**EFFECT OF LENDING AND LOAN RECOVERY ON THE PERFORMANCE OF MICROFINANCE BANK IN ENUGU STATE**

**(A STUDY OF BETHEL MICROFINANCE BANK ENUGU ( 2007-2017)**

**BY**

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**GODFREY OKOYE UNVERSITY, ENUGU.**

**JULY, 2018**

**TITLE PAGE**

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**U14/ MSS/ACC/031**

**BEING A PROJECT PRESENTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES GODFREY OKOYE UNVERSITY, ENUGU**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE, (B.Sc)DEGREE IN ACCOUNTING**

**SUPERVISOR: MR ELIAS AGBO**

**JULY, 2018**

**DECLARATION**

I, Dodo Boma Sandra with the registration number U14/MSS/ACC/031 am a student of the Department of Accounting, Faculty of Management and Social Sciences Godfrey Okoye University Enugu. I declare that the research work titled “Effects of Lending and Loan Recovery on the Performance of Microfinance Banks in Enugu State (A Study of Bethel Microfinance Bank in Enugu)” submitted in partial fulfillment of the requirements for the award of Bachelor of Science (B.SC) in Accounting is my original work and has not been submitted either in part or in full of any other degree or diploma either in this or any other tertiary institution.

**…………..……………… ………………………**

**Dodo Boma Sandra Date**

**CERTIFICATION PAGE**

This is to certify that the research work, Effect of Lending and Loan Recovery on the Performance of Microfinance Banks in Enugu State (A Study of Bethel Microfinance Bank, Enugu) by Dodo Boma Sandra, in the Department of the Accounting and Finance has been examined and approved at the meeting the requirement for the award of Bachelor of Science (B.Sc.) Degree in Accounting and Finance, Faculty of Management and Social Science, Godfrey Okoye University, Enugu.

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**Dean of Faculty**

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**External Examiner Date**

**DEDICATION**

This project work is dedicated to Almighty God for his infinite mercy, grace, love and protection on me.

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My gratitude first and foremost goes to God Almighty for his protection and grace throughout this programme.

I wish to express my profound gratitude to my project supervisor, Mr. Elias Agbo, who in spite of his work load and tight schedule spared his time to go through this manuscript one after the other, making corrections and giving necessary advice I wish to appreciate the head of Department Dr. S. Udeh for his support.

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**ABSTRACT**

*This research is focused on impact of microfinance bank on unemployment in Nigeria. Microfinance provides people with capital to start and/or expand their businesses, as small businesses with microfinance support have grown into medium enterprises creating employment opportunities for others. Survey research design was used to carry out the study. This study reveals that there is a casual relationship between lending and loan recovery in microfinance banks and there is a significant positive correlation between lending and loan recovery in Nigerian microfinance banks. It recommends that banks should device appropriate strategies to ensure adequate lending and loan recovery management, since not doing so could spell doom for the banks in terms of profitability.*

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**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background of the Study**

The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Christen (1997) defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches. However microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes.

Microfinance bank as noted by (UNDP 2003) is a set of innovative and alternative financial service to the poor who do not have access to formal institution, it is a banking institution established to provide financial aid in the areas of micro credit, micro insurance to individuals, group and institutions, non-governmental organization for the purpose of development.

According to CBN (2005), “microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions’. Microfinance bank is featured by three distinguishing factors these are:

1. The absence of asset-based collateral.
2. The smallness of loans advanced and or savings collected.
3. Ease of operations.

Microfinance is strictly based on providing of timely, affordable, diversified, and dependable financial services to the active poor which otherwise would have little or no access to financial services. It is a financial intervention that focuses on the low income group of a given society.

Microfinance perceived as a financially sustainable instrument meant to reach significant number of poor people of which most are not able to access financial service because of the lack of strong retailing financial intermediaries. Access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development (World Bank-Africa Region, 1999). Microfinance as a sector has the potential to reduce poverty by bringing a significant improvement in the lives of the active poor who are largely women. The introduction of microfinance into the Country has made it possible for operators of small businesses to access credit facilities which hitherto were difficult to access due to difficult modalities by the formal financial institutions. Even though the amount involved are modest not huge, it supports their businesses to some extent.

Microfinance provides people with capital to start and or expand their businesses. Small businesses with microfinance support have grown into Medium Enterprises creating employment opportunities for others. Microfinance projects and programs have gone a long way in building the capacity of clients in the areas of loan management, customer care, pricing, marketing and selling on credit as well as on social and community issues.

Extension of credit facilities is one of the major activities of all Microfinance institutions including Savings and Loans Companies, Rural banks, Financial Non-Governmental Organizations (FNGOs) and credit Unions. This is usually evidenced by the large proportion that loans constitute in the overall operating assets of these lending institutions. Healthy loan portfolios are therefore vital for lending institutions in view of their impact on Liquidity, lending capacity, earnings and profitability of the Microfinance Institutions.

Nonetheless some of the loans given out by the lending institutions unfortunately are not paid back and eventually result in bad debts with adverse consequences for the overall financial performance of the institutions. The issue of loan defaults becoming an increasing problem that threatens the sustainability of microfinance institutions. The causes of the problem are multi-dimensional and non-uniform among different literatures.

Unsettled loans are always a source of misery for lenders because if a microfinance has too much of it on its balance sheet, it can adversely affect its operations in terms of liquidity, profitability, debt- servicing capacity, Lending capacity and ability to raise additional capital. The incidence of non-performing loans in the Nigeria banking and non-banking industries including microfinances has been on the rise in recent years as their loan portfolio increases despite efforts by these financial institutions to deal with it.

**1.2 Statement of the Problem**

The sustainability of microfinance institutions depends largely on their ability to collect their loans as efficiently and effectively as possible. In other words to be financially viable or sustainable, microfinance institutions must ensure high portfolio quality based on 100% repayment ,or at worst low delinquency/default, cost recovery and efficient lending.

However of late, there have been complaints by the microfinance institutions regarding high rate of default/delinquency by their clients; which presupposes that most microfinance institutions are not achieving the internationally accepted standard portfolio at risk of 3%, which is a cause for concern because of its consequences on businesses, individuals, and the economy of Nigeria at large. Delinquency and hence default have started creeping deeply into the operations of microfinance institutions in Nigeria hence the study into the causes and control of loan delinquency/default in microfinance institutions in Nigeria.

**1.3 Objectives of the Study**

In the course of this analysis, the main objective of this work shall be, to determine the impact of lending and loan recovery on the performance of Nigeria Microfinance bank, while specific objectives shall be

1. To determine the correlation between lending and loan recovery on the Nigeria Microfinance bank.
2. To ascertain the causality relationship between lending and loan recovery in Nigeria microfinance bank.

**1.4 Research Questions**

From the aforementioned research objectives, these shall stand as the research questions

1. What is the correlation between lending and loan recovery on the Nigeria Microfinance bank?
2. What is the direction of causality relationship between lending and loan recovery in Nigeria microfinance bank?

**1.5 Statement of Hypothesis**

This research work will be conducted with a view of testing the following hypothesis

**1. H01:** Lending and loan recovery have no significant correlation in Nigeria microfinance bank.

**2. H02:**  There is no causality relationship between lending and loan recovery in Nigeria microfinance bank.

**1.6 Significant of the study**

The significance of the study is derived from the basic feature of lending as an all-time important function of most banks. The finding of this study is believed would be of great value to the government, the industrial sector operators, other researchers, to students alike and the society at large.

