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The Role of Microfinance Institutions in Financing Small Businesses

TAIWO JN

Department of Banking & Finance, Covenant University, Ota, Ogun State, Nigeria Tel: 002348136765276;

Email: **joseph.taiwo@covenantuniversity.edu.ng**

ONASANYA A YEWANDE

Business Management Department, School of Business; College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria

AGWU M EDWIN

Strategic Management and Marketing, School of Business, Covenant University, Ogun State, Nigeria AND Adjunct Lecturer and External dissertation supervisor for Global MBA students at Manchester Business School, United Kingdom

Email: **edwinagwu@yahoo.co.uk**

BENSON KN

Business Management Department, School of Business; College of Business and Social Sciences, Covenant University, Ota, Ogun State,

Nigeria

Abstract

SMEs all over the world play a strong role in national development. This is attributed to the massive employment it provides to the citizenry of the country where it exists. The financing of these ‘’goose’’ which have being laying so many golden eggs has come under scrutiny by academics and practitioners. Due to the recognition accorded this very important sector, the Nigerian government established microfinance banks in the year 2007 to serve as mechanisms for financial sources for various SMEs. This study explored the roles of these micro finance banks and institutions on small and medium enterprises as well as the extent to which the small businesses have benefited from the credit scheme of microfinance banks. Primary data was obtained via interviews conducted in 15 small businesses across Lagos state with their responses summarized in tables. This study advocates the recapitalization of microfinance banks to enhance their capacity to support small business growth and expansion and also to bring to the knowledge of the management of microfinance banks and institutions the impact of the use of collaterals as a condition for granting credit to small businesses.

Keywords: **Microfinance; Banks, Small Businesses, Entrepreneurship Finance; Nigeria**

INTRODUCTION

Micro financing, according to Conroy [1] is the delivery of financial services to poor and low income households with limited access to formal financial institutions. Microfinance is can also be described as banking for the underprivileged. Rolando [2] opines that microfinance is an excellent way of assisting entrepreneurs. It provides the underprivileged with maintainable revenue through low interest loans. However, Jegede [3] is of the opinion that small business owners fancy personal savings and credits from cooperative societies to microfinance banks and commercial banks fund stating reasons of non-accessibility, exorbitant collaterals and high interest rates. Microfinance lending in Nigeria has not been positive as shown in the formal model approach examined by Arogundade [4]. This is in accordance with the CBN Report [5] that the formal financial institutions grants services to approximately 35% of the working population as the remaining 65% are usually provided by the informal sector [5]. Orodje [6] stated that before the CBN’s involvement, microfinance in Nigeria was taking a fast decline into the abyss. The sector was perforated with deceit and mismanagement of funds. The mismanagement was due to the inability of senior managers of microfinance banks to understand the concept of microfinance. The creation of Microfinance banks as a means to enhance access to loans and savings services for the underprivileged is presently being encouraged as an essential development strategy to facilitate poverty eradication and economic development [7]. According to Babgana [8] there is no reservation that SMEs require assistance from microfinance Banks to become sustainable and competitive. This study will be arranged in the following manner: the next section will define the concept of small business, followed by financing for small and medium size enterprises, sources of finance for small businesses, microfinance, micro-credit, distinctive features of the business of microfinance, microfinance institutions, microfinance banks, brief history of microfinance banks in Nigeria, procedures for obtaining funds from microfinance banks, activities of informal microfinance institutions in financing small businesses, activities of microfinance banks in financing small businesses, relevance of microfinance institutions in the development of small businesses, a conceptual model and conclusion.

