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Microfinance Institutions and the Survival of Small and Medium Scale Enterprises in Nigeria

By

IGEMOHIA, Mohammed PhD

Department of Business Administration, Delta State University, Abraka, Nigeria

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Abstract

This study examines the effect of microfinance institutions on the survival small and medium scale enterprises in Nigeria. Survey research design was used and primary data (structured questionnaire) is the main instrument of data collection. Five (5) small and medium scale enterprises in Delta State were selected and one hundred and forty-four (144) questionnaires were administered to employees of the selected small and medium scale enterprises. Data obtained were analysed using descriptive statistics and findings of small and medium scale enterprises profile indicated that majority of them are in the micro and small stages since they hire more than six (6) workers, and the industry is heavily driven by the service sub-sector. Again, the descriptive results revealed that microfinance institutions have had favourable effect on the survival of small and medium scale enterprises. Also, microfinance institutions make critical contributions such as increased access to credits, savings enhancement, and the delivery of business solutions. Besides, the study explicitly showed that microfinance institutions have a significant effect on the survival of small and medium scale enterprises. The study recommends that credits should be client-oriented rather than product-oriented in order to boost sustainable and rapid development in the activities of small and medium scale enterprises. More so, clients that are awarded loans should be subjected to extensive and comprehensive supervision.

Keywords: *Small and medium scale enterprise; Microfinance institutions; Credit; Micro-firm*

1. INTRODUCTION

Predominantly, access to finance and credit is critical for maintaining livelihoods and growing microenterprises. The inability to obtain such credit continues to stymie this growth. Since formal financial institutions see these businesses as risky and unprofitable, they are unwilling to extend credit to them (Sanya& Polly, 2017). The primary function of MFBs is to provide financial intermediation. This is the transfer of capital or resources from surplus units to deficit units (Ekpete&Iwedi, 2017). Due to their capacity for poverty reduction, MFBs play critical roles in every government's economic growth and development (Avevo, 2020; Ahonkhai, Esuike&Obonofiemro, 2025). SMEs are well-known around the world for playing a pivotal role in fostering grassroots economic and inclusive sustainable development (Wairimu&Mwilaria, 2017). According to Chetama, Dzanja, Gondwe and Maliro (2016), a thriving micro, small, and medium enterprise (MSME) sector is critical to poverty alleviation and economic development, especially in Sub-Saharan Africa.

The ultimate purpose of the microfinance sector and its MFIs is to financially empower the poorest members of society and to promote Sustainable Development through their operation (Syed, Muzaffar&Minna, 2018). Practitioners and scholars have approached sustainable development from several angles, believing that conceptualizing and operationalizing sustainable development is difficult due to the difficulty and diversity of factors involved. From a micro-level perspective, sustainable development is encouraged by organizational sustainability, which requires a balance of socioeconomic, social, environmental and governance success dimensions in the short and long term.

According to Adamu and Suleiman (2025), the experience of several countries shows that entrepreneurship manifested in the form of SMEs will significantly contribute to the achievement of a country's economic development goals. These goals include the creation of jobs, the redistribution of wealth, the expansion of output, the development of indigenous entrepreneurship and technology, the location and localization of industries within/between countries, and the manufacture of intermediate products to improve industrial

*Corresponding Author: **IGEMOHIA, Mohammed PhD.**

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linkages. Private deposits, funds from friends and family, mutual societies, corporate associates and investors, and numerous financial institutions such as deposit banks and MFBs are all sources of funding for small business owners (Adegbite&Oladipo, 2024).

In comparison to big corporations, small businesses find it impossible to meet deposit banks' liquidity standards (Eke &Chukwuma, 2024). Microfinance banks are responsible for more than half of Nigeria's economically active population, who are not banked by deposit banks because the majority of them are weak. To enhance financial inclusion, the Central Bank of Nigeria (CBN) seems to be paying closer attention to the success of MFBs and their effect on empowering the weak and providing MSMEs with access to capital (Hassan & Yusuf, 2025). Microfinance is the granting of financial services, especially microcredit, to people who have been systematically denied access to those services by traditional financial institutions (Okechukwu, 2025).