**Government:** this research work shall serve as an eye opener to the government and its agencies, recommendations made on this work shall stand to direct them during policy making and review process.

**Industrial Sector:** industrial sector shall stand to benefit from this research work for it will educate them on the prospect of returns on investment on any loan they want to embark on.

**Other researcher:** potential researcher on this topic shall find this research work as a reference material and a guide to his/her own work.

**1.7 Scope of the Study:**

This work focuses on the impact of microfinance bank on unemployment between in Nigeria, with special reference to Bethel Microfinance Banks in Enugu for a period of 10 years, from 2007 to 2017. The study collects data on lending and loan recovery from the bank of concern and evaluates its correlation.

 **1.8 Limitations of the Study**

The biggest challenges of this study were:-

**Data availability**: - The ability of a user to access information or resources in a specified location and in the correct format, this is the main problem of using questionnaires as a method of data collection. Due to the fact that this is not a face to face interview kind of questions, sometimes the respondents might not be willing to give exact answers for some questions and they may refuse to respond to a question on the grounds that they are scared on what will be done with the questionnaire, either will send direct to the responsible companies.

**Bureaucracy**: - This is another problem that the researcher was faced during the fieldwork. Some respondents were not able to provide data until they got permission from their superior. Even though bureaucracies sometimes seem inefficient or wasteful, setting up a bureaucracy helps ensure that thousands of people work together in compatible ways by defining everyone’s roles within a hierarchy.

**Confidentiality of Data**: - A property of data, usually resulting from legislative measures, which prevents it from unauthorized disclosure. The procedures in place to prevent disclosure of confidential data, including rules applying to staff, aggregation rules when disseminating data, provision of unit records some of the respondents were not providing their true opinions during the interviews because they regard some of the questions as sensitive. However, this group was small and the researcher assumed it did not affect the overall results and conclusions.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

The review of related literature focused on four areas namely:

1. Conceptual framework
2. Theoretical framework
3. Empirical review
4. Review Summary

2.1 **Conceptual framework**

**2.1.1 Concept of Micro-Finance**

Over the years, the government had embarked on series of policy and institutional reforms aimed at enhancing the flow of finance from the banking system to small and medium scale industries (SMIs) as well as those involved in the petty business (Micro) activities and to entrepreneurial ventures at the informal level in particular; the important objective of boosting the performance of the entrepreneurial activities has not materialized. Banks perceive micro activities as bad risk, hence the very low funding to the sector coupled with issues of high costs and short tenor. Since a robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to credit, the Central Bank of Nigeria (CBN) as part of its reform agenda embarked on the micro-finance institutions aimed at providing financial services to entrepreneurs who are not served by the conventional financial institutions. There are several definitions to the concept of micro-finance. It is about providing financial services to the poor and micro entrepreneurs not served by the conventional financial institution. It is the provision of very small loans (micro-czredit) to the micro entrepreneurs to help them engage in new productive business activities. It includes a broader range of services, mainly credit savings opportunities, insurance money transfers and other financial products targeted to the poor and entrepreneurs. Micro-financing is not a new phenomenon in the Nigerian society as evidenced by cultural economic activities such as “ISUSU”, “Adashi”, “Otataje”, “Aje” etc which were practiced to provide funds for producers in our rural communities. The effort of government in Nigeria is to modernize micro-finance in our rural and urban communities to improve the productive capacity of the rural and urban entrepreneurs, enhance their economic standing which alleviates the level of poverty and aggregates to improve development of the national economy. In Nigeria, the formal financial system provides services to about 35 percent of the economically active population while the remaining 65 percent are excluded from access to financial services. The majority of the population was served by the informal sector through non-governmental organization that is micro-finance institutions.

Micro-finance in Nigeria is culturally rooted and dates back to several centuries. The traditional micro-financial institutions provide access to credit for the rural and urban small-scale entrepreneur. They are mainly Self-Help Groups (SHGs) or Rotating Savings and Credits Association (ROSCAs) types. Micro-finance Services provided by the government had adopted the traditional supply-led subsidized credit approach mainly directed to the agricultural sector and farm activities, such as poultry, fishing, trading, tailoring, weaving, black smiting and agro-processing and transportation. However, since the early 1980‟s, various organizations have emerged to champion the cause of micro-finance activities on Nigeria.

**2.1.2 Microfinance in Nigeria**

The importance of microcredit to the growth of any economy can never be overemphasized, as it is the solution to helping the poor. Micro-enterprises or small businesses are important in situations where economic and social environments have had a disappointing effect on the people, so that the poor can survive under micro-financing. Yet these small businesses play a great role in providing jobs thereby contributing positively to the GNP. Despite this, the enabling environment is still lacking in Africa to make this function well. The weakness of the enabling environmental has caused untold hardship on the people. Lack of infrastructural facilities has stood on the way of small business owners.

Part of the fallouts of the implications of SAP in Nigeria was that it caused varying degrees of hardship to different vulnerable groups of the population. Therefore, to give relief, improve earnings opportunities, alleviate poverty and ignorance among the poverty stricken, Better Life Programme (BLP) was launched in 1987 but later changed to Family Support Programme (FS P)/Family Economic Advancement Programme (FEAP) under Abacha in 1993. To benefit from microcredit scheme of BLP/FSP/FEAP, individuals must be members of cooperative societies. Since 1987, the efficacy of microcredit through the cooperative regime to alleviate poverty has come under a paucity of loanable funds, absence of support institutions in the sector, unwillingness of conventional banks to support micro enterprises, weak internal control, poor credit administration and asset quality, low management capacity and unavailability of clients. This is an important test since poverty alleviation has turned out to be a key policy debate in recent development literature and Nigerian Government is fully committed to alleviating poverty among its citizens. The Nigerian economy is full of attempts at alleviating poverty especially among vulnerable groups based on cooperative ideals with large degrees of failure. According to the World Bank (1995) the Peoples Bank and Community Bank failed in achieving their goals and objectives. The failure experienced through these approaches (i.e. Peoples Bank and Community Bank) were as a result of the wrong perception by members of the unique framework of cooperatives due to poor financial management by some cooperatives, lack of understanding of the status of cooperatives by a large number of beneficiaries, among others. The view of these authors is that micro credit through cooperative does not automatically guarantee poverty alleviation. They maintained that for success to be achieved by such cooperatives they need to depend largely on loan administration, efficient cooperative management, and on whether the organized cooperative is routed on felt needs of the citizenry rather than on undue emphasis on business orientation and profitability. In the case of Nigeria, over 80 million people (65% of the active population) remain unserved by the formal financial institutions (Central Bank of Nigeria (CBN), 2006). Hence there is a need for MFIs to reach the unreached and serve the un-served.

**2.1.3 Loan performance**

Effective credit management practices and loan accounting practices should be performed in a systematic way and in accordance with established policies and procedures. To be able to prudently value loans and to determine appropriate loan provisions, it is particularly important that banks have a system in place to reliably classify loans on the basis of credit risk to facilitate repayment of loans by customers (Kagwa, 2003).Larger loans should be classified on the basis of a credit risk grading system. Other, smaller loans may be classified on the basis of either a credit risk grading system or payment delinquency status. Both accounting frameworks and Basel II recognize loan classification systems as tools in accurately assessing the full range of credit risk (Hanson & Rocha, 1986).

A well structured loan grading management system is an important tool in differentiating the degree of credit risk in the various credit exposures of a bank. This allows a more accurate determination of the overall characteristics of the loan portfolio, probability of default and ultimately the adequacy of provisions for loan losses. In describing a loan grading system, a bank should address the definitions of each loan grade and the delineation of responsibilities for the design, implementation, operation and performance of a loan grading system (Glen, 1996).