LITERATURE REVIEW

Small and Medium Size Enterprises

Generally, there is no universally accepted definition of small business. Countless efforts have been made to define small business, using yardsticks such as number of employees, sales volume, and value of assets. Some of the frequently used yardsticks include the employee size, total assets, investment and sales level. In spite of the differences, a lot of sources define small and medium enterprises to have between 0 - 250 employees [9]. According to SBA [10] a small business is a business that has less than 500 employees. SMEs are regarded as facilitators of economic growth and for enhancing development. Its main benefit is its employment creation potential and low capital requirement. Countries use different definitions for categorizing their small business sector. The definition of small businesses by the Federal Government of Nigeria are those businesses with annual turnover of not more than N500, 000 and whose capital investment is not more than N 2 million [11]. In the UK, small businesses are defined for the purpose of research as businesses with less than 500 employees and annual turnover of not more than £100 million. In China, SMEs are defined according to the industry classification based on workforce size, annual returns and total assets of the company.

SMEs could range from food shops, kiosks, tailoring shops, poultry businesses, general enterprises and so on. The effects of proper management of small businesses on an economy include business survival, increased employment, increased profit, increased outlets, increased capital size, improved business management amongst others.

Financing SMEs

According to Oni [12], the capacity to build growth capital is dependent on ‘whom you know’ particularly put as your ‘technical know who’. In Nigeria, one of the main problems facing small and medium enterprises is capital required to finance their activities [13]. Experiential data reveals that finance has about 25% impact on the success of SMEs [14,15]. Enterprises are financed either by debt, equity or a combination of the two. He two types of financing are derived from either the formal or informal financial sector. In the formal sector, commercial banks and development banks are the main sources of financing for businesses, while the informal sector comprises of loans from friends, relatives and cooperative societies. In Nigeria, banks such as commercial, microfinance, and central bank, as well as international development agencies are some of the institutions in the formal financial sector that have played important roles in financing small businesses in Nigeria. Agwu [15] stressed that the largest source of finance for SMEs around the world remains the commercial banks. Nevertheless, a lot of commercial banks are no willing to finance small businesses because of the risks and uncertainties involved. Some of the reasons for the reluctance of commercial banks in Nigeria to finance the subsector include: harsh economic environment, inadequate managerial skills and insufficient availability of modern technology by small businesses. This has led to a constant reduction in financing small businesses in the country. A number of credit institutions have been created by the government and its agencies over the years. The aim of these credit institutions has been to enhance SMEs access to finance [16]. The CBN acknowledged microfinance as an essential tool for poverty mitigation through empowering micro and small entrepreneurs [17].

Sources of finance for small businesses

There are many sources of finance for start-up companies. The first step is to calculate how much money that would be needed and when the money would be needed. The financial requirements of a business will differ depending on the type and size of the business. According to Ewiwile [18], the sources of finance accessible to small businesses include:

- The personal savings of the business owner as well as friends and family who may be business associates.
- Business partners and associates.
- Banks and financial institutions.
- The small business administration and financial assistance program.
- Members of the trade, as well as manufacturers, wholesalers, and in some cases, customers.

From the above listed sources, personal savings is the most accessible to a lot of people. The other options available for financing small businesses such as loans from financial institutions are virtually not accessible. Insufficient access to finance has been recognized as part of the main limitations to the development of small businesses [19].

Microfinance and Microcredit: Microfinance refers to the provision of financial services tailored to the requirements of low income people like micro-entrepreneurs, particularly the delivery of small loans, the provision of small loans, receipt of small savings deposits and easy payment services required by micro-entrepreneurs and other poor people [20]. Microfinance is a term that refers to the delivery of financial services to customers who are omitted from the conventional financial system because of their low economic status [21]. Micro finance is the delivery of financial services to low-income workers and extremely poor self-employed people [22]. Microfinance is defined as the provision of thrift, credit and other financial services in little amounts to the underprivileged to allow enable them to increase their levels of income and enhance their standard of living [23]. According to Ojo [24] microfinance are described as small scale financial services that are granted to informal small business operators in other to take part in any other creative or distributive activities. Microfinance denotes small-scale business or credit services; which are made available to people operating selected business; running small enterprises in which goods are manufactured, reprocessed, repaired or exchanged in rural as well as urban areas [25]. As said by Rolando [2], microfinance is a suitable way of assisting entrepreneurs.

