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Effects of Microfinance Bank Credit on Small and Medium Scale Businesses: Evidence from Alimosho LGA, Lagos State.

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ABSTRACT

The purpose of this research is to examine the impact of microfinance bank credit and its debt servicing on the profitability of SMEs in Alimosho Local Government Area, Lagos State, Nigeria. A survey was carried out involving 387 SMEs in Alimosho LGA, Lagos State and information was extracted using a well-structured questionnaire to answer research hypotheses raised. Evidence from the simple linear regression outputs of SPSS v.25 shows that that MFBs loans and MFBs loans debt service deteriorates significantly the profitability of selected SMEs in the Alimosho local government area of Lagos state. Policy recommendations to the Federal Government, commercial banks, microfinance banks and the apex bank are; Micro Finance Banks (MFBs) should lighten the terms of lending including increasing the duration of the loans to ease repayment by SMEs; MFBs should adopt flexible requirements suitable for small-scale and medium enterprises as pertaining documentation and other specialized services to engender SMEs growth; MFBs should cover the lacuna of ex-post verification by setting up a digital platform where progress of projects cum businesses for which loans are granted are effectively monitored at lesser costs.

Keywords: Microfinance Bank Credit; SMEs, Profitability, Debt servicing, Lagos.

JEL Codes: G21, G32, M13, R51.

1.0 Introduction

The commencement of the Microfinance system is traced to the early thrift saving method, and its activities were predominant in the pre-independence era in Nigeria. The existence of the traditional money lenders is hinged on the inability of conventional financial institutions to provide adequate finance for developmental projects targeted at meeting the needs of rural settlers. The scenario in the early days of banking in Nigeria reflected the weakness of commercial banks to supply finance necessary for developmental projects to increase the standard of living of citizens in the rural areas. In the light of this, the Government decided to address this inadequacy by creating community banks to meet the needs of the rural community to encourage agriculture and other productive small scale businesses. The existence of community banks was made possible by Decree 46 of 1992 to fill the gap left by conventional commercial banks and act as a catalyst for economic improvement of the rural settlements.

Small and Medium Enterprises (SMEs) have been a significant catalyst of economic growth, poverty alleviation, economic development, and employment creation. SMEs, as well as the Multinational companies are significant providers of employment opportunities that engender the productivity of the populace. A large percentage of the essential necessities of the populace are produced by the SME sector, which engage more than 60% of the labour force in Nigeria. The SMEs provide employment opportunities in the post-independence era owing to the government's inability to provide jobs (Prah, 2016).

SMEs have contributed tremendously to Nigeria's economic growth in the last ten years; scholars believe that SMEs are viable channels to overturn economic misfortunes to economic prosperity by transforming countries from a consumption/import-dependent nation to self-sufficient nation. Tracing the performance of SMEs in Nigeria, the Federal Government is in perfect consonance with the assertion that SMEs are vital to the development of a sovereign nation. Ashamu (2014) asserted that SMEs are a dynamic propelling force fostering the growth of any economy evidenced by being a substantial constituent of business activities in emerging economies, as in the case of Nigeria. Furthermore, the advantages of SMEs are not limited to eradicating the incessant occurrence of agricultural commodities wastage, but they also contribute to efficient local resource utilization, significant job creation for unemployed youths, and enhance value addition in the agricultural value chain.

It is disturbing that unemployment remains high in the country despite remarkable government programs targeted at promoting SMEs and the fact that the economy recorded considerable economic progress, which was on average of 7 per cent to 6 per cent between 2001 and 2014. The tenuous growth in unemployment is ascribed to the lack of access to finance by SME operators. The bank loans to SMEs as a percentage of total credit to the private sector has continued to decline for over two decades. In 1992, the ratio of SMEs loans to total credit fluctuated from 29.80 per cent to 24.85 per cent in 2002 and further declined abysmally to 0.13 per cent in 2012 and 0.14 per cent in 2014 (CBN, 2014). The ratio of SMEs loans to total credit from 2015-2016 was still pegged at the 0.1% band, but in 2017, the ratio of SMEs loans to total credit increased to 0.50%. The ratio nosedived to 0.25% in 2018 and increased to 0.54% in 2019.

