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THE EFFECT OF MICROFINANCE BANK LOAN ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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KEYWORDS

Microfinance Bank, Loan Disbursement, Small And Medium Enterprises, Loan Payback, Loan Interest Rate

ABSTRACT

This paper evaluates the impact of microfinance bank loans on small and medium enterprises (SMEs) in Osun State, Nigeria. The SMEs encounter major difficulties when trying to obtain financing, which hampers their growth and contributions to the economy. Microfinance banks are crucial as they provide essential financial services tailored for SMEs, facilitating economic growth. A descriptive survey design was used so as to collect data from 150 randomly selected SME operators across various sectors in the Osun State. The findings show that microfinance loans significantly enhance SME performance leading to increased productivity, employment, and business expansion. However, high-interest rates & stringent loan conditions present substantial challenges that hinder optimal loan utilization. Study concludes that while microfinance bank loans positively influence SME growth, addressing these barriers could improve effectiveness & sustainability in SMEs. Enhancing loan terms could boost microfinance banks role in fostering long-term economic improvement in the region. This study empirically links the microfinance bank loans to SME performance, contributing to the literature on SME financing and economic development in Nigeria.

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INTRODUCTION

There is widespread recognition of small and medium-sized enterprises as essential drivers of financial growth and employment generation (Adusei & Adeleye, 2024). They are essential for stimulating economic diversification, promoting innovation, and strengthening the resilience of economies. SME ownership accounts for a large share of Nigerian economy, with 48% of the nation's GDP, 96% of enterprises, with 84% of jobs being held by them (Oladipupo, 2024). SMEs, despite their significance confront many obstacles, foremost among them being the difficulty of obtaining funding, which is essential to their expansion and long-term viability (Ibitomi, Dada, Aderotimi & Jiwul, 2024). Due to many factors such tight guidelines for collateral, exorbitant interest rates, and restricted access to official financial institutions, financing access keeps to hold the significant role obstacle for (SMEs) in Nigeria (Omeje, Chukwu, Mba & Ugwu, 2024). Microfinance banks have become significant players in the financial sector, offering specialized monetary services to fulfill requirements of medium-sized and small businesses (Babatunde, 2024).

These banks are essential in closing the financial gap since they provide loans, credit facilities, and other financial instruments that many SMEs would not otherwise be able to obtain. The function of microfinance banks is particularly important in Osun State, Nigeria, because of the state's mainly SMEs-reliant economy. There is a lot of interest in how well microfinance loans may better the performance and expansion of SMEs in this region. Microfinance banks provide SMEs with much-needed access to finance, which is difficult to obtain from traditional banks due to stringent collateral requirements. In order to carry out the effects of microfinance bank credit on the performance of SMEs in Osun State, Nigeria, this research look at how these loans support employment, productivity, and business growth. It also identify obstacles that SMEs must overcome to obtain and make use of these financial resources. Nigeria's development depends on small businesses, which help to reduce poverty and create jobs (Adusei & Adeleye, 2024). They employ more over 60% of Nigeria labor force & create large number of necessities. In order for Nigeria SMEs to become self-sufficient and less reliant on imports, they must have access to reasonably priced financial services (Aremu & Adeyemi, 2018; Adusei & Adeleye, 2020).

Financing availability is essential for microbusiness survival (Omeje, Chukwu, Mba & Ugwu, 2024). demonstrates the significance of loans for the growth of SMEs; nevertheless, many find it difficult to obtain the credit since banks view them as unproductive and hazardous (Modu & Maina, 2024). Many SMEs in Nigeria have experienced sluggish growth as a result of this loan shortage (Sanya & Polly, 2017). As go-betweens for people in need and those with excess cash, microfinance banks (MFBs) are essential to the offering of monetary services (Eunice & Tochi, 2024). They assist SMEs moreover, low-income individuals without access towards traditional banking (Amin & Uddin, 2018; Falade, 2022). The SMEs can grow, diversify, boost sales, and become less vulnerable to shocks to economy with the aid of microfinance loans (Osamwonyi & Obayagbona, 2020). Microfinance loans often come with higher interest rates compared to traditional bank loans, which can strain the finances of SMEs. They are essential for resource -constrained and low-income business owners (Onyeiwu, Muoneke, & Abayomi, 2021). The microfinance banks endure to be essential for SMEs in face of obstacles like Covid-19 pandemic, providing short-term funding in the event that commercial banks are not accessible (Moussa, 2020).