According to Orodje [6], before CBN’s interference, microfinance in Nigeria was prior to CBN’s intervention; microfinance in Nigeria was fast becoming extinct. Microfinance lending had not been very successful from the formal as observed Arogundade [4]. Diagne [26] stated that inadequate access to loans poor may negatively affect SMEs and their insufficient access to credit by the poor may have negative consequences for SMEs and general welfare. The primary aim of microcredit according to Maruth et al [27] is to enhance the wellbeing of the underprivileged through improved access to small loans which are not provided by the formal business institutions. Among the problems microfinance faces in Nigeria today is the ability of the microfinance institutions to get to majority of the poor [28]. Thapa [29] stated that the feasibility in microfinance could be organizational, managerial or financial. Microfinance involves making a wide range of financial services available, like, deposits, loans, transfers and insurance services to small businesses. It also involves making available financial services to small businesses that are usually not catered for by the commercial banks.

Oladokun [30] is of the opinion that microfinance should not include collaterals, should offer door-to-door services that provides small loans to people, especially women using easy procedures. In the past, Nigerians have attempted to make available needed finances through informal institutions like self-help groups (SHGs), rotating savings and credit associations, (ROSCAs), accumulating credit and savings associations (ASCAs) and lending from family and friends. The Central Bank of Nigeria (CBN) made reference to this when it mentioned that due to the scarcity of funds, microfinance services have a restricted extent to which they can reach. It was while trying to settle this known paucity of the informal microfinance sector that in 2005, the CBN launched the microfinance policy as a preamble to the issuance of microfinance banks in Nigeria. Consistent with the policy is the objective to establish a microfinance framework that would improve the delivery of a variety of microfinance services for a long-range time period to the underprivileged, provide a basis for the creation of microfinance banks and enhance CBN’s supervisory performance confirming monetary stability. As a result of the microfinance policy of the central bank of Nigeria in 2005 for the establishment of microfinance banks, microfinance banks were created because of the inability of prevailing microfinance institutions to sufficiently attend to the financing needs of the low income groups.

Microcredit is normally regarded as the provision of financial or banking services, majorly to small businesses known as micro-enterprises that have no access to formal financial institution [31]. The inflexible credit procurement measures, inadequate collateral, huge transaction cost, as well as many others have made credit unattainable to the poor [32].

Distinctive features of the business of microfinance

The concept of microfinance is sometimes used in place of microcredit, however, these two concepts differ. It is important to understand that microfinance covers a broad range of services, one of which is microcredit. Microcredit is central to many microfinance business models, and consists of some distinguishing characteristics, some of which include:

- **Micro borrowers:** A microcredit giver generally provides for to low-income customers, including the underemployed and entrepreneur along with a usually unofficial family business such as petty traders.

- **Credit risk study:** Loan records are created mainly by the loan officer from his stops at the debtor's home and business. Debtors usually lack official financial statements, thus, loan officers assist in making records using awaited cash-flows and net-worth to ascertain the payback schedule and credit amount.

- **Use of security:** Micro-lenders usually do not have adequate security conventional requested by banks and what they need to undertake is of little importance for the financial organization but are very valued by the lender.

- **Credit authorization and monitoring:** Due to the fact that micro-lending has the tendency to be an extremely distributed process, loan authorization by loan committee relies strongly on the skill and reliability of loan officers and executives for precise and timely information.

- **Controlling debts:** Usually, supervising is majorly the function of loan officers as information on customers individual state of affairs is essential for valuable collections.

- **Gradually increasing lending:** Micro-lending employs incentive schemes to compensate reliable borrowers with special access to impending, greater loans (at times with beneficial refund schedules and minimum interest rates).

- **Group lending:** A number of micro-lenders utilize group lending techniques where funds are accessible to small groups who undertake for other group members.

Microfinance institutions

The possibility that microfinance institutions may not get the money given to borrowers is a widespread and usually the most critical weakness of a microfinance institution [33]. A loan default arises when the debtor fails to make the necessary payment or fails to conform to the terms of the loan [34]. To minimize defaults, MFIs should also cautiously assess the monitoring and control stages of the lending process [35].