Glen (1996),credit risk grading management processes typically take into account a borrower’s current financial condition and paying capacity, the current value and reliability of collateral and other borrower and facility specific characteristics that affect the prospects for collection of principal and interest. Financial institutions should put in place policies that require remedial actions be taken when policy tolerances are exceeded. These institutions should also document their validation process and results with regular reporting of the results to the appropriate levels of management. Additionally, the validation of internal credit risk assessment models should be subject to periodic review by qualified, independent individuals for example internal and external auditors (Kagwa, 2003).

**2.1.4 Causes of loan repayment default**

According to Ahmad, (1997), causes of loan default include; lack of willingness to pay loans coupled with diversion of funds by borrowers, wilful negligence and improper appraisal by credit officers. In addition, Hurt and Fesolvalyi (1998), cited by Kwakwa, (2009) found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directly affects the repayment ability of borrowers. Balogun and Alimi (1988) also identified the major causes of loan default as loan shortages, delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, non profitability of farm enterprises and undue government intervention with the operations of government sponsored credit programmes. Moreover, Akinwumi and Ajayi (1990) found out that farm size, family size, scale of operation, family living expenses and exposure to sound management techniques were some of the factors that can influence the repayment capacity offarmers.

According to Olomola (1999), loan disbursement lag and high interest rate can significantly increase borrowing transaction cost and can also adversely affect repayment performance. After surveying different banks in India, Berger and De Young (1995) identified the main causes of default of loans from industrial sector as improper selection of an entrepreneur, deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and schedule of repayment, lack of follow up measures and default due to natural calamities. The study conducted by Okorie (1986) in Ondo state in Nigeria revealed that the nature, time of disbursement, supervision and profitability of enterprises, contributed to the repayment ability and consequently high default rates. Other critical factors associated with loan delinquencies are: type of the loan; term of the loan; interest rate on the loan; poor credit history; borrowers’ income and transaction cost of the loans. Okpugie (2009) also indicated that, high interest charged by the microfinance banks has been discovered to be the reason behind the alarming default. This was also confirmed by Vandel (1993), who also found that high interest rates charged by banks tend to facilitate default by borrowers.

According to Gorter and Bloem (2002) non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (bad weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. The problem of non- performing loans is widespread. Nishimura, Kazuhito, and Yukiko, (2001) state that one of the underlying causes of Japan’s prolonged economic stagnation is the non-performing or bad loan problem. They explained that some of the loans made to companies and industries by financial institutions during the bubble era became non-performing when the bubble burst. This delayed structural reforms and prevented the financial intermediary system from functioning properly. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans, Kohansal and Mansoori (2009). According to them a number of factors can cause loan defaults some of which are: Interest rate ceilings usually imposed by the government, monopoly power in credit markets often exercised by informal lenders, large transaction costs incurred by borrowers in applying for loans, moral hazard problems and many more.

**2.1.5 Five Cs of Credit Management**

Selten (1975) postulated five credit management practices are character, capacity commitment and collateral. Microfinance institutions should observe when giving out credit to customers to in order to maintain financial soundness of the firm (Vercammen, 1995).Financial institutions consider customer’s character in making a decision on the level of credit worthiness of a borrower. Most financial institutions value the borrower’s reputation, honesty and integrity and account history as a sign of willingness to repay the borrowed funds. The financial institution might also consider knowledge and experience in your area of business, your grasp of financial principles and the soundness of your plans for the future of your business (Powell & Mylenko, 2004).

In addition to the borrower’s willingness to repay the loan, lenders are interested in your capacity for repaying it. The lender will examine your business to determine whether you have sufficient liquidity to make your scheduled payments and continue to operate the business. The level of liquidity or working capital of the customers is the cash in hand or the ability to generate. A borrower can demonstrate capacity through demonstrating that he is able to control costs and operate the business at a profit (Powell, Mylenko, Miller & Majnoni, 2004).

The borrower should show a potential lender that you are personally and financially committed to your business. Any financial institution is interested to know the personal choices that one has made that demonstrate commitment to the business; including lifestyle choices like where you live and how many hours you work (Selten, 1975).The lender will assess the borrower’s financial commitment by comparing the amount that he or she is risking on the business to the amount that the borrower intends the lender to risk. Lenders protect themselves against potential losses ensuring that borrower secure loan with collateral. When a borrower borrows money he or she is required to give the lender the right to take specific business assets in the event of a default. Lenders prefer assets, like buildings and land, which retain their value even when business conditions are poor, but they also consider how quickly they can sell the assets to recover their in investment.

**2.2.0 Theoretical Literature**

A microfinance bank as described by the CBN microfinance policy refers to; ‘any company licensed to carry on the business of providing microfinance services, such as savings, loan, domestic fund transfer, and other financial services that are needed by the economically active poor, micro, small, and medium enterprises to conduct or expand their businesses as defined by these guidelines’ (CBN, 2005).

Joint liability lending was exclusively the focus of the first wave of theoretical work on microfinance. Joint liability lending is usually used when there is the existence of the inability of one individual to repay his loan hence, the need for group members who are expected to repay the loan on his behalf. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral (Fischer and Ghatak, 2009). An institution that gives poor people the proper incentives to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank (Ghatak and Guinnane, 1999). Other mechanisms employed by microfinance include frequent repayment, sequential lending and dynamic incentives (e.g., Jain and Mansuri, 2003; Roy Chowdhury, 2005 and Fischer and Ghatak, 2009), collusion (Laffont, 2003), group composition and matching (Bond and Rai, 2009). The theory of the firm is also very crucial in analyzing the impact of microfinance with the bank capital channel and agency theories as complimentary theories. The theory of the firm study the behaviour of enterprises in respect of: (i) production inputs; (ii) production methods; (iii) quantity produced; and (iv) the price of the final product (Samuelson and Nordhaus, (1996). The bank capital channel theory views a change in interest rate as affecting lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement. Thus, an increase in interest rates will raise the cost of banks’ external funding, but reduce banks’ profits and capital. The response is for a reduction in actual loans approved, if the capital constraint becomes binding.

Basically, banks are subjected to both market and regulator who imposed capital requirements. For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank’s total assets. For instance, microfinance banks are expected to maintain a minimum of 40 per cent liquidity ratio of total deposits. Thus, the ability of banks to grant loans is constrained by the amount of financial resources at their command, based on the capital requirements. The agency theory is concerned with how agency affect the form of the contract and the way they are minimized, particularly, when contracting parties are asymmetrically informed. Asymmetric information refers to situations in which one party to a transaction has more information about the transaction than the other. This situation could cause markets to deviate from the conventional behaviour patterns and lead to moral hazards and adverse selections (Akerlof, 1970). Most often than not, microfinance organizations use high frequency repayments, where loan recipients are required to repay their loans in regular installments, beginning soon after the loan, inducing ‘fiscal discipline’ among the borrowers (Jain and Mansuri, 2003).

Dauda (2007) evaluates the performance of Nigeria’s community banking scheme and observes that deposits generated significantly grew over the period of evaluation (1992 – 2004). The study attributes the deposit growth to improved grass root banking habit. Although their aggregate loan portfolio to agriculture and rural based real sector activities increased nominally over the period, the credit exposures are relatively much lower than their exposure to general commerce, (19.2% against 47.6%). The study remarks that this trend is counter-productive to policy efforts at boosting real sector growth and sustainable economic development in Nigeria.