Problem Statement

A single instance of biggest obstacles still facing businesses i.e SMEs is access to financing in Nigeria, particularly in Osun State. Traditional banks often consider these enterprises high-risk due to their limited collateral and perceived lack of creditworthiness, that restricts their access to necessary funding. This financial gap hampers SMEs' ability to grow, innovate, and donate effectively to economic growth and job creation. While microfinance banks have emerged as a viable alternative, providing loans tailored to needs of SMEs, the specific impact of these loans on SME performance in Osun State is not well-documented. Existing research has not passably explored how aspects such as loan disbursement processes, repayment schedules, and interest rates influence the productivity and sustainability of SMEs at the region. Investigation purpose to fill this gap by offering factual data demonstrating connection amid microfinance bank loans and SME performance, aiming to inform policy and improve financial support mechanisms for SMEs.

Objectives of Study

1. To determine the impact of microfinance bank's loans disbursement on the productivity of SMEs in Osun State.
2. To analyze the impact of loan repayment on small and medium enterprises productivity in Osun State.
3. To carry out the effect of loan interest rate on small & medium enterprises productivity in Osun State.
4. To suggest possible recommendations for addressing challenges hindering accessibility of microfinance loans by SMEs.

Research Gap

The microfinance banks are essential for providing SMEs with financial services, but the precise effect of these loans on SMEs' performance in Osun State, Nigeria, is not well-documented. The previous studies have broadly examined the role of MFBs, but few have focused on detailed aspects of loan disbursement, repayment, and interest rates, and their direct effects upon SME productivity in this specific region. This gap in literature necessitates a focused investigation to understand how MFB loans can effectively support SME growth and address unique financial challenges they face in Osun State. Purpose of study is to offer evidence for policy intervention that can solve difficulties faced by SMEs by highlighting the advantages of microfinance bank loans and pinpointing areas where Nigeria's microfinance industry needs to improve. Besides, the study will offer factual proof on the connection between SME success and bank loans for microfinance.

LITERATURE REVIEW

Microfinance Bank

The inability of the unofficial microfinance institutions to adequately serve the needs of small enterprises led to establishment of microfinance banks (Eunice & Tochi-Ndubueze, 2024) They function simply and provide small loans without the need for collateral, in contrast to other companies. These banks fortify rural communities by lending money to low-income individual (Madugu & Bzugu, 2018). The microfinance banks, as their name implies, concentrate on rural areas and handle deposits and loans within a restricted area as opposed to conducting business nationally.regionally (Osotimehin, Ayodele & Ibrahim, 2024). Microfinance banks, accredited by the CBN, are committed to helping impoverished rural populace by providing low-income individuals with accessible, dependable financial services that would allow them to save and participate in long-term, profitable entrepreneurial ventures (Central Bank of Nigeria, 2021). Nyambu and Ogada, (2024) asserts that these banks support entrepreneurship, inspire savings, draw in foreign investment, advance economic growth. The creation of microfinance banks by the government is viewed as vital tactic to fight poverty & advance economic growth (Shreiner, 2019).

A significant action has been taken by federal government of Nigeria to inspire the expansion of SMEs and rural areas by establishing microfinance banks (Ndugbu, Ihejirika, & Chidinma. 2024). In the past, in effort to inspire increased monetary inclusion, government implemented a number of initiatives to increase monetary services are readily available, particularly in regions without banks (Niyi & Aliyu, 2024). When community banks were granted licenses by the CBN in 1990s, micro-finance began. Because these banks were community-owned and financially independent, small enterprises found it simpler & more economical to raise capital from them (Ndugbu, Ihejirika, & Chidinma, 2024). The community was given basic loans by old national board for community banks, which also oversaw establishment procedure. Community banks that satisfy the requirements of apex banks may become microfinance banks. (CBN, 2021). Professor Chukwuma Soludo, governor of the CBN at the time, introduced policy in 2005 that marked the beginning of microfinance banking. In effort to reduce Nigeria's poverty rate, this policy sought to emulate global success of microfinance in assisting people in escaping it (CBN, 2021).