The main problems confronting microfinance institutions in Nigeria include: Communication deficiencies and insufficient awareness, Insufficient donations or funding, Little consideration of the financial feasibility of microfinance institution, Insufficient loans or equity capital to enhance loan-able funds, Restricted support for human and institutional capacity building, Inadequate standards for reporting and performance monitoring.

According to Nwanyawu [36], the following are some of the issues faced by microfinance institutions in Nigeria.

1. Diversion of Micro Finance Fund: There have been several cases of corrupt public officials, diverting credit meant for small scale farmers. It could be seen that because of the high level of poverty in the country, loans are diverted into solving problem of feeding. Thus, micro finance is supposed to meet the need of the poor to raising their financial sustainability, which in this case is not so.

2. Inadequate finance: One of the critical problems facing microfinance institutions in Nigeria is the lack of finance needed to expand financial services to clients. This primarily arises from low capital base of the institution, inordinate fixed asset acquisition, ostentatious operational disposition, inability to mobilize deposits, poor lending and questionable governance and management arrangement.

3. Unfavorable/Frequent Changes in Government Policies: Instability has impacted negatively on the performance of primary institutions responsible for policy monitoring and implementation. There were cases of sudden reversal of policy which has resulted to incomplete and abandoned projects. This creates distortions in the macro-economic structure and low productivity.

4. High Risk and Mounting Loan Losses: According to Anyanwu [37], about 70% of micro credits given to micro enterprises via government microfinance scheme were not recovered. Some people see the loans as their own share of the national cake and do not see any need for the repayment. The consequence of this is that it leads to other applicants not getting loan.

5. Low Capacity and low Technical Skills on Micro financing: Management of micro finance institutions would require a pedigree of knowledge on micro financing to successfully operate in the industry; however, most staff recruited in the microfinance institutions, particularly at management level, have little or no experience in microfinance practice.

Microfinance banks

Microfinance banks were established as a result of the incapability of the informal microfinance institutions to satisfy the needs of small business operators. Microfinance banks can be differentiated from other business organizations because they provide small loans and they do not require collaterals and have simple operations [38]. Microfinance banks made available, credit to low income earners and rural areas and also financially empower those areas. From the name, we can observe that microfinance direct their activities on rural communities, receiving deposits and lending within a constrained trade area instead of operating in regional or national markets [39]. Microfinance Banks are certified financial institutions set up to cater for the un-served but working population in the rural areas by making available differentiated, inexpensive and reliable financial services to the low income group, in a suitable and competitive manner which would allow them to carry out and develop long-term, viable entrepreneurial actions and assemble savings for intermediation [5]. Kolawole [40] asserts that microfinance banks assist to produce savings in the economy, entice foreign contributing agencies, foster entrepreneurship and promote development in the economy. Creation of microfinance banks by the government to enhance the availability of loans and savings service for the underprivileged is presently being encouraged as an essential development strategy to promote the extinction of poverty and economic development [7]. Jegede [3] noticed that entrepreneurs would rather use personal savings and credits from cooperatives than funds from microfinance and commercial banks stating reasons of unavailability, unreasonable collaterals and high interest rates. Okpugie [41] stated that the high interest requested by the microfinance banks has been observed to be the cause of alarming default.

Procedure for obtaining funds from microfinance banks

Obasi [42] opined that in order to obtain loans from Nigerian banks under any scheme, the following procedures are involved:

- The businessman will submit an application form along with passport photographs.

- Then, he would be required to write four copies of formal application forms to the bank.

- If the business man is a civil servant he or she will be obligated to present a letter of undertaken from his or her organization. If however, he or she is not a civil servant, he or she will be required to present a feasibility study account of the activity he or she wants to undertake along with bank statements and a proof of collateral.

• The refund period differs and is subject to the type of business being embarked upon.