Oluyombo (2011) attempt to investigate the contributions of microfinance banks to Nigeria’s economic growth and employs credits disbursed by the microfinance institutions as a proxy for their operational activities. The study employs the Ordinary Least Squares (OLS) regression technique and finds a weak, though positive relationship between Nigeria’s microfinance banking operations and the nation’s economic growth. Consequently, it recommends that microfinance institutions should channel very high proportion of their credits to the productive and real sectors of the economy for valuable impact of their operations on Nigeria’s economic growth.

Babajide (2012) studied the effects of micro financing on micro and small enterprises (SMEs) in South West Nigeria using Diagnostic Test Kaplan-Meier Estimate, Hazard Model and Multiple Regression Analysis. The study indicates that microfinance enhances survival of small business in South West Nigeria; that microfinance does not enhance growth and expansion capacity of MSEs in Nigeria; that microfinance impacts significantly on the level of productivity of MSEs operators in South West Nigeria and that the provision of non-financial service by microfinance institutions enhances the performance of micro and small enterprises (MSEs) in South West Nigeria.

Okpara (2010) examines the critical factors that induce poverty among the enterprising poor in Nigeria and the extent to which micro credits have assisted in alleviating poverty. The study’s selected causative factors for poverty include low profit, high cost of start-up or expansion funds for business and low rate of business growth. Employing two-stage regression technique within a quadratic equation framework, the study finds that in the first or take-off stage of microfinance banking, poverty was observed to have increased, though at a declining rate with increase in micro credits. In the second stage of the study which started from the year 2001, persistent increases in disbursed micro credit facilities are observed to have significantly lowered the poverty index in Nigeria. Consequently, the study calls for policy measures to establish microfinance institutions in every community in Nigeria.

**2.3 Financial Constraint Theory and Model Generation**

This study applies the financing constraints approach to investigate whether microfinance institutions improved access to credit for microenterprises in Nigeria. The financing constraints approach, pioneered by Fazzari, Hubbard, and Petersen (1988) simply tests for differences in sensitivity of investment to internal funds in enterprises with different levels of informational opacity by splitting a sample of enterprises into subsamples, defined according to suitable theoretical priors that characterize constrained and unconstrained firms (i.e., criteria such as enterprise’s age and size). For each sub-sample, a reduced- form investment equation is estimated, where investment is modeled as a function of the enterprise’s internal funds, usually defined as revenues minus expenses and taxes and used as a proxy for changes in net worth, as well as controls for enterprise-specific characteristics and investment opportunities determined from a variety of theoretical perspectives (Hubbard, 1998). Though the financing constraint is an empirical approach, its theoretical underpinnings come from recent developments in the literature on investment. Cleary, Povel, and Raith (2007) show that for positive or slightly negative levels of enterprise wealth, investment is positively related to internal finance.

The financing constraints approach has been used to study small and medium enterprises in transition countries (Budina, Garretsen, and De Jong, 2000; Hartarska and Gonzalez-Vega, 2006). The empirical analysis in this study adapted the financing constraints approach to fit the nature of the data, household microenterprises, and the microfinance market in Nigeria using two states in South West Nigeria, Lagos and Ekiti States. Lagos is a state with significant presence of MFBs. According to CBN record as at March 2009, Lagos states has a total of 147 microfinance banks, the highest concentration in the country, 74 of them have o

btained their final license, while Ekiti state has a total of 13 MFBs with only 7 having obtained their final license. According to the 2006 census figure Lagos State has a population 9 013 534 while Ekiti state has a population of 2 384 212. Therefore, Lagos state has average microfinance bank banking density of one financial institution outlet to 61, 317 inhabitants, while in Ekiti state has one financial institution outlet to 183,401 inhabitant. It is on this basis we refer to Ekiti state as financial constraint area and Lagos state as financial unconstrained area in this paper.

**Pecking order theory**

The pecking order theory is one that was developed by Myers Sanders in 1984. It implies that the financing requirements of firms (usually SMEs) are catered for in a hierarchical order. The initial source of funds is internally generated. As the amount of funds required is increased, the next source is via the use of debt. Further increase in the need of funds leads to sourcing for external equity. Thus there tends to be a negative relationship between profitability and external borrowing by small firms. This further implies that the debt equity mix of a firm should be heavily dependent on the hierarchical financing decisions over time. This theory thus maintains that businesses organizations always prefer to use internal funds. If it is not available, the organization will prefer to use debt as an external source of fund before it considers equity financing. Therefore, by simply examining a firm’s debt equity mix, one can have a general understanding on the health of that organization. When managers issue new shares, the public believe that the managers have concluded that the firm is valued more than its actual worth and as such they want to quickly utilize the opportunity. This leads to the investors valuing these new stocks lower than before. The theory also implies that older firms should have more funds available to promote growth since they have had more opportunities to accumulate internally generated funds i.e retained earnings.

Holmes and Kent (1991) found that SMEs observe strict adherence to the pecking order due to the fact that it is difficult for them to acquire externally generated finance. SMEs rely heavily on private markets thus limiting their financing sources. These restrictions on the type of finance available to SMEs coupled with the small firm‘s insistence on first using internal sources of capital (Holmes and Kent, 1991), creates a unique structure for small business.

**2.4 Financial growth theory**

This theory was developed by Berger and Udell (1998). According to them, as a business matures over the years, its financial obligations and financing options metamorphose having more information available to the public. According to them, firms that are smaller, younger and possess more ambiguous information must depend on initial internal funding, trade credit, or a type of financing called angel finance. (Angel finance is one that occurs when an individual or organization provides a limited amount of financial backing for a startup business with more favourable repayment plan). As the firm grows, it qualifies for acquiring both venture capital and midterm loans as sources of both intermediate equity and intermediate debt respectively. Further aging of the firm makes it to become bigger and less informational murky. This thus qualifies the firm to have access to both public equity and long term loans as sources of both long term equity and long term debt respectively.

The capital structure of SMEs is thus very different from that of bigger firms because SMEs rely more on informal financial market which limits the type of financing they are able to secure. The SMEs initial use of internal financing leads to a peculiar state of affairs whereby capital structure decisions are heavily dependent on the limited financing options. Therefore, SMEs possess varying capital structures and are financed by various sources at different stages of their development (Berger and Udell, 1998).

**2.5 Empirical Literature**

Habibullah and Eng (2006) conducted causality testing analysis on 13 Asian developing countries and also found that bank lending promotes economic growth. Similarly, the IMF 2008 Global Financial Stability Report indicates a statistically significant impact of credit growth on GDP growth.

Ekpenyong and Acha (2011) examine the contribution of banks to economic growth using correlation analysis, regression, diagnostic tests, Augmented Dickey-Fuller test and cointegration. While Nigerian banks are not contributing significantly to economic growth, there is Positive and significant impact of private sector credit on growth.

Aderonmu (2010), examine the impact of micro credit on the manufacturing sector output in Nigeria using Cochrane-orcutt method, five variables of manufacturing sector output, inflation rate, interest rate, loan and advances and broad money supply were used. The variables were tested for unit root using the augmented Dickey Fuller approach and were found to be stationary at levels. The study found that, inflation rate and interest rate have negative effect on manufacturing sector output while loans and advances and broad money supply have positive effect with manufacturing sector output in Nigeria.