Section 4:2:1 of the modified microfinance policy aims to eliminate poverty and create jobs by 2030 by focusing on majority of working poor (CBN, 2021). The CBN established and licensed microfinance institutions to take role of community banks in order to accomplish these goals. Presently, Central Bank of Nigeria is in charge of nearly nine hundred regulated microfinance institutions in Nigeria (Acha, 2018). Obasi (2021) described how to apply for any kind of loan from Nigerian banks. In addition to writing the four official application forms to the bank, the applicant must submit application form with passport photos. Non-civil servants must submit a feasibility analysis of planned activity, bank statements, evidence of collateral; civil servants must give a letter of undertaking from their organization. It allows for a clear distinction amid small and medium enterprises based on their asset value and number of employees, providing a comprehensive understanding of the SME sector in Nigeria. The length of the return period varies based on the kind of business being started. SMEs play a role significantly to GDP and employment, making them vital to Nigeria economic development (Adusei & Adeleye, 2024). SMEs might, however, be defined differently based on the circumstances and the rules that are followed.

The definition of SMEs used in this study is based on the standards established by the Federal Government of Nigeria, which classifies a company as a medium enterprise if its total asset value (excluding land and buildings) is between N500 million and N1 billion, and as a small enterprise if its total asset value is between N5 million and N500 million. Additionally, SMEs in this context are defined depending on the number of workers, small businesses having 11–100,

& medium-sized businesses having 101–300 workers. (Saidu & Aifuwa, 2020). This explanation is consistent with the official categorization of SMEs in Nigeria and is widely accepted in the literatureAdditionally, this definition enables meaningful comparisons and analyses within the Nigerian context and aligns with the objective of studying how SME performance is affected by bank loans for microfinance. Understanding the definition of SMEs is crucial for this study as it forms the basis for selecting sample population and analyzing the effect of bank loans for microfinance upon their performance. By using the official criteria set by the Nigerian Federal Gov't, this research ensures that its findings are relevant and applicable to the SME sector in Nigeria.

Relationship between MFBs & SMEs

According to Adebola, (2021), Microfinance Banks (MFBs) in Nigeria offer a comprehensive range of financial services and banking comparable to larger banks' offerings, albeit on smaller scale. These services include current accounts, investment accounts, fixed deposits, savings accounts (both conventional and improved), and a range of credit or loan products, including salary advances, hire purchase financing, short-term term loans, trade loans, overdrafts, and local purchase order financing. Besides, MFBs offer auxiliary services such micro-pensions, capability building, financial counseling, viability reporting (particularly for SMEs), economic training, small insurance services, micro-pensions, and local and international money transfers through correspondent banks (Oladipupo, 2024). Besides, MFBs want to give the economically engaged poor access to specialized, reasonably priced, and dependable financial services so they can manage microcredit programs for high-net-worth individuals as well as government initiatives, save money and engage in the sustainable entrepreneurial activities (Ibitomi et al., 2024).

The literature has written a great deal about significance of SMEs to economic development. As to the resource-based view (RBV), companies that own uncommon, precious, unique, and non-replaceable resources are more likely to attain the competitive edge. For SMEs to expand and thrive, financial resources are essential. The SMEs may develop their businesses, increase efficiency, and invest in new technology thanks to financial access. By filling the void created by diverse established banking institution, microfinance banks have become essential financial intermediaries in the context of developing economies. o gain a comprehensive understanding, case studies of the specific SMEs that have received microfinance loans can be analyzed. This includes examining their financial statements before and after receiving loan, and conducting interviews with business owners. In this connection, according to the financial intermediation theory, by transferring money from savers to borrowers, financial intermediaries help allocate resources and foster the economic growth. This is why underserved groups, such as small and medium enterprises, depend heavily on microfinance institutions to offer them with financial services.