Activities of informal microfinance institutions in financing small businesses

According to Yunus [43], microfinance involves making financial services available to the poor, who are usually not served by traditional financial institutions. A micro-finance institution (MFI) is one that offers microfinance services, spanning from minor non-organizations to large Deposit Money Banks [44]. These informal credit institutions offer loan and savings services to their members. Kirkpatrick [45], Microfinance is broader than micro-credit as it comprises of savings, credit, insurance amongst others. Opara [46] stated that unofficial financial services comprise of rotating savings and credit associations (ROSCAs), thrift associations, savings enlistment groups customarily called Esusu, bambam, ado and adashi by diverse societies, day-to-day savings, or donation organizations, cooperative societies, religious institutions, social clubs as well as village and town alliance The Yoruba tribe regards it as Esusu or Ajo, the Igbos call to it Isusu or Uto and the Hausa refer to it as Adashi'. According to Onaolapo [47] the non-conventional formal Microfinance Institutions (MFIs) are working alongside with the informal institutions. The development of the microfinance institutions came as a consequence of the inability or reluctance of the traditional banks to draw from the financial assets in the rural areas. All through the whole universe, the underprivileged are often exempted from the formal financial system either partly in developed countries or full exemption in Less Developed Countries (LDCs) [3].

Difference between Microfinance banks and Institutions

Microfinance banks are heavily regulated. Microfinance institutions typically are regulated with a much softer hand. They work with their clients, not just as lenders, but as coaches for their small business enterprises. Microfinance institutions incur higher operating cost because of their business model which is the door step service delivery model which they incur because of staff training and smaller loan sizes [48].

THE NIGERIAN CONTEXT

Brief History of Microfinance banks in Nigeria

Microfinance banking came into existence in 2005 with the introduction of the microfinance policy by the past CBN governor Professor Chukwuma Soludo. This policy was induced by the internationally commended influence of microfinance in assisting the working population to leave the poverty level thereby resulting in substantial reduction in poverty. Consequently, microfinance banking was established with the anticipation that with time, it would assist in dropping poverty level in the country. Therefore, as indicated in section 4:2:1 of the microfinance policy, the policy objective includes catering for the majority of the poor but working population by the year 2020 thus establishing lots of jobs and decreasing poverty. To attain this, the CBN established and licensed Microfinance banks, which substituted community banks. It is essential to state that there are more than nine hundred (900) microfinance banks in Nigeria today which are regulated by the Central Bank of Nigeria [49].

Activities of microfinance banks in financing small businesses: Ana [50] said that MFBs in Nigeria take on the provision of all banking and financial services which the big banks do, but on a small scale. The vital instruments used by MFBs include: conventional and improved savings, current, fixed deposits, investment accounts; credit or loan products like overdrafts, hiring, term loans of different terms but majorly short termed, trade loans, salary advances, local purchase order financing and so on; ancillary services together with financial counseling services, viability reporting especially for establishing SME's, economic training; small insurance services; money transfer both locally and internationally in concurrence with their correspondence banks, micro pensions, capability building, etc. Microfinance banks also offer differentiated, inexpensive and reliable financial services to the active poor, in an appropriate and competitive way that would allow them to take on and develop long-term, maintainable entrepreneurial activities; organize savings for mediation; offer authentic avenues for the management of the micro credit programs of government and high net worth persons on a non-recourse case basis.

Relevance of micro finance institutions in the development of SMEs: A number of researchers have assessed the role of MFIs in the advancement of small businesses. Oni [51] evaluated the input of micro finance institutions (MFIs) to justifiable growth of small and medium enterprises (SMEs) in Nigeria. Their study showed that MFIs presently supports and can further promote the sustainable growth of small businesses in the country. Nonetheless, the research also established along with others that MFIs services outreach to small businesses is inadequate. Ojo [52] observed the effect of microfinance on entrepreneurial growth in Nigeria. He deduces that microfinance institutions in Nigeria and worldwide are known to be among the major players in the Nigerian financial industry that have impacted individuals, organizations, other financial organizations, the government, as well as the economy in total positively via their offered services and the roles they play in the economy. Agwu [53] revealed that financial institutions offer the important financial lubricant that assist in the development of Small and Medium Enterprises, they emphasized that the government still has a lot of work to do as regards the formulation of policy so as to complement the attempts of financial institutions.

