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HINDRANCES TO MICROFINANCING: A NIGERIAN CASE STUDY

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ABSTRACT: *Traditionally, commercial banks lend money to large, credit-worthy corporations and avoid doing business with small and medium enterprises due to the associated risks and costs. These small and medium enterprises depend on microfinance banks to obtain loans for their businesses, but for some reasons, some of these businesses do not approach microfinance banks for loans. This research investigates reasons why some businesses do not apply for loans from microfinance banks even though they need funds for the efficient running of their business. Results show that lack of collateral, ignorance of businesses about the existence of microfinance banks, and high interest rates are the main reasons that are hindering businesses in applying for loans from microfinance banks. Microfinance banks need to reach out to economically active poor businesses that cannot obtain loans from commercial banks or other financial institution.*

KEYWORDS: microfinance, business, loans, enterprise, Nigeria, entrepreneur

BACKGROUND OF THE STUDY

Traditionally, commercial banks lend money to large, credit-worthy corporations and avoid doing business with small and medium enterprise due to the risks and costs associated with it. These small and medium enterprises depend on microfinance banks to obtain loans for their businesses. Microfinance banks can be defined as banking services provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services (Anyanwu, 2004). Microfinance banks target unemployed or low-income individuals because these groups usually do not have a credit history or a regular source of income, so they are considered high risk, consequently, find it difficult to obtain loans from financial institutions like banks (Robinson, 2001). Ultimately, the goal of microfinance banks is to give low-income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money, and purchasing insurance.

The practice of microfinance in Nigeria is cultural rooted and dates back several centuries. The traditional microfinance institutions (MFIs) provide access to credit for rural and urban low-income earners. They mainly take the form of informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs). Other providers of microfinance services include savings collectors and co-operative societies. These informal financial institutions generally have limited outreach due primarily to paucity of loanable funds (Central Bank of Nigeria, 2005). Microfinance services, particularly those sponsored by the government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and nonfarm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing, and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects have been short-lived due to the unsustainable nature of the programs (Central Bank of Nigeria, 2005).

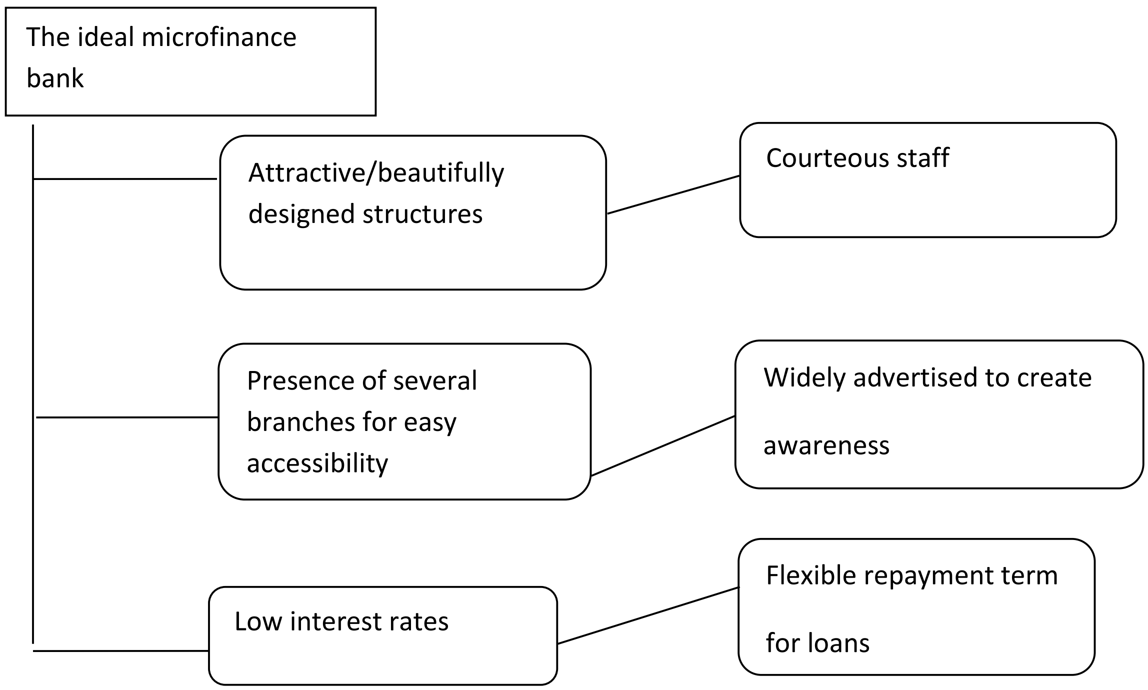

Figure 1. *Ideal structure of a microfinance bank*

EFInA, Enhancing financial innovation and access, 2010)

Nigerians, both the rich and the poor, are enterprising and industrious. But the poor, who account for over half the population, do not have access to formal banking services and hence rely heavily on formal and informal microfinance institutions for credit. Nigeria's large population of over 170 million people requires the production of goods and services on a daily basis, and funding is required for this production. There is therefore a huge demand for financial services, and the MFIs have a prominent role to play (Anyanwu, 2004). It is also true that most of the Nigerians businesses are not financially stable. Consequently, most of them collapse with time due to the lack of enough finances since they cannot manage to upkeep themselves.