Consequently, the poverty rate and unemployment rate have been on the rise. The level of unemployment increased between 1980 and 1999 from 6.4 per cent to 17.5 per cent, respectively, and shot up to 23.3 per cent in 2013 while the incidences of poverty worsened. As of 1980, the poverty rate was as low as 27.1 per cent but worsened to 65.6 in 2001 per cent and 71.5 per cent in 2013. Government determinations to improve the problem of unemployment through SME promotion may have been hindered by social upheaval across the country. Nigeria has experienced a high level of insecurity which climaxed to terrorist attacks in the North East of Nigeria, insurgency, banditry and agitations across the country with attendant disruption of economic activities as many people were displaced.

The effects of these agitations from these groups have led to the destruction of infrastructures, properties as well as loss of lives and loss of investment promoters' confidence. These accentuated the risk-averse tendencies of SMEs, which makes it more challenging to access bank facilities, therefore worsening the performance of SMEs and unemployment situation in the country. Based on these, it becomes essential to scrutinize the effect of microfinance bank credit on the financial performance of SMEs in Nigeria. Significant empirical studies have been carried out on the effect of SMEs lending on economic growth in Nigeria. However, very limited studies have examined the impact of micro finance bank credit on SME's performance at community levels such as local government area. Based on the established lacuna, this study examines the impact of microfinance banks' credit on the performance of SMEs in Alimosho LGA of Lagos State. The finding of this study may be beneficial to policymakers in the determination of their policies; it may be useful for future scholarly research and may as well be an addition to the already existing literature.

A large number of SMEs in Nigeria have over the years been characterised by a slow growth rate. The slow growth rate problem is a result of non-availability or access to credit by a large percentage of entrepreneurs from conventional bank financial institutions. Before 2005, microfinance institutions predominantly available in the Federal Republic of Nigeria faced operational constraints not limited to inadequate capital, high credit risk, low savings, and little financial services rendered. Statistics culled from the CBN suggest that the share of microcredit expressed as a percentage of total credit was 0.9%, and its contribution to GDP was 0.2%. In 2017, the Central Bank of Nigeria identified primary factors culpable for the continuous failure of microfinance policies. CBN cited some reasons such as a paucity of loanable funds, incompetent managerial team of micro-finance institutions, non-compliance to micro-enterprises lending by conventional banks, and the absence of support institutions in the microfinance sector.

The CBN in emergency response to the problems identified established the Microfinance Policy, Regulatory, and Supervisory Framework (MPRSF) in 2005, in a bid to offer quality financial services to small-scale entrepreneurs. Substantial evidence very much agreed by scholars' points to the fact that microfinance fills the lacuna created by the resource gap in the Nigerian economy, especially at grassroots. It is overly important to add that despite the inherent benefits of Microfinance banks, Nigeria is yet to reap full benefits due to lingering problems. The absence of a well-defined structure and a standard procedure of practising microfinance in Nigeria increases the level of difficulty in formulating sound beneficial programs for all-round development of the sector.

One of the significant elements in the determination of estimated futuristic productive capacity and growth of SMEs is domiciled in the level of financial inclusion reflected by the quantum of credit transmissions for investment. The growth of SMEs is heavily stunted by limited financing from financial institutions, more prevalent in emerging economies, so, SMEs must recognize that for continuity and expansion, there is a need to have unfettered access to formal credit. Real industry statistics suggests that there is the existence of credit facilities to SMEs, however terms and conditions such as short repayment period and high-interest rates deter SMEs. It is also essential to state that most microfinance banks are not interested in lending to start-up businesses, making it hard for young entrepreneurs with business concepts and innovation to get started (Oleka, Maduagwu & Igwenagu, 2014).

The damning survival rate of old businesses and newly established businesses in Nigeria reiterates the problem associated with financing SMEs. It may be an inhibiting factor in SMEs' performance overtime. The above submissions increase the importance of ascertaining the degree to which microfinance can enhance SMEs' growth and performance. Additionally, many microfinance initiatives in Nigeria provide support services to the SMEs through the provision of non-financial services. Thus, a gap has been identified based on the fact that the study wants to conduct an economic analysis of microfinance loans on the profit of selected small businesses in Alimosho local government area, Lagos State, Nigeria using survey data.