THEORETICAL FRAMEWORK

This section deals with some of the theories relating to the financial structuring of SMEs.

The theories discussed under here are the pecking order theory and the bank capital channel theory.

Pecking order theory

Myers Sanders postulated the pecking order theory in 1984. He was of the opinion that the financial needs of small and medium businesses are met in order of hierarchy. Small businesses obtain the first set of funds internally and as the financial needs increases, they obtain more funds through the use of debt capital. Subsequent increases in financial needs leads to sourcing for funds through external equity. Therefore, the theory states that businesses usually prefer to obtain funds internally and where they are not available, the business would first consider debt financing before going for equity financing as an external financing source [54]. Holmes [55] discovered that small businesses follow the pecking order mainly because it is not easy for them to obtain funds externally.

Bank capital channel theory

This theory states that banks borrowing behaviour with regards to small businesses is majorly a factor of the adequacy of capital requirement. Obamuyi [56] stated that an alteration in interest rate can affect the capacity of banks to give out loans to small businesses. This means that increases in the rates of interest increases the cost of banks' external funding, but minimizes banks' profits and capital [54]. The propensity is for the banks to trim down their supply of loans if the capital limit becomes binding. The banks may on the other hand be more enthusiastic about giving out loans in situations when the interest rate is favourable.

METHOD

The population of the study consists of the entire small business firms in Lagos State. However, the study was restricted to Ikorodu metropolis. Simple random sampling technique was used to select a total of 15 small business operators that constituted our sample size. The study utilized both primary and secondary data. The primary data was obtained via personal interviews with the respondents. Their responses were summarized into tables and conclusions made on the basis on the responses. The secondary data was obtained from reputable journal articles, papers and internet sources.

DATA ANALYSIS

Table 1: Demographic characteristics of the small businesses

Variable	Frequency	Percentage

Gender		
Male	6	40
Female	9	60
Age		
18-25	3	20
26-45	8	53.3
Above 46	4	26.7
Business Experience		
Less than 1 year	4	26.7
2 to 5 years	7	46.6
More than 5 years	4	26.7
Nature of business		
Food vending	6	40
Tailoring	4	26.7
Supermarket	5	33.3

Source: Field Survey (2016).

Gender: This study attempted to minimize gender biasness. This is proven in the evidence that shows the fact that the male gender constituted 40% while females made up 60% of the sample size. Therefore, there is no favoritism of a particular gender as the male and female gender had almost equal portions in the study (Table 1).

Age: The result shows that majority of the small business operators are between the ages of 26-45 years old which makes up about 53.3% of the study. Young adults between 18-25 years of age make up 20% while elderly people make up 26.7% of the study. This means more middle aged people are involved in small business activities.

Business Experience: This study attempted to access different levels of business experience. Most of the small businesses in this study have been in operation between 2-5 years and they make up 46.6% of the sample. Businesses with less than 1 year of operation make up 26.7% and those with more than 5 years of operation constitute 26.7% of the sample size.

Nature of business: Different types of businesses were assessed in this study to increase the ability to generalize the results of this study. Most of the businesses are food vending businesses and they constitute 40% of the sample size. Others are tailoring and supermarket businesses which make up 26.7% and 33.3% respectively.

Table 2: What factors constrain the development of small businesses and their ability to repay loans

Variables	**Frequency**	**Percentage**
High interest rates	9	60
Limited grace periods	4	26.7

Inadequate business training	2	13.3
TOTAL	15	100

Source: Field survey (2016).

Table 2 shows that high interest rates is the major constraining factor that hinders the development of small businesses and limits their ability to repay loans.

Table 3: It is difficult to access loans from microfinance banks and institutions

	Frequency	**Percentage**
Agree	9	60
Not sure	2	13.3
Disagree	4	26.7
TOTAL	15	100

Source: Field survey (2016).