Amin (2003), investigates the effect of bank loans and advances on industrial performance in Nigeria, co-integration and error correction techniques was adopted for the analysis, the result shows that industrial performance co-integrated with all the independent variables. Industrial sector growth is proxied by real real GDP, while commercial bank credit is captured with aggregate savings, interest rate and inflation rate. It was found that all the independent variables have positive correlation with the real GDP.

Mohd and Osman (2001) broadly categorized the causality into demand-following relationship and supply following relationship. The proponents of demand-following hypothesis argued that economic growth is a causal factor for bank lending, not the reverse. Robinson (1952) maintains that economic growth propels banks to finance enterprises. Gurley & Shaw (1969) also argued that as the economy expands and grows, the increasing demand for financial services stimulates banks to provide more credit.

Similarly, Oluitan (2009) is of the opinion that policy makers should focus less on measures leading to increase in bank lending and concentrate more on legal, regulatory and policy reforms that boost the functioning of markets and banks.

Muhsin& Eric (2000) in their study on Turkey concluded that economic growth lead to financial sector development. However, the proponents of supply-leading hypothesis are of the belief that bank lending is a veritable tool for attainment of economic growth and development. The hypothesis was originally credited to the works of Schumpeter (1934). Schumpeter strongly believed that efficient allocation of savings by means of identification and funding of entrepreneurs who invest such funds in innovation and production of goods and services, thus leading to economic growth. This view was supported important role in the rapid industrial transformations of those countries (Tang, 2003).

Specifically, it was revealed that ― a credit squeeze and credit spread evenly over three quarters in USA will reduce GDP growth by about 0.8% and 1.4% points year-on-year respectively assuming no other supply shocks to the system‖ (Oluitan, 2009). In addition studies were conducted to test the old Schumpeterian hypothesis, for example; Jao (1976) used cross-section data averaged over 1967-72 in 44 developing countries and 22 developed economies, to study the relationship between bank lending and economic growth. The study found that the money balance-GDP ratio and growth of per capita real money balances (proxy of financial intermediation variables) had a strong positive relationship with economic growth (Tang, 2003).

Obademi and Elumaro (2014) re-examine the financial repression hypothesis in order to determine the impact and direction of causality between banks and economic growth during intensive regulation, deregulation and guided deregulation regime. Ordinary least square regression and Causality test conclude that banks have significant positive impact on growth in Nigeria especially during deregulation. Nevertheless, banks appear to be passive to growth in terms of causality.

**2.6 Summary of the Literature Review**

This chapter of the research reviewed various literature related to the topic of concern under subsections. The literature review also pointed out theories related to microfinance banks propounded by several authors. The literature review further reviewed previous research carried out by other researchers on the topic of Lending and Loan Recovery in Microfinance Banks.

This chapter elaborates more on the concept of microfinance, loan performance which is one of its primary goals, it also shows the positive and negative performances on loan payment, and procedures of credit payment. It gives insight of the necessary involvement to get access to loan(The 5 Cs of credit management) and the borrower’s willingness to repay the loan while still maintaining assurance of commitment of the business and means of payback.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

This chapter discusses research design, sources of data collection, tools for data collection, the population of the study, sample and sampling techniques, instrumentation, reliability and validity of data and test instruments and data analysis techniques

**3.2 Research Design**

Design simply means the plan or blue-print on how to go about data collection and analysis, all aimed at providing solutions to the problem under investigation. Broadly speaking, it entails the specification of procedures that would be deployed in the field work (Chukwuemeka, 2002). The specific purpose of research design is to obtain data that will enable the researcher to test the pre-set hypotheses or answer research questions of the study (Asika, 1991). In particular, research design seeks to answer the questions about the what, where, when, how and by what means data would be generated to provide the solutions under investigation (Eboh, 2009).Owing to the nature and requirement of the topic under study which bothers and examining current opinion on this note, samples were drawn from the different population representing the interest groups relevant to the study. The design used is therefore the survey research design.

The researcher used a carefully selected sample from population for intensive examination and classification were such a manner as to determine findings from the sample population.

**3.3 Sources of Data Collection**

Onodugo (2010) simply defines data as facts and figures. That it is the major pillar of research work. It is what differentiates research from guess work, imagination, myths and other sources of knowledge. Data can be obtained from two major sources, viz: primary and secondary. Both are extensively used in this work, for the purpose of drawing an empirical conclusion or analysis of the study so as to come up with fairly objective findings.

**3.3.1 Primary Source of Data**

These are original data collected basically for the purposes of the problem under investigation. According to Uzoagulu (1998), it contains the data originally assembled by the person who actually observed the phenomenon. Primary data mainly come from direct observation of event, manipulation of variables, contrivance of research situations including performance experiments and responses to questionnaire. Therefore, in this study data were obtained through distributed questionnaires designed for this purpose. In addition, oral interview were conducted briefly to supplement the information derived from the questionnaire. This is aimed at reducing the rigidity associated with the designed questionnaire and also to give the respondents the opportunity of supplying those information that the structured questionnaire did not accommodate.

**3.4.2 Secondary Source of Data**

These comprise sources of data which, though needed for the current study, were collected primarily for another study. Data from these sources were not original to the researcher; they were assembled by another person. In this study secondary data collected include: University Library, textbooks, journals, newspapers, magazines, encyclopedias, other people’s project reports, websites in the internet (electronic sources).

**3.4 Tools for Data Collection**

The generic tools for data collection are questionnaires, interviews and documentary or publications. A brief description of each shall be made hereunder as follows:

 (a) **Questionnaire:** A Questionnaire is a list of question designed to elicit information from specified target respondents. This, they do, by filling in answers in spaces provided for that purpose. This is the most widely used tool especially for surveys covering a wide range of sample population. This is a set of questions relating to the aims and objectives of the research study to which the respondents are required to answer by writing in their responses. It is usually used when factual information is desired about the past, present and anticipated event and also the prevailing conditions and practices.

Questionnaire were designed into dichotomized multiple choice questions that gave the respondent the opportunity to answer either “yes”, “No”, undecided or to choosing from a range of answers, (Nwadozie and Akuezuilo, 2003). Questionnaires were channeled to members of Nigeria Union of Journalists (NUJ) in Enugu state.

(b) **Oral interviews:** This is a question and answer situation between the researcher and the respondent with a view to eliciting relevant data for the study being carried out. Interviews could be done between the interviewer and the interviewee on one-on-one basis. It could also take place between the interviewer and a group of respondents. In this study, the structural interview was prepared for the NUJ members.

(c) **Documentary Research:** This involves the location and examination of available data relevance to the research study. The research employed this method in locating information from libraries, journals lecture notes, and some were sources from publication in the internet.

**3.5 Population of the Study**

 One simple way to capture the concept of population is from the perspective of demography. In this sense, population comprises all the elements of particular group. The population used for this study is based on the number of staff in Bethel Microfinance Bank. The population of staff in Bethel Microfinance Bank is 24, comprising of administrative manager, sales manager and finance manager.

**3.6 Sample and Sampling Techniques**

 Sampling enables us to be cost effective and cost efficient in our research, that is spending less in terms of time, money, energy and other resources (Nnayelugo 2001) A simple randomly sampling techniques may be used in different Strata to select actual respondent. And this is to enable every member of Bethel Microfinance Bank have equal chance of being selected.