Theoretical Review

The credit access theory, as put forth by Weiss and Stiglitz in 1981, examines financial market inefficiencies, particularly in developing countries, due to information asymmetry. The theory suggests that lenders are concerned about the risks involved in lending and may ration credit, especially to low-risk borrowers who cannot provide sufficient collateral. With regard to this investigation, credit access theory is relevant as it helps to explain behavior of microfinance banks in Nigeria in providing loans to SMEs. By understanding the challenges and constraints faced by the lenders, such as information asymmetry and collateral requirements we can better understand how the microfinance banks operate and how their lending practices impact the performance of SMEs. Therefore, the credit access theory provides a theoretical framework for examining the connection between Nigerian SME performance and microloan bank financing. By incorporating the Credit Access Theory into our research, we aim to give a theoretical basis for comprehending nature of lending to SMEs in Nigeria. This theory helps us to contextualize the behavior of microfinance banks and their impact on SMEs, ultimately contributing to a deeper understanding of the function of microlending in advancing economic development in Nigeria.

Empirical Studies

In order to obtain information for Falade's (2022) study on the impact of services provided by microfinance institution in Nigeria on the expansion of SMEs, a structured questionnaire was given to the respondents, who were asked to share their thoughts, ideas, and observations. The investigator employed simple random sampling methods to select SMEs in Computer Village, Ikeja. However, for this study, the researcher used 200 respondents. According to the study's findings, SMEs in Computer Village, Ikeja, and microfinance bank services have a substantial association. The goal of Fatogun (2022) was to investigate how microfinance banks' financial and non-financial services help SMEs in Ogun State survive. SPSS version 25.0 was employed to investigate primary data collected from study using a questionnaire and linear regression analysis. According to the report, microfinance banks help the SMEs survive by offering them non-financial (education) & financial (loan facilities) services. According to research findings, microfinance banks' provision of both financial and non-financial services helps SMEs survive and expand, and their provision of both services has an impact on SMEs' ability to do both. In Alimosho Local Government Area, Lagos State, Nigeria. Thus, Onyeiwu (2021) investigates the effects of microfinance bank lending and associated debt servicing upon the profitability of the SMEs.

In order to address study hypotheses posed, a survey comprising 387 SMEs in Alimosho LGA, Lagos State, was conducted. Data was retrieved utilizing a well-structured questionnaire. The outcome of the simple linear regression demonstrated profitability of a subset of SMEs in the Alimosho local government region of Lagos state is substantially negatively impacted by MFB loans and MFB loan debt payments. Yusufu et al. (2020) looked into the connection between microfinance banks in Nigeria and performance of SMEs. For investigation, a survey design that is descriptive was chosen. Study 100 chosen SME operators in Abuja Wuse commercial sector make up its population. A sample size of 100 was determined using random sampling procedure. As research tool, A methodical questionnaire was employed to gather relevant data so as to address study objective. Cross tabulation, basic linear regression, and the application of descriptive statistics examine data. Results of regression show that domestic fund transfer services offered by microfinance banks have a favorable effect on the SMEs growth. The study exposed that repayable loans granted to SMEs aid in their expansion, as showed by regression analysis.

The research concludes that SMEs and microfinance banks have useful association. Aladejebi (2019) examined how Lagos SMEs are growing, Nigeria, was impacted by Microfinance Banks (MFB). Surveys sent to small firm owners in the Lagos who have accounts with microfinance banks were employed to collect information for this study. 205 of the 209 distributed surveys were deemed suitable for analysis with the SPSS software. The results showed that although most SMEs saw financial growth utilizing MFB products, Due to speedier loan disbursement, greater interest rates than deposit banks, and MFBs' failure to provide SMEs with training, the savings among SMEs are inspiring. Ofeimun, Nwakoby, and Izekor (2018) investigated how microfinance banks in Nigeria affected small enterprises. The data for the years 1990–2015 was gathered from CBN annual reports and microfinance banks. Ordinary least square regression was chosen by study as its fundamental analytic method. Regression study outcome indicates a strong good correlation among the growth of the microloans disbursed also small company performance in Nigeria at time under examination. According to the report, microloans from microfinance banks to small businesses have a considerable positive influence on economic development.