Table 3 shows that 60% of the sample size finds it difficult to get loans from the microfinance banks. 13.3% are not sure if it is difficult to obtain loans because they do not source for funds from the banks. 26.7% believe that it is relatively easy to access loans from the banks. This means most of the sample businesses find it difficult to obtain loans to finance their businesses.

Table 4: There are stringent conditions applied to loans

	Frequency	**Percentage**
Agree	7	46.7
Not sure	3	20
Disagree	5	33.3
TOTAL	15	100

Source: Field survey (2016).

Table 4 shows that 46.7% of the sample believes that the conditions attached to the collection of loans are demanding. 20% are not sure and 33.3% disagree that the conditions attached to loans are strict. This means that majority of the sample believes that it the conditions attached to obtaining loans are too many and rigorous.

Table 5: You must be a customer of a microfinance bank or institution before you can access loans

	Frequency	**Percentage**
Agree	3	20
Not sure	Nil	Nil

Disagree	12	80
TOTAL	15	100

Source: Field survey (2016).

Table 5 indicates that of the total sample size, 20% state that you must be a customer at the bank while the remaining 80% says that you do not have to be a customer at the bank before you are eligible to get loans. This means that most microfinance banks do not limit loan accessibility to their customers alone and they extend loan facilities to non-customers.

Table 6: You always repay loans as at when due

	Frequency	**Percentage**
Agree	5	33.3
Sometimes	Nil	Nil
Disagree	10	66.7
TOTAL	15	100

Source: Field survey (2016).

Table 6 indicates that majority of the small business owners do not repay loans as at when due. This is because only 33.3% admit that they are creditworthy while the other 66.7% accept that they do not always repay loans on time. This may limit the willingness of the microfinance banks to extend loan facilities to small businesses.

Table 7: The microfinance banks and institutions monitors the use of the loan facilities

	Frequency	**Percentage**
Agree	8	53.3
Sometimes	3	20
Disagree	4	26.7
TOTAL	15	100

Source: Field survey (2016).

Table 7 shows that 53.3% of the respondents are of the opinion that the microfinance banks monitor the use of the loan facilities, 20% says they monitor loans sometimes and 26.7% say that they do not monitor the way the make use of the loans. This means that most times, microfinance banks monitor how the small businesses utilize the loan facilities. This would put the small businesses on their toes to ensure they achieve maximum success.

Table 8: The government should encourage microfinance banks and institutions to support small businesses

	Frequency	**Percentage**
Agree	15	100

Not sure	Nil	Nil
Disagree	Nil	Nil
TOTAL	15	100

Source: Field survey (2016).

Table 8 shows that all the respondents believe that the government still has some things to do as regards encouraging microfinance banks to support small businesses.

CONCLUSION

Small businesses in Nigeria need access to funding for their businesses to flourish on a sustainable basis. Although, small businesses promote the development of an economy, it has not been given adequate recognition that corresponds with intensity of its contribution. It is noteworthy to state that both financial and non-financial services provided by microfinance banks and institutions have greatly assisted small businesses in Nigeria and have enhanced the distribution of business skills and the sharing of innovative ideas. The implication of this study is that, micro-financing significantly promotes businesses by reducing the resource gap for small businesses. Micro-financing has a huge potential for increasing the performance of small businesses through the frequent contributions in micro-financing and provision of non-financial services.

RECOMMENDATIONS

The following are recommendations for the better performance of microfinance banks in the financing small businesses:

- The government should increase their efforts in encouraging microfinance banks and institutions to support the small businesses.
- Microfinance banks should expand the repayment period of their customer's asset loans, make use of the collective group-based loan disbursement strategy, as this will minimize the rate at which clients default in payment and the level of portfolio at risk.
- As regards the ancillary services provided, microfinance banks should support their clients by offering trainings on credit maximization.
- Microfinance banks should try to find long-term capital from Pension and Insurance Companies within the country.
- This helps minimize their rate of lending and allow them distribute their interest payment through a longer time period.

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