There is comparatively little compelling evidence in the grand statements regarding the performance impact of microfinance on small enterprises since the high cost of over 60% annual interest rate on micro-loans in developed countries means that high returns on capital are needed to improve on concrete outcomes of such business profits (Adesanya&Ifere, 2045). Access to capital is important for the growth of SMEs (Pei-Wen, Zariyawati, Diana-Rose, &Annuar, 2016). Due to non-accessibility, absurdly high equity requirements, and high interest rates, small business owners choose their savings and cooperative society's credit over MFBs and deposit banks loans. High interest rates demanded by microfinance banks have been identified as a cause of consumer default (Afolabi and Aribaba (2025).

2. REVIEW OF RELATED LITERATURE

2.1 Overview of Small and Medium Scale Enterprises

The challenges of establishing and operating small and medium scale enterprises have become a nationwide issue. As a result, it has elicited several retorts from both private and public sectors, as well as global financial institutions, due to the inclusion of both micro enterprises. As a result, many developing countries have become increasingly aware of and interested in evaluating the role that small and medium scale enterprises may play in their industrialization process through the involvement of microfinance institutions (Abubakar, Ibrahim & Ibrahim, 2024). As a result, in order to shed light on this work, this study would discuss some important literature on an array of subjects.

In Nigeria, attention has been drawn to the fact that small and medium scale enterprises receive relatively little attention, despite the fact that they employ nearly triple the number of people who work in large-scale manufacturing and play critical roles in the developing economy. This is why it is critical to rethink the constraints impeding their sector's progress. The choice of small and medium scale enterprises within the industrial sector is based on the following propositions (Abubakar, et al, 2024): SMEs mobilize funds which otherwise would have been idle; they have been recognized as a seed-bed for indigenous entrepreneurship; they are labour intensive, employing more labour per unit of capital than large enterprises; they promote indigenous technological know-how; they are able to compete (but behind protective barriers); thus, has less foreign exchange requirement; they cater for the need of the poor; and low-income earners; and they adapt easily to customer requirement (flexible specialization).

2.2 Microfinance Institutions

According to Johnson and Adebayo (2025), microfinance is a series of financial resources, including credit, advance, capital, and insurance coverage, available to struggling industrialists and small business owners who lack security and may not otherwise meet the conditions for a typical bank loan. According to the Central Bank of Nigeria (2005), microfinance is the provision of financial services to the vulnerable, which make up the majority of the 65 percent of the population who do not have access to traditional banks' financial services. According to Ahonkhai, et al (2025), microfinance is ingrained in the Nigerian culture.

Long before the Central Bank of Nigeria began to issue microfinance banking, informal Self-help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) provided credit to rural and urban low-income earners, including SMEs. These informal communities can be found in Nigeria. The Federal Government of Nigeria has launched numerous programs and organizations to reduce poverty in the country, create jobs, and increase the level of inclusion of poor, rural citizens, and micro and small businesses in financial services, especially banking (Adamu& Suleiman, 2025).

The CBN began the process of reforming the community banking system in 2005. The latter culminated in the licensing of microfinance banks (MFBs) to fill the role of community banks, with the aim of making MFBs more competitive in granting credit to SMEs in order to expand this market. In Nigeria, there are three types of microfinance banks (MFBs): Unit MFBs (Tier 1 & 2), State MFBs, and National MFBs. Recently, a Circular on the Minimum Capital Requirement for Microfinance Banks was released to all MFBs. The minimum capital requirements for the following types of microfinance banks have been revised: Tier 1Unit Microfinance Bank N200,000,000 (Two Hundred Million Naira); Tier 2 Unit Microfinance Bank N50,000,000 (Fifty Million Naira); State Microfinance Bank N1,000,000,000 (One Billion Naira) and National Microfinance Bank N5,000,000,000 (Five Billion Naira)