Microfinance loans effect on the monetary growth of SMEs in Lebanon was studied by Moussa (2020) in order to ascertain the relationship among MFI microcredit and monetary performance of SMEs. In North Lebanon, 17 SMEs provided secondary data for collection, 4-microfinance institutions in Lebanon provided added secondary data about attributes of its beneficiaries. Regression analysis was utilized for data analysis. The results indicated significant correlations between the quantity of microcredit extended and financial standing of SMEs. Additionally, it was discovered that trade, commerce, and service sectors in Lebanon are business categories most benefiting from MFIs. Chowdhury and Alam (2017) discussed the difficulties faced by Businesses in Bangladesh who are trying to get bank loans. To examine problems & offer policy solutions, study collected data from 86 SMEs. The study results were gathered through direct interviews with the participants, supported with a self-guided questionnaire. The main challenges that Bangladeshi SMEs have when attempting to obtain bank loans are as follows: size, age, and educational and skill levels of business owners, in addition to unfavorable credit terms like lack of banks securities, corruption, elevated rate of interest among authorities from banks.

Locating Current Research

By concentrating particularly on the impact of microfinance bank loans on the performance of SMEs in Osun State, Nigeria, this study adds to body of recent material. More local research that takes into account the distinct economic and social settings of various locations is needed, even though earlier studies have offered insightful information about broad advantages and difficulties of microfinance for SMEs. The purpose of study is to offer a thorough assessment of how microloan performance affects SMEs. Data were gathered from 150 randomly selected SME operators using a descriptive survey approach. By pinpointing the precise elements that either promote/undermine microfinance's efficacy in this area, The goal of study is to increase existing knowledge. It provides ideas for firming the system that offers financial assistance to SMEs.

RESEARCH METHODOLOGY

Quantitative design of research was used, utilizing a survey method to collect data from SME owners in Osun State. In this linking, this design was chosen to quantify the relationships between microfinance bank loans and SME performance, allowing for statistical analysis of the data.

Data Collection Methods

To gather data for this investigation, structured questionnaires were distributed to SME owners in Osun State. The questionnaire was designed to capture information upon loan disbursement processes, repayment schedules, interest rates, & SME performance metrics like sales growth, profit margins, and employee numbers. Relevant secondary data were obtained from reports, journals, and publications on microfinance and SME performance to support the analysis and provide context. The collected data were analyzed using descriptive statistics and regression analysis. Descriptive statistics, such as frequencies and percentages, summarized respondents' perceptions. Regression analysis determined the relationships among microfinance bank loan disbursement, loan repayment, and SME performance. SPSS facilitated accurate and efficient analysis.

Sampling Techniques

The study employed a random sampling technique to select 98 SME owners in Osun State who had accessed microfinance loans. This method ensured that every SME owner within the target population had an equal chance of being included, providing a representative sample for the study. First, Osun State was chosen using purposive sample technique since of state's sizable population of SMEs, operating microfinance banks. Secondly, to promise symbol from diverse sectors within the SMEs, method employed was stratified random sampling. Lastly, individual SME owners from the stratified groups were chosen using a straightforward random selection technique.

Tools and Techniques for Data Analysis

Data collected from the questionnaires were analyzed using descriptive statistics, correlation analysis, regression analysis. Descriptive statistics, like frequencies, percentages, summarized respondents' perceptions and demographic traits. Correlation analysis determined the strength and direction of relationships among variables. Regression analysis assessed the influence of independent factors (loan disbursement, repayment, & interest rates) on dependent variable (SME performance). The analysis was conducted using SPSS (Statistical Package for the Social Sciences) software, chosen for its ability to manage complex statistical processes efficiently and accurately.

Theoretical Framework

The Resource-Based View (RBV) and Financial Intermediation Theory serve as the foundation for theoretical framework of this investigation. This theory posits that SMEs require financial resources to attain competitive advantage and improve performance. Microfinance bank loans serve as critical resource that enables SMEs to invest in growth chances, enhance productivity, and sustain operations. This theory explains role of financial institutions, such as microfinance banks, in closing difference between lenders and savers. It highlights importance of providing accessible and affordable financial assistance for deprived groups, SMEs, to promote economic development.

Figure 1
Theoretical Framework

Source: Researchers Computation (2024)

Each arrow signifies the hypothesized impact of the independent variables (loan disbursement processes, repayment schedules & interest rates) about dependent variable (SME performance). Consequently, study model is based on modified version of Falade's model (2022), expressed as:
SMES = f (LDM, LRY, LIR) ……………………………………………………………………3.1
Nevertheless, the terms as specied as Loan disbursement is LDM. LRY stands for loan payback. Loan interest rate, LIR. Productivity of Small and Medium Enterprises (SMEs) f is a constant function.