2.0 Review of Related Literature

2.1 Theoretical Framework

This section reviews theories underpinning the subject under discourse which is the Small and Medium enterprises (SMEs). This study reviews the two major set of theories on growth of SMEs and micro-financing which are explained herewith.

2.1.1 Theories of Growth of Small Businesses

A. Human Resource-based Theory

The distinctive feature of the resource-based theory (RBT) lies in the degree of diversity in a firm's production process. Assuming a set of specific inputs, differential applications by firms will result in differential outcomes or outputs. Based on this, a firm's competitive advantage is sustained when firms' output proves to be the best fit for available market demand. These inputs range from physical resources, organisational resources, and human resources. The principal theory justifying this research is the human resource-based theory, and the guiding principle states that a firm's competitive advantage source is domiciled in its highly skilled and efficient workforce devoid of duplication by rivals. The increasing awareness further strengthens this choice that the most priced asset of any organisation is its employees and the steps taken by business organisations to put in place a solid structure to increase the level of their employee retention.

B. Dynamic Capabilities Theory

Dynamic capabilities theory was propounded by David Teece and Garry Pisano in 1994. The emergence of the dynamic capabilities theory is definitely an improvement of the resource-based view. Dynamic capabilities theory takes a giant leap and different standpoint from the view that sustainable competitive advantage depends on a firm's acquisition of valuable, rare, inimitable, and non-substitutable (VRIN) resources. The heavy dependence of RB theory on what leads to sustainable competitive advantage is limited to its inability to explain how recognised mechanisms operate. This overlap was further buttressed by (Eisenhardt & Martin, 2000), claiming that RBT has failed in accounting for reasons why specific firms possess a competitive advantage in the era of rapid and unpredictable change. Teece et al. (1997) advocated that dynamic capabilities theory consolidates on two fundamental issues that were ignored by RBT. They are; firms' ability to re-establish competences to keep up with dynamics in the business environment and also the ability of strategic management to utilize competencies to be at par with environmental requirements. Recent contributions to the dynamic capabilities theory trace to Teece (2007). Teece produced novel dimensions hovering identification and assessment of an opportunity, mobilisation of resources to capture value and opportunities, and reconfiguring the business firm's tangible and intangible assets. Proper synchronisation of the dynamic capabilities frontier dimensions can increase the all-round performance of SMEs, especially its ability to tweak and re-tweak external and internal resources and capabilities in rapidly changing business environments prevalent in emerging economies.

C. Micro Credit Theory

The birth of microcredit emanates from the early writings of Adam Smith in his unpopular philosophical masterpiece titled, "Theory of the Moral Sentiments" and the emphasis was morally induced. Smith posited that the source of moral judgment is deep-rooted in the concept of sympathy. Smith added that the selfishness of human being constant; there is an undisputed innate interest in the fortunes of their fellow human beings. This view further solidifies an assertion that human nature, most notably human qualities such as compassion for the misery of others affect their operation. An opposing and distinctive view stemming from the economic masterpiece written by Adam Smith and titled; "An Inquiry into the Nature and Causes of Wealth of Nations," proposes that selfish human nature is central to material progress in non-communist states. However, the existence of charitable organizations reinforces the empirical observation of sympathy as an essential element of human nature. Therefore, self-driven interests and selfish nature of humans will have an impact on the miserly class through the auspices of compassion. A more recognised and recent advocate of this discourse is Muhammad Yunus from Jobra, Bangladesh; he advanced the micro-credit theory focusing on building capitalism driven by social awareness. Yunus (1994) argued that variants of private profit-oriented businesses could be envisioned with a welfare priority for its customers.

Furthermore, private firms' impact on their clientele increases the association with the firm's profit. Yunus adjudged the neo-classical theory of production incomplete and unfit to be the general model of capitalism owing to the exclusion of individuals who are more concerned with the welfare of others. He put forward a more accepted general model specifying that entrepreneurs are constrained to either financial return-oriented or social return-oriented organisations. The third group is sacrosanct to this study as it incorporates entrepreneurs that consider both rates of return in making critical decisions to generate a positive return on investment. This group houses socially-inclined micro-finance entrepreneurs eager to affect their local communities positively as regards social and economic problems.