 A scientific means or statistical tools where used to determine the sample size of the study. Taro Yamane (1964) used this formula for finite population as



Where: n= Desired sample size

N= the entire population

e= level of significance or limit of tolerable error assumed to be 5% or 0.05

1= unit, constant figure

Therefore

N=$\frac{N}{1+N\left(e\right)^{2}}$

n= $\frac{24}{1+24\left(0.05\right)^{2}}$

n= $\frac{24}{1+24\left(0.0025\right)}$

n= 22.6

n= 22

**3.7 Instrument for Data Collection**

The instrument used in conducting this research is the questionnaire. Copies of questionnaire were shared among respondents to collect reliable information useful for the study.

Out of twenty two (22) questionnaire distributed, twenty (20) where correctly filled and returned. However, giving the figures obtained in percentage model, it will appear as follows:

Total of questionnaire distributed = 22

Total of questionnaire returned = 20

$$\frac{total questionnaire returned }{total questionnaire distributed} ×100$$

$$\frac{20}{22} ×100$$

 =90.9%

Percentage of returned questionnaire out of the total questionnaires distributed is 91%.

Therefore the percentage of the returned questionnaire was 91%.

**3.8 Reliability and Validity of Data and Test Instruments**

To ensure reliability, five respondents were selected and questionnaires were shared among them after which the researcher collected the results for proper assessments.

The instrument used is reliable because it was dually accessed and vetted by the research supervisor who is a professional.

**3.9 Data Analysis Techniques**

The t- test was employed in analysis of data gathered for the study of the

study of lending and loan recovery on the performance of microfinance bank in Enugu State. The test statistic is given by the formula

 T=∑d

 N∑d**2** – (∑d)**2**

N-1

D= Difference between each paired observation

d**2**= the square of difference between each paired observation

N= the number of paired observation

∑= the usual stigma notation

N-1 = the degree of freedom

 **Decision Rule**

If the probability (or significant) of the t-calculated is less than 0.05, we accept the alternative hypothesis but if otherwise, we then should accept the null hypothesis

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS OF RESULTS**

**4.0 Introduction**

This chapter deals with the presentation, analysis and interpretation of data collected from the respondents in the course of carrying out the research. The responses were converted into scores and percentage distribution.

**4.1 Presentation of data**

This section deals with the analysis of the responses from the staff of Bethel Microfinance Bank at Elim plaza Ebeano tunnel road. The researcher administered twenty two (22) copies of the questionnaire of which twenty (20) were correctly filed and returned.

* 1. **Analysis of Data**

Descriptive statistics was used to summarize the demographic information and the research question in this study while the hypothesis was tested using t-test analysis

**Table 4.1: Sex**

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|  |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | male | 12 | 60.0 | 60.0 | 60.0 |
| Female | 8 | 40.0 | 40.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

In the table 4.1 above, the male respondents are 12(60%), whereas the female respondents are 8(40%). This shows that the number of male respondents are higher than the number of the female respondents.

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| **Table 4.2 Marital status of the respondents** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Single | 13 | 65.0 | 65.0 | 65.0 |
| married | 7 | 35.0 | 35.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

From the table above, the results obtained shows that the number of the respondents who are single in Bethel Microfinance bank is 13(65%) whereas the number of respondents who are married is 7(35%) from the result it shows that majority are of the respondents in Bethel Microfinance Bank are single?

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| **Table 4.3 Age bracket of the respondent** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 25 years | 6 | 30.0 | 30.0 | 30.0 |
| 26-30 | 9 | 45.0 | 45.0 | 75.0 |
| 31 and above | 5 | 25.0 | 25.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

From the table above, the respondents who falls within the age bracket of less than 25 years are 6(30%), those who falls within the age bracket of 26-30 years are 9(45%) and those who falls within the age bracket of 31 and above are 5(25%). Hence we conclude that majority of the respondent falls within the age bracket of 9

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| **Table 4.4 Experience** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 3years | 11 | 55.0 | 55.0 | 55.0 |
| 4-6 years | 7 | 35.0 | 35.0 | 90.0 |
| More than 6 years | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

From the table above, the results obtained shows that the number of respondents who has a working experience less than 3years are 11(55%), those with a working experience within the age bracket of 4-6 years are 7(35%), and those with a working experience above 6 years are 2(10%). Hence from the result, majority of the respondents has a working experience less than 3years.

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| **Table 4.5 Qualification** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Bachelor | 10 | 50.0 | 50.0 | 50.0 |
| Master | 6 | 30.0 | 30.0 | 80.0 |
| PhD | 4 | 20.0 | 20.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

Table 4.2.5 which is descriptive table of values showing the respondents qualifications shows that the respondents with bachelor’s degree are 10(50%), those maters certificate are 6(30%) whereas those with PhD certificate are 4(20). Hence from the result, it can be vividly ascertained that the majority of the respondents has bachelor’s degree.

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| **Table 4.6 Position in the organization** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Administrative department | 8 | 40.0 | 40.0 | 40.0 |
| sales department | 8 | 40.0 | 40.0 | 80.0 |
| finance department | 4 | 20.0 | 20.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents position in the organization, from the result, the administrative staff are 8(40%), sales department are 8(40%), finance department are 4(20%), hence from the result, majority of the respondents are in administrative and finance department.

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| **Table 4.7 Lending and loan recovery have great significant impact on the Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 7 | 35.0 | 35.0 | 35.0 |
| agree | 6 | 30.0 | 30.0 | 65.0 |
| disagree | 5 | 25.0 | 25.0 | 90.0 |
| strongly disagree | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on lending and loan recovery have great significant impact on the Nigeria Microfinance bank, it can be ascertain that 7(35%) affirmed strongly agree, 6 (30.0%) affirmed agree, 5(25%) affirmed disagree, 2(10.0 %) affirmed strongly agree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that lending and loan recovery have significant impact on the Nigeria Microfinance bank.

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| **Table 4.8 Lending and loan recovery affect the performance of the Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 9 | 45.0 | 45.0 | 45.0 |
| agree | 6 | 30.0 | 30.0 | 75.0 |
| disagree | 4 | 20.0 | 20.0 | 95.0 |
| strongly disagree | 1 | 5.0 | 5.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on lending and loan recovery affect the performance of the Nigeria Microfinance bank, it can be ascertain that 9 (45%) affirmed strongly agree, 6(30%) affirmed agree, 4(20%) affirmed disagree, 1(5%) affirmed strongly disagree. From the result majority of the respondent affirmed agree. Hence we conclude that lending and loan recovery affect the performance of the Nigeria Microfinance bank.

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| **Table 4.9 Increase in the lending and loan recovery increases the performance of the Nigeria microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 6 | 30.0 | 30.0 | 30.0 |
| Agree | 9 | 45.0 | 45.0 | 75.0 |
| Disagree | 2 | 10.0 | 10.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on increase in the lending and loan recovery increases the performance of the Nigeria Microfinance bank, it can be ascertain that 6 (30%) affirmed strongly agree, 9(45%) affirmed agree, 2 (10%) affirmed disagree, 3(15%) affirmed strongly disagree. From the result majority of the respondent affirmed agree. Hence we conclude that increase in the lending and loan recovery increases the performance of the Nigeria Microfinance bank.

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| **Table 4.10 Lending has no correlation with loan recovery in Nigeria microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 8 | 40.0 | 40.0 | 40.0 |
| agree | 5 | 25.0 | 25.0 | 65.0 |
| disagree | 5 | 25.0 | 25.0 | 90.0 |
| strongly disagree | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on lending has no correlation with loan recovery in Nigeria Microfinance bank, it can be ascertain that 8 (40%) affirmed strongly agree, 5(25%) affirmed agree, 5(25%) affirmed disagree, 2(10%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that lending has no correlation with loan recovery in Nigeria Microfinance bank.