Statement of the Problem

Most businesses have failed due to insufficient capital, inability to grow, and lack of access to capital. In Adamawa state as a case study, where there are about five microfinance banks, small and medium-size businesses still fail due to insufficient capital. The research problem addresses the reasons hindering businesses from obtaining loans from microfinance banks. Additionally, most of the small businesses are the disadvantaged since they are not able to access the microfinance financial services (Mutambanadzo, Bhiri & Makunike, 2013). Some of these small businesses form a coalition with others such that they are able to get the finances and benefit individually, just as the other large entrepreneurs benefit.

Research Question

The question this research seeks to answer is: What factors hinder businesses from obtaining funds from microfinance banks? In most cases, the small businesses are faced with this hardship due to various reasons. Consequently, it will be important to address; which, are the various reasons that cause the small firms not be able to get the finances? With this, it will be easier to adjust and ensure that the practices to be carried out by the business meets the standards required attaining the finances (Mutambanadzo, Bhiri & Makunike, 2013).

Hypothesis

The hypothesis of this research is that businesses are not applying for funds from microfinance banks due to ignorance of business owners about the existence and purpose of microfinance banks and fear of rising interest rates (Robinson, 2001). They may fear that the micro finance companies may deny them the chance to access the financial services due to their size (Gallardo, Goldberg & Randhawa, 2006). Additionally, they do not have the courage to compete with greater businesses and institutions due to their fear for failure.

Significance of the Study

The significance of this research is that it aims at improving the capability of businesses to create wealth. Businesses are able to achieve great heights when boosted with finances. It is so since most of them are able to increase their stock, employ more workers, and increase their business size, among many others (Stephan & Alan, 2004). The business is eventually able to improve its capacity and increase its wealth with time. Additionally, it helps to help government and microfinance banks make better policy regarding funding and outreach programs to small and medium enterprise (Robinson, 2001). The government should come up with better policies that enable the micro entrepreneurs able to get funds from the micro finance institutions. It is also effective in enlightening individuals who might want to start a small or medium enterprise. Its effectiveness is that it encourages all the individuals who has plans of investing since it guarantees them of capital and fiancés once they start their projects. Finally, it helps microfinance banks be more efficient and effective.

Scope of the Research

The area of interest for this research is small and medium businesses in Adamawa state, both in service and manufacturing, including new and existing businesses. The research also majors on the specific ways through which small companies are able to get access to micro financial services to assist them develop and growth within a given short span (Gallardo, Goldberg & Randhawa, 2006).

Research Objective

The objective of this research is to determine why businesses, especially small and medium enterprises, are not applying for funds from microfinance banks even though they need these funds to grow their businesses. Through research, it has been identified that most of the small businesses rarely get the chance to access the financial services. Consequently, this has resulted to the slow growth of businesses (Anyanwu, 2004). Most of them have the dream of growing and moving to higher heights. However, lack or inadequacy of finances leads to the slow growth. This research would also suggest possible solutions to the problem. Solutions are therefore essential since most of the individuals running the business are willing to take the financial services such as loans (Gallardo, Goldberg & Randhawa, 2006). Additionally, they are able to repay the loans in time for a sustainable growth.

Limitations of the Research

The limitations of this research were language barriers and illiteracy, because most of the business owners could only speak their local dialect, Hausa. It is true that oral communication is the best since it ensures that both parties understand each other effectively. However, when language is a barrier, both sides are not able to communicate effectively. Another problem that was experienced during the research is the bad terrain that is impassable (Gallardo, Goldberg & Randhawa, 2006). Most of the small businesses are located in remote areas where it is very difficult to access due to unavailability of roads, poor terrain, bad weather, among many other negative factors.

Literature Review

The literature on factors hindering business in obtaining loans from microfinance banks is scarce, although there have been several studies on impact of microfinance banks on business. The literature review will be organized to answer some important questions: who needs microfinance, impact of microfinance loans on businesses, constraints and limitations to successful microfinancing, barriers to usage of microfinance loans, and ideal structure of microfinance banks to encourage businesspersons to patronize them.

The main purpose of microfinance is to issue loans to small and medium enterprises (SMEs) that have no other means to finance their business. The main reason for the Microfinance in Nigeria is to create sustainable grass root banking for the poor citizens. According to Marguerite S. Robinson (2001), about 90% of the people in developing countries lack access to institutional financial services for credit or savings. Some 80% of the world's 4.5 billion people living in low-income economies do not have access to formal financial services. Half of these households (2.25 billion) account for the unmet demand for commercial savings or credit services from financial institutions (Robinson, 2001).