2.3 Challenges of Microfinance Banks in Nigeria

According to Adegbite and Oladipo (2024), the following are the challenges facing microfinance Banks: high operating cost (loan monitoring and collection requires many staff, loan application review, management of several locations); repayment problem (a lot of SMEs default in loan repayment, which affects operation of the banks); inadequately

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experienced credit staff: microfinance dispenses lots of loans. Therefore, MFBs need experienced credit staff for appraisal and recommendation of viable loans for disbursement.

Furthermore, there is also the problem of problems of illiteracy (borrowers (SMEs) find it difficult to keep proper accounting records that will enable MFBs to take decisions on their loans. Inability to monitor loan of SMEs adequately leads to loan defaults.According to Ekpete and Iwedi (2017), a major challenge associated with MFBs is the issue of poor capital base, which has resulted in the vaporization of shareholders' funds by losses. Inadequate technological know-how in handling MFBs, a weak culture of governance procedures, management information technology issues, high running costs, insufficient loanable funds, and a lack of knowledge of microfinance programs are among the other basic problems of MFBs.

According to Eke and Chukwuma (2024), MFBs in Nigeria face the following issues: diversion of microfinance funds, insufficient finance, regular changes/contradictions in government policy, high loan defaults, poor capacity, and low technical skills by MFB operators. Also, other MFB challenges include: an ineffective credit bureau that encourages loan defaulters to move from one MFB to another; few individuals and firms choose to put their savings and deposits in MFBs because they are not considered safe; insufficient banking software to support operations; low salaries paid by MFBs make them unattractive to skilled personnel; and a lack of proper risk management and internal controls.

2.4 Drivers of the SMEs Development in Nigeria

The macroeconomic conditions and management in Nigeria were and continue to strive to balance public policy formulation and execution or regulatory mechanisms with the fundamental needs of the domestic economy, necessitating the implementation of a holistic economic reform program based on a home-grown strategy, the National Economic Empowerment and Development Strategy (NEEDS). The primary impetus is the need to promote the development of physical and human resources for wealth generation and poverty alleviation (Hassan & Yusuf, 2025). Social, technical, political, and environmental opportunities are all tied to the national system situation as a way of ensuring the economy's growth and continuity.

Major large scale established enterprises and small and medium scale enterprises are also part Major large scale existing enterprises, as well as small and medium scale enterprises, are both part of the federal government's structural situation, ensuring that large- and small-scale businesses continue to exist and new ones grow, in order for the economy to meet budgeted gross domestic product (GDP), importation, and exportation prices (Johnson & Adebayo, 2025). Market trends can provide entrepreneurial prospects and capacity. Furthermore, internal and external economies are interconnected with small and medium-sized businesses, the production of which enforces national economic development (Abubakar, et al, 2024; Adesanya&Ifere, 2025). The fusion of all of these business groups, federal, state and local governments is to collaborate while each plays its part in advancing SME to a developed stage while maintaining the highest level of accountability (Okechukwu, 2025).

2.5 Empirical Studies

Taiwo, Yewande, Edwin, and Benson (2016) investigated the involvement of microfinance institutions in small business financing. They used primary data obtained from interviews conducted in 15 small businesses throughout Lagos state. Their findings found that microfinance greatly enhanced entrepreneurs by closing the capital gap for small businesses. According to the findings of a study conducted by Obokoh, Monday, and Ojiako (2016) on microfinance banks and SME: the Nigerian perspective, microfinance lending contributes positively to the growth of SMEs.

Okafor, Ezeaku, and Ugwuegbe (2016) investigated the effect of microcredit on poverty reduction in Nigeria from 1999 to 2014. According to the findings, microfinance has a negative and insignificant effect on poverty reduction in Nigeria. Based on their results, they concluded that microcredit played no significant role in reducing poverty in Nigeria. Empirical evidence from an analysis conducted in Nigeria by (Apere, 2016) suggests that if MFB operations are well organized, they can have an effect on the entire economy. Furthermore, the study's findings show that MFB loans and domestic investment have an important and optimistic impact on Nigeria's economic development.