2.2 Empirical Review

A multiplicity of country-based empirical studies examines the role or importance of MFBs credit on the growth of small-scale businesses in an economy. Statistics suggest that SMEs in Nigeria contribute to GDP yearly, to build up evidence from past empirical studies on the subject under discourse pre-empts a review.

Akpan & Nneji (2015) investigated the contribution of microfinance banks to the development of small and medium scale enterprises in Nigeria. Primary data was employed via the use of a structured questionnaire shared to 100 SME operators and 80 MFB operators; constituting a sample size of 180. The analysis of data collected using interviews and questionnaires was performed using the OLS multiple regression technique. Findings suggest that microfinancing enhances growth of SMEs in Nigeria. Furthermore, the growth and performance level of the SMEs depends largely on the activities of SMEs operating in that vicinity. In lieu of examining true effects covering the grassroots can be seen in Ashamu (2014) where he examined the performance of Micro finance Institutions (MFIS) in Lagos State, based on the development of small and medium scale industry. He used structured questionnaires similar to Akpan & Nneji (2015) to collect data from study participants. Findings suggest that the establishment of Microfinance has contributed to the success of small-scale industries in Lagos state. Taking a robust sample size, Oleka, Maduagwu & Igwenagu (2014) aimed at evaluating the extent to which micro-finance banks have helped in financing small and medium enterprises (SMEs) in Nigeria. Results deduced is in line with popular findings suggesting that access to microfinance significantly enhance growth of small and medium enterprises in Nigeria. Sule (2018) towed same line as aforementioned studies and found that 71.7% of the change in SMEs and Nigerian development was accounted for by the microfinance operation.

Ofeimum, Nwakoby & Izekor (2018) in their collective effort sought to examine the relevance of micro-financing of small businesses in Nigeria. Data analytical method chosen was the ordinary least squares method and nature of data is time-series extracted from Nigerian-based MFBs and Central Bank of Nigeria. Findings pinpoint that there is a negative relationship between inflation and small business growth; micro lending rate has an insignificant and negative relationship with small business growth; sectoral spread of micro loans has a significant effect on the growth of small businesses in Nigeria and micro loan gestation period had no significant relationship with small business growth for the period under review.

Further study on MFBs impact on growth was by Apere (2016), who relied on secondary data and advanced time-series econometrics techniques to investigate the impact of microfinance banks on economic growth in Nigeria. The result of the co-integration test suggests that there is a long-run relationship between microfinance bank loans, investment and economic growth in Nigeria. Due to available econometric evidence, the study concluded that the activities of microfinance bank have the capacity to influence the entire economy if it is well coordinated. On the other hand, the findings of Wachukwu, Onyema & Amadi (2018) differed from the findings of Apere (2016), stating that growth of MFB credit and investment growth is negatively related to growth in Nigeria.

3.0 Research Methodology

This section reiterates the study's research methodology through a succinct description of the research design, the population of the study, sampling size and techniques, data collection instruments, the procedure of data collection, and the technique of data analysis. Also, the justification for using a particular research design was well defined to aid the comprehension of the study.

3.1 Research Design

This research adopted the survey research design as utilised by Sule (2018) in his paper titled**: *"The Impact of Microfinance Bank on Small and Medium Scale Enterprises in Nigeria Development".*** The purpose of selecting this research design was to determine how microfinance banks and small and medium enterprises in Nigeria affects entrepreneurial development in Nigeria. This type of research can only get adequate information when it makes use of the questionnaire to carry out its study because it will be able to cover more areas and generate different opinions from respondents. This study employed primary data to collect requisite information along the confines of the scope of the study.

3.2 Sample Size and Sampling Techniques

The population for this study comprised all SMEs in the geographical confines of Lagos state. SMEDAN Report released in 2017 pinpoints that there are about eleven thousand, six hundred and sixty-three SME operators in Lagos state (11,663) based on their knowledge of micro-financing and operation, which was the area of the present study. This number, therefore, represents the population of the present study. The sample size required for the study was determined using the Taro Yamane which is;

$$n = \frac{N}{1 + N\,(e)2}$$

Where;

n= minimum number of participants needed for the study (sample size)

N= population size

e= margin of error or error margin

1= constant value

Thus; 11,663 SMEs were identified in the location of the research representing the population of the study;

So;

$$n = \frac{11{,}663}{1 + 11663\ (0.05)2}$$

$$n = 387$$

For this study, about three hundred and eighty-seven (387) respondents who are the operators of Small and medium enterprise in Lagos state (small businesses) constitute the sample.

