

MICROFINANCE BANKS LENDING AND SMEs GROWTH IN NIGERIA

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Abstract

This paper examined the effect of microfinance banks' lending on small & medium scale enterprises in Nigeria using descriptive approach by empirically reviewing publications in reputable journals. It was found out that microfinance banks credits have positive effect on SMEs. The study suggested that lending rate by microfinance banks should be reduced to attract SMEs owners as well as record keeping of the owners should be mandated.

Key words: MFBs, SMEs, growth, lending rate, credits.

Introduction

Small and Medium Enterprises (SMEs) are widely acknowledged as key drivers of economic growth, employment creation, and poverty reduction in both developed and developing economies. In Nigeria, SMEs contribute significantly to industrial output, job creation, and economic diversification, particularly in reducing the country's over-dependence on the oil sector (SMEDAN, 2020). The World Bank (2023) also emphasizes that access to finance remains one of the most critical factors influencing SME growth in Sub-Saharan Africa.

Despite their importance, limited access to finance continues to hinder SME expansion and sustainability in Nigeria. Traditional commercial banks often perceive SMEs as high-risk borrowers due to inadequate collateral, weak accounting systems, poor credit history, and high transaction costs associated with small-scale lending (Olawale & Adegbite, 2020). This financing gap has necessitated alternative financial arrangements, leading to the development and expansion of microfinance institutions.

Microfinance contributes significantly to SME growth through improved access to working capital and investment financing. Microfinance services go beyond credit such as advisory and training support have been found to improve enterprise performance (Adu&Abdulkafeel, 2026).

Although microfinance banks have expanded across Nigeria, particularly in urban and semi-urban areas, challenges such as operational inefficiencies, high interest rates, and sustainability concerns persist. Nevertheless, MFBs remain central to bridge the SME financing gap and fostering inclusive economic growth (Adu&Williams, 2024).

Statement of the Problem

Despite policy efforts to encourage financial access, many SMEs in Nigeria still struggle to secure affordable credit. High interest rates, stringent collateral requirements, and unfavorable loan terms by commercial banks mean that a significant portion of SMEs are either excluded or under-served. Microfinance banks were established to bridge this gap, yet challenges remain regarding their capacity, sustainability, and the actual impact of their lending on SME performance (Adu&Uchehara, 2024).

Adu and Ajigbotoso (2024) many SMEs rely on personal savings or informal sources of finance, which are insufficient for business expansion and innovation. This persistent financing gap limits the capacity of SMEs to achieve their full potential. The Nigerian government introduced the Microfinance Policy Framework in 2005, leading to the establishment of Microfinance Banks. Small and Medium Enterprises (SMEs) are widely recognized as the backbone of economic growth and development in both developed and developing economies. In Nigeria, SMEs constitute a significant proportion of business enterprises and play a critical role in employment creation, income generation, poverty alleviation, and economic diversification. Despite their strategic importance, the growth and survival of SMEs in Nigeria have been undermined by several challenges, chief among them being inadequate access to finance (Adu et al.,2023).

Access to finance remains a major constraint for SMEs due to the reluctance of conventional commercial banks to lend to small businesses. This reluctance is often attributed to high default risk, insufficient collateral, poor credit history, and weak managerial capacity among SME operators. As a result, many SMEs operate at sub-optimal levels, relying on personal savings or informal sources of finance that are often insufficient to support business expansion and innovation (Adu, 2021).

Over the years, microfinance banks have expanded across Nigeria, particularly in urban and semi-urban areas, offering loans tailored to the needs of SMEs. However, the effectiveness of microfinance banks' lending in promoting SMEs growth remains a subject of debate. While some SMEs have benefited from increased access to credit, others continue to face challenges such as high interest rates, short repayment periods, and inadequate loan sizes, which may limit the growth-enhancing impact of microfinance lending (Adu et al., 2019).

Given the central role of SMEs in Nigeria's economic development and the growing presence of microfinance banks, it is essential to examine the extent to which microfinance banks' lending has contributed to the growth of SMEs in Nigeria.

Objective of the Study

The aim of this study is to determine the effect of microfinance bank lending on SMEs growth in Nigeria.

The second objective is to examine effect of microfinance banks' credits on SMEs expansion in Nigeria.

Question

To what extent is the effect of MFBs lending on SMEs expansion in Nigeria?