Onwuka, Udeh, and Nwannebuike (2015) investigated the effects of MFB rural credit facilities on poverty alleviation in Nigeria from 2005 to 2012 in Anambra, Enugu, and Imo states. The study found that deposits mobilized by MFBs from rural communities were siphoned out of the communities through fixed deposits with commercial banks located outside the communities, thereby undermining the sole concept of financial intermediation within the communities.

3. METHODOLOGY

This study employed survey research design. The study included five (5) randomly selected small and medium industries as well as selected microfinance institutions in Delta State, Nigeria, resulting to about 150. The sample was arrived at using purposive sampling method. Data obtained were analysed using descriptive statistics (tables, figures, and percentage). Data collected was coded, grouped into frequencies, computed and arranged into table for easy reference and analysis.

4. RESULT

Figure 1 shows that 42.66 percent of the respondents (SMEs) begun their operations from 2006 and late, 26 percent started their businesses between 2001-2005, 14 percent start their businesses between 1996–2000, 12.67 incorporated their business in 1990-1995 and only 4.67 percent were established in the 1980s. This shows that, most of the SMEs sampled for the study were established in the 21st century, thus early and late 2000 and have the requisite experience in terms of their dealing with microfinance institutions.

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In establishment of business, various objectives are taken into consideration before such establishment come into existence. When respondents were asked about these objectives, varied objectives were given such as to generate income to support their family; to serve the community; for better growth of Nigerian economy; to create employment opportunities for other Nigerians; and to be self employed

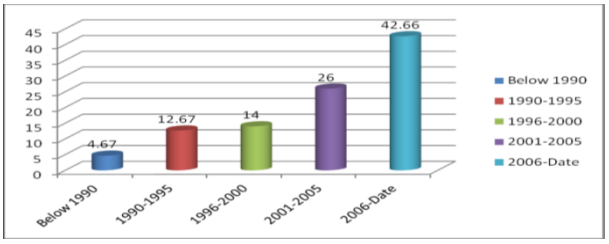


Figure 1: Commencement of Business Operation
Source: Field Survey 2025

Table 1: Line of Business and Number of People Employed

Item	Production	Services	Commerce	Others	Total
< 6	0	0	20	0	0(0.00 %)
6-9 People	0	16	0	21	37(25.69%)
10-29 People	11	77	19	0	107(74.31%)
30-99 People	0	0	0	0	0(0.00 %)
Above 100	0	0	0	0	0(0.00 %)
Total	**11(7.64%)**	**93(64.58%)**	**19(13.19%)**	**21(14.59%)**	**144**

Source: Field Survey 2025

From Table 1, 7.64 percent of respondents are engaged in manufacturing, 64.58 percent are engaged in services, 13.19 percent are also engaged in trade, and 14.59 percent are engaged in other services such as asset maintenance, self-employed tailoring, and dress making. In the other hand, majorities of 74.31 percent employ from 10-29 people in their jobs, 25.69 percent employ 6-9 people, and none employ fewer than 6 or more than 30 people. According to this report, these SMEs have also provided employment opportunities for others.

Furthermore, it is important to note that the majority of SMEs in Delta State are classified as small-scale since they employ more than six workers. Steel and Webster (1991) and Osei et al (1993) used a 30-employee work cut-off point to define small-scale businesses. However, Osei et al. (1993) categorized small-scale businesses into three groups, the first of which is Micro, which employs less than six employees, while those employing more than six are referred to as small.

Furthermore, the results of this study indicate that SMEs provide a living for the majority of people through income generation and jobs.