3.3 Data Sources and Data Collection Instrument

The questionnaire instrument used was constructed and designed to answer research questions and hypothesis raised during the course of our research. Due to the non-disclosure requirements by several SMEs in Alimosho Local government. The team of researchers confronted with this steep challenge convinced the management of SMEs in Alimosho LGA to adopt the provided numerical grouping bands that correlates with their profitability, loans and loans servicing figures. This was done in pursuance of firms' competitiveness and confidentiality and also to win their trust and increase participation in future studies.

Numerical estimates were produced by the team of researchers and representatives of the SMEs selected the numerical estimates of loans and their debt servicing using the monetary grouping provided by the team of the researchers. In data transformation and entry process into the Statistical Package of Social Sciences **software**, the monetary grouping adopted was reflected using an ordinal scale of measurements as opposed to the ratio scale. However, substantially significant number of the SMEs disclosed profit figures for four years consecutively and this was used to create the PSME variable. According to filled questionnaires returned by representatives of the selected SMEs in Alimosho LGA, we obtained raw loan figures and loan servicing figures and all were chosen without all forms of bias via a clean procedure as presented above. This gave rise to the measurement of MFL and MFDS variables in our research model provided thus in section 3.4.

3.4 Specification of the Model

In light of the existing research objective as contained in the introductory part of this paper, the research model is presented below;

$\mathbf{P_{SME} = \beta_0 + \beta_1 MF_L + \beta_2 MF_{DS} + \mu}$--------------------- (1)

Where:

P_{SME}: Profitability of selected SMEs measured in NGN millions (₦)

MF_L: Microfinance Loans measured in tens of millions (₦)

MF_{DS}: Debt Service of Microfinance Loans measured in tens of millions (₦)

μ: error term

β_0, β_1, β_2: coefficients of the independent variables.

3.4.1 Justification of the Research Model

Controls were excluded from this model due to vast inconsistencies during the fieldwork aspect of this research. In a quest to quantify some control variables such as managerial quality, quality of accounting systems, owner-firm characteristics and firm size proved abortive as they were major outliers leading to a troubling absence of normal distribution and further efforts by the team of researchers to blend data will introduce a large amount of researcher's bias. In this setting, the model is adjudged sufficient without the appearance of this controls because there is an ample theoretical justification graced with empirical evidences. However, for futuristic investigative adventures in this area requires a thorough sorting of firms vis-à-vis their locations to induce a level of comparison, furthermore, this can be regarded as a shortcoming of this study. Omitted variable bias is not a problem associated with this study as research ethics was preserved and adhered to further instil and protect the validity and reliability of expected findings of this study.

3.5 Validity and Reliability of the Study

The validity of the survey research instrument employed in this study attained an above average level of accuracy in an attempt to measure the profit figures, MFB loan estimates as well as the loan servicing estimates of SMEs in Alimosho L.G.A, Lagos. The above action was done in line with the respondents pick from our established monetary grouping induced by their non-willingness to divulge the exact amount. However, the weakness of this design lies in the probable dishonesty of answers provided by the respondents during the course of the survey. Researchers provided for this occurrence by designing a monetary grouping to make sure answers provided are near-accurate and is termed a good representation of reality. Formidable consistency will be attained from subsequent investigations on this topic adopting same approach in local government area councils in Lagos state, Nigeria.

4.0 Presentation of Data, Analysis and Interpretation of Data

In tabular form, data retrieved from study participants is shown below;

Table 4.1: Table of Questionnaire Responses

Location	Questionnaire Administered	Questionnaire returned	Questionnaire rejected	% of Retrieval
Alimosho LGA, Lagos State.	387	368	19	95%

Source: Author's Computation.