Hypothesis

There is no significant relationship between MFBs credits and SMEs expansion in Nigeria

2.0 Literature Review

Microfinance: provision of very slight credit, thrift, and other non-financial services and products to the underprivileged for the improvement of their income level and standard of living. It is the minor provision of loans that are repaid within short period of time and is principally used by economically active poor household with the aid of collateral substitute (Adu et al., 2019).

Lending: outspreading credit facilities to a client /customer of a microfinance bank at a particular rate of interest which is to be repaid over a period of time (Adu, 2016).

Microfinance Banks

They are enterprises officially listed by regulatory authorities for the provision of financial services such as deposits, credits, insurance, money transfer service and other needed financial services by the economically deprived people, micro, small and medium enterprises (CBN, 2005)

Central Bank Nigeria (2005) defined microfinance banks as the extension of financial facilities to the frugally lively, underprivileged or poor who are conventionally underserved by orthodox financial institutions (deposit money/commercial banks (Adu,2013)). There are certain features that make a distinction between microfinance banks' services and other formal financial services which are (i) non-availability of tangible collaterals; (ii)convenience of operations (iii)smallness of loans advanced to customers, and or deposits accepted from clients (Adu, 2023).

SMEs Growth

SMEs growth is measured by indicators such as sales revenue, profit margins, asset accumulation, and employment creation. Growth is influenced by internal factors (management efficiency, capital structure) and external factors (market access, infrastructure, finance accessibility) (Eboma et al., 2026).

Microfinance Banking in Nigeria

The assurance that microfinance banks embrace for the revolution of the Nigerian economy and humanity guarantees that steps must be taken to perfect the actualisation of the guiding policy, administrative structure and controlling guidelines for execution in her entirety. There is a requisite for governmental motivation and obligation on the part of management and administration of this strategy to make success (Kesiinro et al., 2016).

The transfiguration of the then community banks to microfinance banks does not actually pledge a spontaneous effectiveness of the establishment as there are some in-house flaws that will remain therein. The new paid-up capital may resolve the frail capital issue nevertheless the challenges of unskilled supervision need to be looked into very extremely for them to meet up with the anticipation of the populace. To accomplish these aims and objectives, the microfinance banks should be administered by the subsequent philosophies (Aladejebi, 2019).

Variety of Facilities: For the microfinance banks to moderate the weakness of financial risk, the banks should diversity her financial products and services with different range of banking services, availability of her administrative and governing handbook on the internet, introduction of educational loan, micro-loan or credits, micro-insurance, deposits/savings, micro-housing loans or credits among others over vigilant focus or target, 24-hour checking and monitoring, and appraisal of microfinance banks would take full advantage of the socio-economic welfares of their financial services on the underprivileged group of people (CBN,2005).

Survival: The existence of microfinance banks (MFBs), such as supplementary trades would be subject to the capability of the microfinance banks to conveniently provide for their operational expenses and make judicious profits and incomes which will necessitate the devotion to staff training through seminars, workshops and conferences with special expertise for improvement specifically in project appraisal, assessment and administration(Williams&Adu,2024). The foremost motivation should be to augment the excellence of credits or loans over vibrant and comprehensive lending techniques and canons, well predictably documented instruction manual, suitably competent and skilled staff plus the practice of paramount exercise by safeguarding financial self-control and cost regulation (Ayodele et al., 2025).

Business Development Services: Loans should be accompanied by training on basic concept so that the borrower can become financially disciplined and self-reliant entrepreneurs(Williams et al., 2025). The emerging microfinance banks' ability to make financial services accessible and available to the people who never had the contact to such services before would require the support of all the stakeholders in microfinance activities such as the government, the Central Bank of Nigeria (CBN), microfinance institutions, public sector alleviation and donor agencies (Adu, 2021). The Central Bank of Nigeria must create healthy competition and mainstream for microfinance banks with official intermediation. The microfinance institutions/banks themselves have to provide effective and operative financial services to guarantee employment and withholding of capable and skilled personnel, and approve incessant retraining and ability restructuring plan to advance the expertise to employees, make integrity a watchword by safeguarding clients' deposits and savings, and strictly comply with the rules and regulation of the regulatory authorities (Adu,2023).

Methodology

Descriptive method was adopted for this paper through the empirical review of journal articles.

Summary, Conclusion & Recommendations

Microfinance banks' credits have positive effect on SMEs growth in Nigeria

Conclusion

Microfinance banks are critical to the growth of SMEs in Nigeria.

Recommendations

Lending rate by microfinance banks should be reduced to attract SMEs expansion as well as flexible repayment patterns should be introduced while SMEs should keep proper records of their business activities

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