Table 2: Sources of Business Capital and Adequacy of Capital for Business

Item	Production	Commerce	Service	Others	Total
Self	6	4.00	Self	6	4.00
Friends and Relatives	3	2.00	Friends and Relatives	3	2.00
Partnership	8	5.33	Partnership	8	5.33
Loans from Banks and MFIs	132	88.00	Loans from Banks and MFIs	132	88.00
Others	1	0.67	Others	1	0.67
Total	**150**	**100**	**Total**	**150**	**100**

Source: Field Survey 2025

Capital is the most valuable item in the establishment of SMEs, especially in this part of the globe. On the sources of business capital, it was found that, 4 percent sponsored themselves for the initiation of their businesses, 2 percent relied on friends and relatives, 5.33 percent were from partnerships, and a majority of 88 percent acquired loans from banks and other financial institutions, with only 0.67 percent acquiring capital from other sources. This analysis also brought to bear that; the sample of this study is mainly associated with respondents who always deal with the MFIs. However, it was unanimously agreed among all respondents that the capital for the operation of their businesses is not adequate as per the demand of goods and services they need for their operations.

Table 3: Knowledge Microfinance Institutions

Item	Frequency	Percentage
Friends	30	20.83
Media	94	65.27
MFI Official	11	7.63
Handbill	2	1.39
Others	7	4.87
Total	**144**	**100.00**

Source: Field Survey, 2025

Table 3 shows that out of the one hundred and forty-four (144), 20.83 percent got to know about MFIs through friends, 65.27 percent heard through the media, 7.63 percent through

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an MFI officials and 1.39 percent through handbill. This analysis shows that, most of the respondents got to know the Micro Finance Institutions through the media such as the radio station, print media and the television. Moreover, it was established that, all the 137 respondents have had some benefits from the operations of the MFIs in one form or the other. The beneficiaries point out that, they received some benefits from MFIs in the form of credits and financial/management training or both.

Table 4: Products offered by MFIs

Item	Yes	No
Has the availability of MFIs contributed to the enhancement of your managerial skill, financial management skill and overall business knowledge?	137(100.00%)	0(0.00%)
Have you ever applied for credit facility from any MFI?	129(94.16%)	8(5.84%)

Source: Field Survey 2025

Clearly, it was evident that, all the respondents who had knowledge of the MFIs have been enhancing their managerial, financial and management skills of their businesses as shown in Table 4.4.2 below. Nevertheless, on the side of applying for credit facility, 94.16 % indicating one hundred and twenty-nine (129) of the respondents had done so. This outcome gives much evidence that, not all the SMEs are granted loans and other financial credit from the MFIs except in cases where policies and requirements of the MFIs are met by the SMEs. It reveals that, much of the loan facilities granted by the MFIs are either used as an add up of the accumulated amount towards the expansion of their business or for the day-to-day operation of their business as MFIs do not always grant some part of the full amount of credit facility applied by the SMEs.

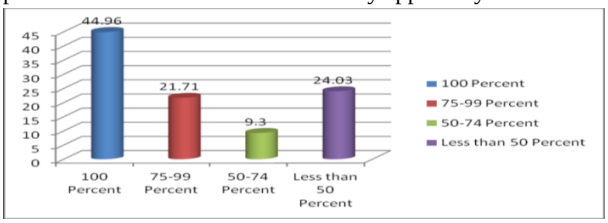


Figure 2: Percentage of Applied Loan Granted

Source: Field Survey 2025

Figure 2 shows the percentage of loans granted to the SMEs as per what they applied. The study shows that, majority of the SMEs are granted the total amount they applied for, of this, 44.96 percent were of this opinion. 21.71 percent were also granted between 75-99 % of the loan they applied, 9.3 percent of the SMEs also were granted between 50-74% of the loan they applied, whilst 24.03 percent were given less than 50 % of the loan they applied for. However, indication from the beneficiaries shows a period of uncertainty in the granting of loan facility.