Table 4.1 showed the quantities of the questionnaire administered, returned, and rejected. Three hundred and eighty-seven (387) units of questionnaires were distributed, and 95%, which represents 368 units, were retrieved, and 5% dismissed. That is, it represents some of the questionnaires whose parts were not filled by a few of the respondents who did not harm the results gathered in the study.

Tests of Hypothesis

There are two hypotheses in this study which were used to provide an economic analysis of microfinance loans on the profit of selected small businesses in Alimosho local government area of Lagos state in Nigeria.

Hypothesis One:

Ho_1: There is no significant effect of microfinance loan on the profits of businesses in Alimosho local government area in Lagos state.

Table 4.2: SPSS Regression Results

Model	Unstandardized coefficients		Standardized coefficients	t	Sig
	B	Std. Error	Beta		
Constant	0.300	0.549	-------	0.545	0.587
Microfinance Loan (MF_L)	-0.508	0.046	0.855	11.407	0.000
R-square: 0.69; Adjusted R-square: 0.68			Dependent Variable: Profitability of selected SMEs		

Source: Authors Computation

Interpretations of Results in Table 4.2:

Table 4.2 above displayed the simple linear regression results of the hypotheses of the current study which is to determine the significant effects of microfinance loan and loan servicing on the profits of micro, small and medium scale enterprises in Alimosho Local Government, Lagos State. From the table, the coefficient of MFL is -0.51, implies that; a unit increase in Microfinance loan leads to about 0.51% decrease in the profits of these SMEs in Alimosho local government area of Lagos state. The economic cum practical significance of the above finding reiterates that increase in the loan portfolio of SMEs in the Alimosho LGA deters their level of profitability, further increasing the rate of bad loans in the banking system. The sustainability of these SMEs are hampered and thus; lifespan shortened, in that over 50% of revenue (measured in tens of millions) is reserved to settle outstanding loans acquired from MFBs. This finding further substantiates the claim of Nigerian commercial banks that lending to SMEs is risky and increases their total risk exposures on the local scene.

In respect to the significance of each explanatory variable in the model, the t-statistics is most important. The probability of the t-statistics was 0.0000 for microfinance loans, which was less than 0.05 significant level. Indeed, a perfect indication that MF_L variable is significant in the model. Further, the adjusted R-square is 0.68, and it showed that the independent variable explains 68 % variations in the dependent Profit variable.

Hypothesis Two

Ho_2: There is no significant impact of debt service charged by microfinance banks on the profits of the small-scale businesses in Alimosho local government Lagos state.

Table 4.3: SPSS Regression Results

Model	Unstandardized coefficients		Standardized coefficients	t	Sig
	B	Std. Error	Beta		
Constant	1.321	0.333	-------	0.035	0.017
Debt Service (MF_{DS})	-0.463	0.179	0.299	9.012	0.001
R-square: 0.746; Adjusted R-square: 0.739			Dependent Variable: Profitability of selected SMEs		

Source: Authors Computation

Interpretations of Results

Table 4.3 above displayed the simple linear regression results of the hypotheses of the current study which is to determine the significant effects of Microfinance Debt service on the profits of micro, small and medium scale enterprises in Alimosho area of Lagos state. From the table, the coefficient of MF_{DS} is -0.463 implies that**;** a unit increase in Microfinance Debt service leads to about 0.46% fall in the profits of these SMEs in Alimosho local government area of Lagos state. The economic cum practical significance of the above finding depicts the picture of debt sustainability at macro-level in the case of Nigeria. At firm-level data, debt servicing of loans acquired by SMEs in Alimosho LGA from MFBs reduces their profitability level more significantly. Interest accrued on the principal borrowed hampers the ability of the SMEs in Alimosho GRA under study to grow and expand as 46% of financial resources available are allocated to debt servicing.

In respect to the significance of each explanatory variable in the model, the t-statistics was used. The probability of the t-statistics was 0.0010 for microfinance loan which less than 0.05 significant level implying the significance of the MF_{DS} variable in the estimated model. Further, the adjusted R-square is 0.739 and it showed that 73.9% variations in the dependent Profit variable is explained by the independent variable.

5.0 Summary of Findings, Conclusion and Recommendations

This section covers major findings and notable recommendations for government, small-scale businesses, microfinance banks and commercial banks.