DATA ANALYSIS

Table 1
Respondent's Perception of Microfinance Loan Disbursement

Opinion	Count	Percentage (%)
Completely agree	61	62.24
Agree	27	27.55
Indifferent	7	7.14
Disagree	2	2.04

Strongly disagree	1	1.02
Aggregate	98	100

Source: Researchers Computation (2024)

Table 2

Loan Availability and Support to SMEs

Opinion	Count	Percentage (%)
Completely agree	49	50.00
Agree	43	43.88
Indifferent	2	2.04
Disagree	3	3.06
Strongly disagree	1	1.02
Aggregate	98	100

Source: Researchers Computation (2024)

Table 3

Favorability of Loan Disbursement Duration

Opinion	Count	Percentage (%)
Completely agree	48	48.98
Agree	31	31.63
Indifferent	8	8.16
Disagree	5	5.10
Strongly disagree	6	6.13
Aggregate	98	100

Source: Researchers Computation (2024)

Table 4

Efficiency of Loan Disbursement Process

Opinion	Count	Percentage (%)
Completely agree	39	39.80
Agree	51	52.04
Indifferent	4	4.08
Disagree	2	2.04
Strongly disagree	2	2.04
Aggregate	98	100

Source: Researchers Computation (2024)

Table 5

Impact of Interest Rate on Loan Repayment

Opinion	Count	Percentage (%)
Completely agree	43	43.88
Agree	31	31.63
Indifferent	12	12.24

Disagree	8	8.16
Strongly disagree	4	4.08
Aggregate	98	100

Source: Researchers Computation (2024)

Table 6

Business Expansion due to Microfinance Loan

Opinion	Count	Percentage (%)
Completely agree	47	47.96
Agree	21	21.43
Indifferent	18	18.37
Disagree	5	5.10
Strongly disagree	7	7.14
Aggregate	98	100

Source: Researchers Computation (2024)

Table 7

Product Quality Improvement due to Microfinance Loan

Opinion	Count	Percentage (%)
Completely agree	45	45.92
Agree	31	31.63
Indifferent	4	4.08
Disagree	8	8.16
Strongly disagree	10	10.20
Aggregate	98	100

Source: Researchers Computation (2024)

Table 8

Increased Customer Patronage due to Microfinance Loan

Opinion	Count	Percentage (%)
Completely agree	52	53.06
Agree	40	40.82
Indifferent	3	3.06
Disagree	1	1.02
Strongly disagree	2	2.04
Aggregate	98	100

Source: Researchers Computation (2024)

Table 9

Regression Model Summary - Effect on SMEs' Performance

Model Component	Coefficient	Standardized Coefficient	T-value	Sig.
Constant	0.124		1.184	

Microfinance bank's loans disbursement	0.748	0.781	14.685	0.000
Loan repayment	0.227	0.238	5.639	0.000
Loan interest rate	-0.123	-0.130	2.807	0.000

Source: Researchers Computation (2024)

FINDINGS

The regression model demonstrates a strong positive relationship between microfinance bank loans disbursement, loan repayment, and SMEs' productivity in the Osun State. Approximately 95.0% of variation in SME productivity is explained by these variables. Based on data presented in Tables 1 to 9 and regression analysis, it is evident that microfinance bank loans significantly impact SMEs in Osun State, Nigeria. The majority of respondents perceive loan disbursement process favorably in terms of availability, duration, and efficiency (Tables 1-4). Despite concerns about interest rates (Table 5), loans facilitate business expansion, product quality improvement, and increased customer patronage (Tables 6-8). The regression model further confirms positive relationship amid loan disbursement, repayment, interest rates, and SME productivity (Table 9). These findings underscore crucial role of microfinance in enhancing SME performance. To sustain, maximize these benefits, policymakers and microfinance institutions should consider improving loan terms, reducing interest rates, and enhancing accessibility to further support SME growth in Osun State. This study donates valuable insights into optimizing microfinance strategies tailored to local SME needs, so fostering economic development and resilience in the region.

