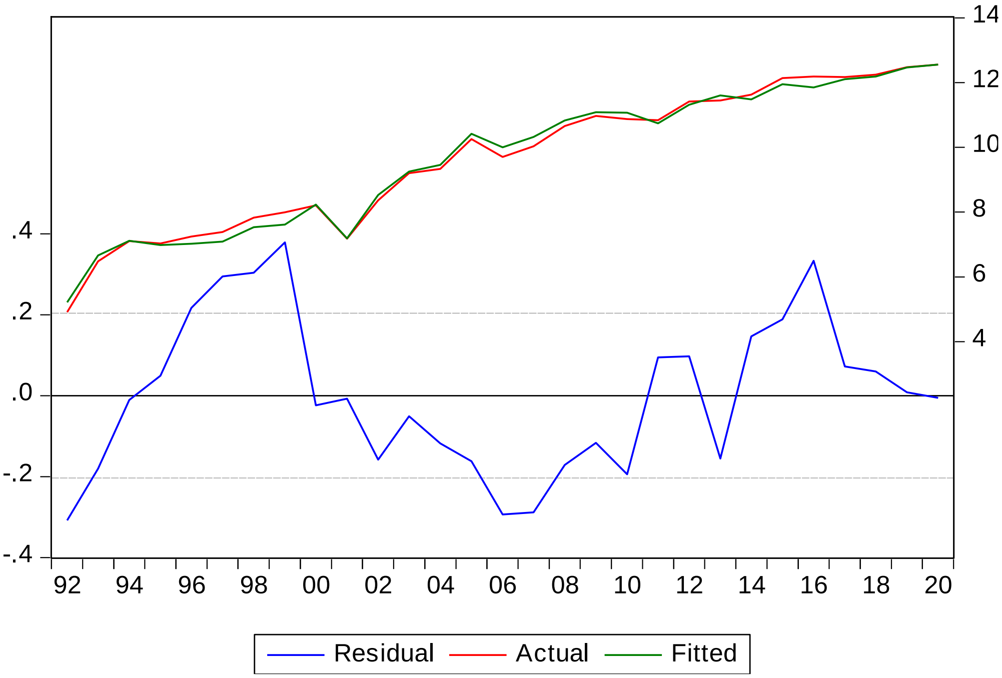
Estimation Equation:
=========================
LOG(MSE) = C(1) + C(2)*LOG(DRM) + C(3)*LOG(SHF) + C(4)*LOG(UCI)

Substituted Coefficients:
=========================
LOG(MSE) = -1.98636896194 + 0.879177943001*LOG(DRM) + 0.254422819871*LOG(SHF) + 0.0455770388428*LOG(UCI)

**OLS Result Interpretation**

Table 3 shows the result of ordinary least square. With the exception of LOGDRM, the other two namely LOGSHF and LOGUCI have significant impact on LOGMSE in Nigeria.However, all coefficients of the independent variablesare positively signed which connotes that an increase in the of logs of DRM, SHF AND UCI bythe magnitudes of 0.879177, 0.254422 and 0.0455770 respectively will lead to a unit increase in magnitude ofthe coefficient of log of MSE (the dependent variable) in Nigeria, the converse of which is also true. Alsolooking at the result of the OLS regression it can be seen from the p-values ofthe coefficientsthat both LOGSHF and LOGUCIwere found to have significant impact on the LOGMSE at 95% level of confidence, in that their p-values, 0.3471 and 0.4658 respectively are greater than the 0.05 critical level LOGDRM was found to have no significant impact on the LOGMSE at 95% level of confidence, in that its p-value,0.0095 is less than the 0.05 critical level.

**Goodness of fit**




Source: Author's Computation using E-view 9.0 (2020)

The coefficient of multiple determination, R-square, which measures the goodness of fit of the estimated regression curve, or put another way, how well the independent variables explain the variations observed in the dependent variable; in this case R-square statistic of 0.992112showing that the independent variables can account for 99% of the changes observed in the dependent variable.

**MFBs in Uganda**

On the African continent, Uganda is leading on the transformation of her economy by creating enabling environment for micro finance institution to operate. The emergence of formal MFB in Uganda as a source of empowering the poor is relatively new. The advent of a formal micro finance Institution in Uganda is an offshoot of two reform programs of the government. The Economic Reform Programme was introduce in 1987, followed by Financial sector Reform in 1991. In 1997 the Government introduce another programme, known as Poverty Eradication Action Plan (PEAP). The objective of PEAP is to reduce absolute poverty to less than 10% by the year 2017. The case of Uganda is of particular interest in Africa especially when viewed against the background, that Uganda had a pro-longed history

Several success are attributed to micro finance operations in Uganda. First, was the appointment of the Minister for microfinance by President YaweriMuseveni in June 2005. Gabriela Braun and Alfred Hannig noted: “The Government concentrated on poverty eradication combined the absolute poverty line from 56 percent in 1992/93 to 35 percent in 1999/2000” (Lederwood J & White, 2006)

Among other recorded success of micro finance in Uganda are:

- Enabling policy framework
- Clear policy on the way to regulate Finance Operations
- Clear mandate for the Bank of Uganda (Central Bank) in formulating the draft policy and micro finance Deposit-Taking Institutions Act.
- Stakeholders consultation and collaboration
- Donor support, coordination and collaboration
- All the licensed micro finance institutions have a wide network with their service touching nearly every family.
- Uganda started with 4 licensed micro finance institutions in the mid 80’s by 1990 loans have been given to about 50,000 people. By 2003 there were 1500 micro finance outlets serving about 400,000 borrowers and 900,000 savers.

## Conclusion

From the experience of the performance of formal micro banks in other part of the world, the researchers concludes that Africa nation has taken the right steps towards revolutionizing the micro and small scale enterprises (M & SSE). Consequently the M & SSE sector will then contribute meaningfully towards sustainable economic growth and development of the continent. Thereby reducing the level of poverty on the region.

One of the criticisms of the programme has been in the area of loan recovery. Some scholars had argued that directed credit programmes, especially to the poor has a low history of recovery. Another point is the cost of maintaining and servicing micro credits which they say is high or the same as that of maintaining credit of large amount.

Micro finance success in placeswhere they succeed showed that woman has excellent repayment rate.The poor are willing and able to pay interest rate that cover costs of operation. The micro credit does not get to most of the target audience. A study by Elumankama(2007) on Agricultural loans in Nigeria revealed that the loan do not get to the actual farmers. The loans are hijacked by civil servants and the privileged ones in the society. These groups of people divert the loans to other purposes they were not originally intended. It is among these groups that the highest rate of default in payment occurs, while repayment rate is high among the actual farmers Micro finance is not for person who are extremely poor, it is for persons who have the ability to repay loan.

## Recommendations

1. Appropriate supervision of MFI by the regulatory authority, to avoid diversion of MF funds to non-core areas of operation:
2. Clear directives to MFB should be given on micro credit disbursement. This is to ensure that micro credit gets to the targeted population.
3. The government should provide an enabling environment for proper mobilization of macro saving both in urban and rural areas.

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