5.1 Summary of Findings

The main gap filled by this study was investigating the actual relationship existing among the three variables which are Microfinance Loans, Debt service (cost of capital) and the profits/ growth of the SMEs in a municipal area. As a result of empirical analysis, the study adopted the simple linear regression to test the hypotheses of the study. In order to aid easy analysis, the microfinance variable was disaggregated into loan and debt service and each regressed against the profit variable which was taken as the dependent variable of the study. Findings from the SPSS regression output as seen in Tables 4.2 and 4.3 respectively, show that MFBs loans possesses a negative and significant effect on the profitability of selected SMEs in the Alimosho LGA, Lagos state. In similar vein, the debt service of the MFBs loans also possesses a negative and significant effect on the profitability of selected SMEs in Alimosho LGA, Lagos state.

Our findings is in perfect consonance with Wachukwu, Onyema & Amadi (2018) & Ofeimum, Nwakoby & Izekor (2018) positing that microfinance credit impedes growth of SMEs. On the other hand, Akpan & Nneji (2015) & Ashamu (2014) findings differs from our study findings stating that credit from MFBs has a positive impact on performance of SMEs. Furthermore, relating our findings to already established theories underpinning this research is obviously imperative. Observations backed up by empirical findings shows that Alimosho-based SMEs are starved of funding from traditional deposit money banks on account of poor managerial team, absence of high-skilled talents and mediocre accounting practices. The inability of Alimosho-based SMEs to keep up with the dynamics of the business environment as it concerns competencies and level of their technological adaptability is understood in line with the view of Teece, et al (1997).

From the foregoing, this study therefore rejected the hypotheses raised and concludes that MFBs loans and MFBs loans debt service deteriorates significantly the profitability of selected SMEs in the Alimosho local government area of Lagos state.

5.2 Conclusion

The purpose of this study is to examine the impact of microfinance bank credit and its debt servicing on the profitability of SMEs in Alimosho Local Government Area, Lagos State, Nigeria. The ingenuity emanated from the unbundling of empirical variables into a number of research hypotheses based on the analysis of survey data from the research location. We have analysed reported descriptive statistics and also used the simple regression approach, to determine the effects of microfinance loan on the profits of businesses and examine the effect of debt service or interest charged by microfinance banks on the profits of the small businesses in Alimosho local government area in Lagos state. Therefore, using the outcome of the test of hypotheses, it can be inferred that microfinance bank credit and debt service have a negative significant relationship with profitability of Small and Medium Enterprises in Alimosho Local Government Area of Lagos State.

5.3 Recommendations

The following recommendations are therefore made to improve profitability of SMEs in municipal areas in Nigeria and they include;

- Micro Finance Banks (MFBs) should lighten the terms of lending including increasing the duration of the loans to ease repayment. Due to the fluctuating macroeconomic parameters, SMEs financial position lack stability and may impair timely financial obligations to the lender, obviously emanates from their size and scope. Therefore, terms by MFBs to SMEs should be liberal and flexible in tandem with reality.
- MFBs should make their services/credit less expensive and more attractive to customers. Attractiveness stems from adopting flexible requirements suitable for small-scale and medium enterprises as pertaining documentation and other specialized services to engender SMEs growth. Also, the lending rate should be reduced so as to ensure prompt repayment of the principal and the accrued interest.
- Government should provide intervention fund (Zero Digit) fund to ensure that MFBs lend to SMEs at low single digit interest rate. Recent initiatives such as CBN-NIRSAL and Agribusiness Small and Medium Enterprise Investment Scheme (AGMEIS) under the current administration through the Central Bank of Nigeria to address the lacuna in funding is in line with this recommendation. Government-pioneered schemes can afford to lend to SMEs below 5% to bridge the gap in funding by deposit money banks.
- MFBs should constitute an effective business advisory service unit and ensure proper application of loans contracted from them through effective monitoring.
- MFBs should cover the lacuna of ex-post verification by setting up a digital platform where progress of projects cum businesses for which loans are granted are effectively monitored at lesser costs.

5.4 Suggestion for further studies

More extensive study involving Micro finance banks in more local government areas of Lagos state.

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