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| **Table 4.11 Promoting lending and loan recovery promotes the performance of the Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 12 | 60.0 | 60.0 | 60.0 |
| Agree | 4 | 20.0 | 20.0 | 80.0 |
| disagree | 2 | 10.0 | 10.0 | 90.0 |
| strongly disagree | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on promoting lending and loan recovery promotes the performance of the Nigeria Microfinance bank., it can be ascertain that 12(60%) affirmed strongly agree, 4(20%) affirmed agree, 2(10%) affirmed disagree, 2(10%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that promoting lending and loan recovery promotes the performance of the Nigeria Microfinance bank.

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| **Table 4.12 Inadequate business plan causes default in loan repayment in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 5 | 25.0 | 25.0 | 25.0 |
| Agree | 6 | 30.0 | 30.0 | 55.0 |
| disagree | 5 | 25.0 | 25.0 | 80.0 |
| strongly disagree | 4 | 20.0 | 20.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on inadequate business plan causes default in loan repayment in Nigeria Microfinance bank, it can be ascertain that 5(25%) affirmed strongly agree, 6(30%) affirmed agree, 5(25%) affirmed disagree, 4(20%) affirmed strongly disagree. From the result majority of the respondent affirmed agree. Hence we conclude that inadequate business plan causes default in loan repayment in Nigeria Microfinance bank.

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| **Inadequate feasibility study causes default in loan repayment in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 5 | 25.0 | 25.0 | 25.0 |
| agree | 7 | 35.0 | 35.0 | 60.0 |
| disagree | 5 | 25.0 | 25.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on inadequate feasibility study causes default in loan repayment in Nigeria Microfinance bank, it can be ascertain that 5 (25%) affirmed strongly agree, 7(35%) affirmed agree, 5(25%) affirmed disagree, 3(10%) affirmed strongly disagree. From the result majority of the respondent affirmed agree. Hence we conclude that inadequate feasibility study causes default in loan repayment in Nigeria Microfinance bank.

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| **Table 4.13 Lack of service of internal financial auditor causes default in loan repayment in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 9 | 45.0 | 45.0 | 45.0 |
| Agree | 5 | 25.0 | 25.0 | 70.0 |
| Disagree | 4 | 20.0 | 20.0 | 90.0 |
| strongly disagree | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on lack of service of internal financial auditor causes default in loan repayment in Nigeria Microfinance bank, it can be ascertain that 9(45%) affirmed strongly agree, 5(25%) affirmed agree, 4(20%) affirmed disagree, 2(10%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that lack of service of internal financial auditor causes default in loan repayment in Nigeria Microfinance bank.

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| **Table 4.14 Inadequate planning causes default in loan repayment in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 8 | 40.0 | 40.0 | 40.0 |
| Agree | 4 | 20.0 | 20.0 | 60.0 |
| disagree | 4 | 20.0 | 20.0 | 80.0 |
| strongly disagree | 4 | 20.0 | 20.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on inadequate planning causes default in loan repayment in Nigeria Microfinance bank, it can be ascertain that 8(40%) affirmed strongly agree, 4(20%) affirmed agree, 4(20%) affirmed disagree, 4(20%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that inadequate planning causes default in loan repayment in Nigeria Microfinance bank

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| **Table 4.15 Business failure causes default in loan repayment in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | strongly agree | 5 | 25.0 | 25.0 | 25.0 |
| Agree | 6 | 30.0 | 30.0 | 55.0 |
| disagree | 6 | 30.0 | 30.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on business failure causes default in loan repayment in Nigeria Microfinance bank, it can be ascertain that 5(25%) affirmed strongly agree, 6(30%) affirmed agree, 6(30%) affirmed disagree, 3(15%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that business failure causes default in loan repayment in Nigeria Microfinance bank.

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| **Table 4.16 Increase in lending increases the chances of loan recovery in Nigeria Microfinance bank.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 4 | 20.0 | 20.0 | 20.0 |
| Agree | 6 | 30.0 | 30.0 | 50.0 |
| disagree | 6 | 30.0 | 30.0 | 80.0 |
| strongly disagree | 4 | 20.0 | 20.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on increase in lending increases the chances of loan recovery in Nigeria Microfinance bank, it can be ascertain that 4(20%) affirmed strongly agree, 6(30%) affirmed agree, 6(30%) affirmed disagree, 4(20%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that increase in lending increases the chances of loan recovery in Nigeria Microfinance bank.

|  |
| --- |
| **Table 4.17 Changes in lending ability of the Nigeria Microfinance bank causes the loan recovery to change in the positive direction.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 9 | 45.0 | 45.0 | 45.0 |
| Agree | 6 | 30.0 | 30.0 | 75.0 |
| disagree | 4 | 20.0 | 20.0 | 95.0 |
| strongly disagree | 1 | 5.0 | 5.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on changes in lending ability of the Nigeria Microfinance bank causes the loan recovery to change in the positive direction, it can be ascertain that 9(45%) affirmed strongly agree, 6(30%) affirmed agree, 6(30%) affirmed disagree, 4(20%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that changes in lending ability of the Nigeria Microfinance bank causes the loan recovery to change in the positive direction.

|  |
| --- |
| **Table 4.18 Microfinance bank lending has causality relationship with the loan recovery** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 6 | 30.0 | 30.0 | 30.0 |
| Agree | 6 | 30.0 | 30.0 | 60.0 |
| Disagree | 5 | 25.0 | 25.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on Microfinance bnk lending has causality relationship with the loan recovery, it can be ascertain that 6(30%) affirmed strongly agree, 6(30%) affirmed agree, 5(25%) affirmed disagree, 3(15%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that Microfinance bnk lending has causality relationship with the loan recovery.

|  |
| --- |
| **Table 4.19 Loan recovery of the Nigeria Microfinance bank causes lending ability to increase.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 10 | 50.0 | 50.0 | 50.0 |
| Agree | 5 | 25.0 | 25.0 | 75.0 |
| disagree | 3 | 15.0 | 15.0 | 90.0 |
| strongly disagree | 2 | 10.0 | 10.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on loan recovery of the Nigeria Microfinance bank causes lending ability to increase, it can be ascertain that 10(50%) affirmed strongly agree, 5(25%) affirmed agree, 3(15%) affirmed disagree, 2(10%) affirmed strongly disagree. From the result majority of the respondent affirmed strongly agree. Hence we conclude that loan recovery of the Nigeria Microfinance bank causes lending ability to increase.

|  |
| --- |
| **Table 4.20 The rate of credit advances of the Nigeria Microfinance bank is high.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 7 | 35.0 | 35.0 | 35.0 |
| Agree | 6 | 30.0 | 30.0 | 65.0 |
| Disagree | 4 | 20.0 | 20.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on the rate of credit advances of the Nigeria Microfinance bank is high, it can be ascertain that 7(35%) affirmed strongly agree, 6(30%) affirmed agree, 4(20%) affirmed disagree, 3(15%) affirmed strongly disagree. From the result the rate of credit advances of the Nigeria Microfinance bank is high.

|  |
| --- |
| **Table 4.21 The rate of credit advances of the Nigeria Microfinance bank is not encouraging.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 6 | 30.0 | 30.0 | 30.0 |
| Agree | 6 | 30.0 | 30.0 | 60.0 |
| Disagree | 5 | 25.0 | 25.0 | 85.0 |
| strongly disagree | 3 | 15.0 | 15.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on the rate of credit advances of the Nigeria Microfinance bank is not encouraging, it can be ascertain that 6(30%) affirmed strongly agree, 6(30%) affirmed agree, 5(25%) affirmed disagree, 3(15%) affirmed strongly disagree. From the result the rate of credit advances of the Nigeria Microfinance bank is not encouraging.

|  |
| --- |
| **Table 4.22 Loan advances of the Nigeria Microfinance bank is relatively low.** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 5 | 25.0 | 25.0 | 25.0 |
| Agree | 5 | 25.0 | 25.0 | 50.0 |
| disagree | 5 | 25.0 | 25.0 | 75.0 |
| strongly disagree | 5 | 25.0 | 25.0 | 100.0 |
| Total | 20 | 100.0 | 100.0 |  |

The above table of values shows the respondents opinion on the loan advances of the Nigeria Microfinance bank is relatively low, it can be ascertain that 5(25%) affirmed strongly agree, 5(25%) affirmed agree, 5(25%) affirmed disagree, 5(25%) affirmed strongly disagree. From the result the rate of credit advances of the Nigeria Microfinance bank is not encouraging.