DISCUSSION

The findings of this study corroborate previous research conducted in diverse global contexts, including Kenya, Ghana, Lebanon, and within Osun State, Nigeria. Studies by Moussa (2020), Solomon (2016), and Osotimehin et al. (2024) consistently demonstrate a positive correlation between microfinance bank loans and SME performance across these regions. This consistency underscores universal utility of microfinance in bolstering SME productivity and highlights its role as a potent tool for the economic development worldwide (Moussa, 2020; Solomon, 2016; Osotimehin et al., 2024). However, these findings diverge from those of Modu & Maina (2024) about Nigeria's SME sector, suggest that while microfinance bank loans can boost individual SME productivity, they may not adequately address the broader economic challenges affecting sector's overall contribution to national GDP. This disparity underscores multifaceted nature of factors influencing SME performance and emphasizes need for nuanced policy interventions that go beyond financial access to encompass the systemic economic reforms (Modu & Maina, 2024).

Scientifically, this study contributes empirical evidence to the existing literature on the impact of microfinance bank loans on SME productivity in Nigeria, specifically in the Osun State. By employing rigorous methodologies, including regression analysis, to examine the relationship between microfinance and SME performance, this research enhances methodological toolkit available for studying similar phenomena in different regional and national contexts. Thus, the study enriches understanding of how the localized characteristics influence the effectiveness of microfinance interventions and informs targeted policy recommendations aimed at optimizing support for SMEs and fostering sustainable economic growth in Osun State (Modu & Maina, 2024). In conclusion, this study fills a critical gap in localized research by providing robust evidence of the positive impact of microfinance bank loans on SME performance in Osun State, Nigeria. In this linking, despite the challenges such as high interest rates, microfinance loans significantly enhance the SME productivity by facilitating operational liquidity and expansion chances. While acknowledging these benefits, the study identifies areas for the improvement, particularly in reducing interest rates & streamlining loan application processes tailored to SME needs.

By offering new insights into dynamics of microfinance efficacy and proposing targeted policy interventions, this research contributes valuable knowledge to the discourse on SME growth in Nigeria, thereby fulfilling its objectives of elucidating potentials and limitations of microloans in driving economic growth. This study is beneficial to the government officials, microfinance bank managers, business owners, and the general public. It aims to provide insights for policy interventions that can address difficulties faced by SMEs, highlight advantages of microfinance bank loans, and pinpoint areas where Nigeria's microfinance industry needs improvement. The impact of microfinance bank loans on the performance of SMEs in Nigeria is multifaceted. While these loans can significantly enhance the growth and sustainability of SMEs, addressing the related challenges is crucial for maximizing their positive effects. Additionally, the study offers empirical evidence upon relationship between SME success & microfinance bank loans, contributing towards the broader literature upon SME financing and economic development in Nigeria.

CONCLUSIONS

This study filled a significant vacuum in localized research by examining effect of microfinance bank loans on SME performance in Osun State, Nigeria. The results show that, despite high interest rates being major obstacle, microfinance loans considerably increase SME productivity by providing necessary money for operations and expansion. The study logical flow confirmed that although these loans were advantageous, they might yet be improved. In order to better understand these dynamics, the study effectively pinpointed important areas for development, including the requirement for lower interest rates and more efficient loan applications that are customized to needs of SMEs. This study offers new kindnesses of the ways in which localized features impact efficacy of microfinance & makes targeted policy recommendations to improve support for SMEs and boost economic growth in Osun State. As a result, the study's objectives were met by outlining the benefits and drawbacks of microloans, offering workable ways to increase their influence and adding astute information to body of knowledge on SME growth in Nigeria.

Recommendations

1. MFBs ought to loosen loan requirements, lengthen loan terms, & distribute repayments across longer time. MSE operators should receive training on government programs and loan utilization, as well as recapitalization.

2. To promote thw economic growth, MFIs should allot a fair percentage of their credits to small and medium enterprises that will attract more investors in investing their capital leading to economic development.
3. MFBs ought to place a high value on the moral behavior, giving soft loans to reputable business owners and loosening their strict lending plans for SMEs. The establishment of MFB branches in rural regions should be encouraged by monetary authorities in order to increase rural investment and credit availability.
4. To maintain price stability and single-digit inflation, monetary authorities should keep interest rates stable. Therefore, this will boost trust in banking institutions and promote innovation. Government needs to foster atmosphere that inspires financial institutions and government organizations to help SMEs more.

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