Table 5: Period it takes to access credit

Item	Frequency	Percentage
Less than a week	0	0.00
1-2 Weeks	32	24.81
2-3 Weeks	41	31.78
3-4 Weeks	37	28.68
Above 4 Weeks	19	14.73
Total	**129**	**100.00**

Source: Field Survey 2025

As shown in Table 5, majority of the beneficiaries take between 2-3 weeks to access loans from the MFIs, whiles others, thus 28.68 percent takes 3-4 weeks, 24.81 percent takes 1-2 weeks and 14.73 percent takes more than 4 weeks to access credit facility from the MFIs. Evidently none of the respondents take less than a week to access credit facility from the MFIs; this may be due to the documentation and authentication of documents associated with the accessing of credit facilities.

SMEs operators were found to be consistently transacting business with more than one MFI, on their part, this scheme is developed for them to boost their capital base to help expand their businesses rapidly and to meet the capital demands of their businesses, since one MFIs are reluctant to give huge sums of loans for recapitalization of businesses. Moreover, they agreed unanimously, as all the SMEs operators who access credit facilities indicate that they are able to access more credit from MFIs than the traditional banks.

Transacting business with MFIs come with varying expectations from partners involved in the business. When respondents were asked of their expectations before transacting with MFIs, it became known that, each respondent had his/her own expectation but were all converging to the point of acquiring loan, some of their expectations include: to access prompt credit; to be assured of getting credit on time and as and when needed; to access more funds to expand their business; and to receive support like management training/accounting skills to manage their business.

Table 6: Results on the effect of MFIs on SMEs

Item	Frequency	Percentage
Don't Know	12	8.76
Positive	121	88.32
Negative	0	0.00
Unchanged	4	2.92
Total	**137**	**100.00**

Source: Field Survey 2025

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The existence of MFIs has in one way or the other contributed to the development of SMEs. When SMEs were asked whether the existence of MFIs have had any effect on their business, it was found that majority of them, thus 88.32 percent recorded a positive effect, 8.76 percent could not ascertain their growth whiles 2.92 remain unchanged as shown in Table 4.4.4 below. However, none of the respondents indicated a negative effect of the existence of MFIs on their business. Hence it can be deduced that, MFIs have contributed positively in the operations of SMEs. This assertion is buttressed by Rhyme and Otero (1992), when they indicated that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor.

5. CONCLUSION AND RECOMMENDATIONS

The research which was undertaken to find the effects of MFIs on the survival of SMEs reveals that, despite the inherent challenges, MFIs have a positive impact on the latter's development. It has been observed that the activities of MFIs have significantly limited access to credit, which is a major challenge in the SME market. MFIs have also contributed to the growth of SMEs by providing non-financial services such as corporate, financial, and managerial training programs, according to the findings. MFIs have also made significant contributions to the mobilization of savings through their saving programs, which make saving more affordable, less risky, and ready to receive small sums. Saving habits are strengthened when low-income earners who were previously reluctant to invest with conventional banks are given the ability to do so. The activity aids capitalization since the majority of their savings are reinvested in their businesses.

It is also important to highlight the challenges that have the potential to derail MFIs' credit-granting efforts. Some of them include clients' failure to repay their debts and the rate of credit misappropriation.(Nike Popoola 2019). It is worth noting that MFIs provide greater credit access than traditional banks. However, the analysis shows that a significant number of MFIs need collateral protection before granting loans, which has a negative impact on SMEs because others are unable to supply the requested collateral.

Furthermore, high interest rates have also been listed as a barrier to accessing MFI credit facilities. In relation to high interest rate, MFIs have explained that the risk attached to the granting of loans is on the high side and are unable to reduce the interest rates. The study recommends that credits should be client-oriented rather than product-oriented in order to boost sustainable and rapid development in the activities of small and medium scale enterprises. More so, clients that are awarded loans should be subjected to extensive and comprehensive supervision.

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*Corresponding Author: **IGEMOHIA, Mohammed PhD.**

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