**HYPOTHESES TEST**

**HYPOTHESIS ONE: LENDING AND LOAN RECOVERY HAVE NO SIGNIFICANT CORRELATION IN NIGERIA MICROFINANCE BANK**

|  |
| --- |
| **One-Sample Test** |
|  | Test Value = 0 |
| t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference |
| Lower | Upper |
|  Lending and loan recovery have no significant correlation in Nigeria microfinance bank. | 8.097 | 19 | .000 | 1.75000 | 1.2976 | 2.2024 |

From the t-test result, the computed t-statistics (8.097) is greater than the tabulated t-statistics (2.086), hence we accept the alternate hypothesis H1 which state that lending and loan recovery have significant correlation in Nigeria microfinance bank. Therefore we conclude that lending and loan recovery have significant impact in Nigeria microfinance bank.

**Hypotheses Two**

There Is No Causality Relationship Between Lending And Loan Recovery In Nigeria Microfinance Bank.

|  |
| --- |
| **One-Sample Test** |
|  | Test Value = 0 |
| t | Df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference |
| Lower | Upper |
| There is no causality relationship between lending and loan recovery in Nigeria microfinance bank. | 8.643 | 19 | .000 | 2.25000 | 1.7052 | 2.7948 |

From the t-test result, the computed t-statistics (8.643) is greater than the tabulated t-statistics (2.086), hence we accept the alternate hypothesis H1 which state that there is causality relationship between lending and loan recovery in Nigeria microfinance bank. Therefore we conclude that there is causality relationship between lending and loan recovery in Nigeria microfinance bank.

* + 1. **Discussion of Results**

From the analysis of the data presented the findings pointed out that the respondents do agree that there is correlation between lending and loan recovery on the Nigeria microfinance bank.

Secondly it was found out that the inadequate business plan, inadequate feasibility study, lack of service of internal auditor, inadequate planning and business failure are the causes of default in loan recovery in Nigeria microfinance bank.

Thirdly, it was also found out that the direction of the causality relationship between lending and loan recovery in Nigeria microfinance bank is positive.

Finally it was found out that the rate of credit advances of the Nigeria microfinance bank is high

 On the bases of hypotheses testing, lending and loan recovery have significant correlation in Nigeria.

Also, there is causality relationship between lending and loan recovery in Nigeria microfinance bank.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This chapter deals on the discussion of the findings, conclusions of the study, recommendation, suggestions for further studies.

**5.2 Summary of Findings**

The results of the study show a significant positive correlation between lending and loan recovery on the Nigeria microfinance bank, and that there is a causal relationship between lending and loan recovery in microfinance banks in Nigeria.

5.3 **Conclusion**

 In the light of the findings of this study, the following conclusions are drawn, from the investigation lending and loan recovery in microfinance banks (study of bethel microfinance bank). It was found that there is correlation between lending and loan recovery on the Nigeria microfinance banks, it was also found out that the causes of default in loan repayment are inadequate business plan, inadequate feasibility study, lack of service of internal financial auditor, inadequate planning and business failure. It was ascertained that there is causality relationship between. Finally, the rate of credit advances of the Nigeria microfinance bank is high.

**5.4 Recommendations**

Having conducted this research and analyzed the field data, the researcher recommends the following points, which if adhered to will positively drive the lending and loan recovery of the Nigeria microfinance bank to a reasonable height.

Banks should device appropriate strategies to ensure adequate lending and loan recovery management, since not doing so could spell doom for the banks in terms of profitability.

* 1. **Area for Further Research**

The following areas are suggested for further research:

1. The same topic in other organization
2. The influence of loan recovery on credit advances of the Nigeria Microfinance banks.
3. The effect of loan repayment default on the performance of the Nigeria Microfinance bank.

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**APPENDIX**

**QUESTIONNAIRE**

**Section one: General information of the Respondent**

Please put a right mark in appropriate box.

1- Sex male female

2- Marital status single married

3-Age less than 25 26-30 more than 30

4-Experiences less than 3 years 4-6 more than 6

5-Qualification: Bachelor Master PhD

6- Position in the organization?

Administrative department Sales department finance department

**Research Question 1**

What is the correlation between lending and loan recovery on the Nigeria Microfinance bank?

(Please tick the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Strongly Disagree (SD) and Disagree (D) respectively).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **1** | Lending and loan recovery have great significant impact on the Nigeria Microfinance bank. |  |  |  |  |
| **2** | Lending and loan recovery affect the performance of the Nigeria Microfinance bank. |  |  |  |  |
| **3** | Increase in the lending and loan recovery increases the performance of the Nigeria microfinance bank. |  |  |  |  |
| **4** | Lending has no correlation with loan recovery in Nigeria microfinance bank. |  |  |  |  |
| **5** | Promoting lending and loan recovery promotes the performance of the Nigeria Microfinance bank. |  |  |  |  |

**Research Question 2**

What are the causes of default in loan recovery in Nigeria microfinance bank?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **6** | Inadequate business plan causes default in loan repayment in Nigeria Microfinance bank.  |  |  |  |  |
| **7** | Inadequate feasibility study causes default in loan repayment in Nigeria Microfinance bank. |  |  |  |  |
| **8** | Lack of service of internal financial auditor causes default in loan repayment in Nigeria Microfinance bank. |  |  |  |  |
| **9** | Inadequate planning causes default in loan repayment in Nigeria Microfinance bank.. |  |  |  |  |
| **10** | Business failure causes default in loan repayment in Nigeria Microfinance bank. |  |  |  |  |

**Research Question 3**

What is the direction of causality relationship between lending and loan recovery in Nigeria Microfinance bank?.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **11** | Increase in lending increases the chances of loan recovery in Nigeria Microfinance bank. |  |  |  |  |
| **12** | Changes in lending ability of the Nigeria Microfinance bank causes the loan recovery to change in the positive direction. |  |  |  |  |
| **13** | Microfinance bank lending has causality relationship with the loan recovery |  |  |  |  |
| **14** | Loan recovery of the Nigeria Microfinance bank causes lending ability to increase. |  |  |  |  |

**Research Question 4**

What is the rate of credit advances of the Nigeria Microfinance bank?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **15** | The rate of credit advances of the Nigeria Microfinance bank is high.  |  |  |  |  |
| **16** | The rate of credit advances of the Nigeria Microfinance bank is not encouraging. |  |  |  |  |
| **17** | Loan advances of the Nigeria Microfinance bank is relatively low. |  |  |  |  |