"Small businesses are acknowledged to be crucial for the growth of any modern economy. Every year approximately 2 million enterprises are started up in the EU countries and 90% of these are small businesses with fewer than five employees" (Stephan & Alan, 2004). There is no literature suggesting a significant case of banks limiting access to deposit and payment services for micro, small, and medium enterprises, although in the UK there are complaints about the high costs of such services (Stephan & Alan, 2004). "Small business entrepreneurs are, however, widely perceived as facing particular barriers when attempting to gain access to sources of external finance to support fixed capital investment and working capital needs. Nevertheless, concern is frequently expressed that there may be an emerging problem to be faced as regards the retreat of larger banks from the provision of credit to medium-sized enterprises" (Stephan & Alan, 2004). The problem of high costs in accessing micro credit, that is, high interest rates, can be one of the reasons that business owners do not obtain loans from microfinance banks.

Who needs microfinance

Microfinance loans are needed by the low income earners who want to start up businesses or grow and expand their businesses. This category accounts for more than half of the Nigerian population (Central Bank of Nigeria, 2012). Unfortunately, most of these people lack access to microfinance banks. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants (Central Bank of Nigeria, 2005). In rural areas, it is one to 57,000, so less than 2% of rural households have access to financial services. The eight leading MFIs in Nigeria were reported to have mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit, with an average loan size of N8, 206.90. This translates to about 320,000 membership-based customers who enjoyed some form of credit from these eight NGO-MFIs (Central Bank of Nigeria, 2013).

Compared with those of community banks, the aggregate loans and deposits represented 23.02% and 1.04%, respectively (Central Bank of Nigeria, 2005). This exposes a huge gap in the provision of financial services to a large number of active but poor and low-income groups. The existing formal MFIs serve less than one million out of the more than 40 million people who need these services. Archive data shows that aggregate microcredit facilities in Nigeria account for about 0.2% of GDP and less than 1% of total credit to the economy (Central Bank of Nigeria, 2005). This shows that a large number of people need microfinance loans to succeed in their business endeavours.

Impact of Microfinance Loans on Business

Businesses can use microfinance loans to expand their operations by increase inventory and sales. Because these loans help expand their businesses, they also creates job opportunities for the labor force since more people are hired to work for these businesses.

According to a survey conducted by Action Organization (ACCION), an international organization that gives microfinance loans to people who want to start up businesses. In 2007, over 100 clients who had received microloans in 2007 were questioned about the number of employees, business contributions to household income, owners' draw (amount a sole proprietorship takes out of his business for personal use), etc. By comparing responses to those on the clients' loan applications, ACCION arrived at important longitudinal results.

- **Job creation:** Client businesses that received loans created or retained on average 2.4 jobs (not counting the owner), predominantly in low- to moderate-income communities.
- **Wage increases**: The median hourly wage paid by businesses owned by ACCION USA borrowers is $9 an hour, 24% higher than the U.S. federal minimum wage.
- **Business survival:** Ninety-eight percent of existing businesses were still in business by year-end 2008, compared to a national average of 70%. (ACCION USA, 2010).

Constraints and Limitations to Successful Microfinancing

A number of constraints militate against successful financing of micro-enterprises in particular and agricultural production in general. According to Olaitan (2006), they include:

(a) Reluctance on the part of banks to grant loans to micro-entrepreneurs even though they generally pay back their loans;

(b) Insufficient monitoring of micro and small enterprises by banks, leading to defaults;

(c) Long waiting periods for processing and payment of loans; and

(d) Diversion of funds.

Barriers to use of microfinance loans

According to a survey by Enhancing Financial Innovation and Access (EFInA) on access to financial services by Nigerian adults, although respondents generally displayed a positive disposition toward microfinance banks and clearly understand what this type of bank stands for, patronage is rather unimpressive; only a couple of respondents claimed to make use of these banks. This low patronage is attributed to:

- "For this category their negative perceptions of the banking industry as a whole is also 'rubbing off negatively' on the patronage of microfinance banks" (EFInA, 2010); and
- "In addition, the nonavailability of microfinance banks in communities discourages patronage" (EFInA, 2010). Lack of equal information also constrains SMEs' access to finance.
- High cost of obtaining credit information on SMEs. For a market to allocate resources efficiently, all market participants must have equal information. This rarely happens, especially in developing countries where the transfer of information is very slow and inefficient and the resulting market failures can create biases against small firms. Under these circumstances, it is very difficult and costly for banks to obtain information on the creditworthiness of potential SMEs. If as a result lenders perceive that the risks of lending to SMEs are greater than they actually are, they will charge higher interest rates or refrain from lending to them altogether. Charging high interest rates increases the risk they are exposed to because low-risk, low-return borrowers are discouraged from seeking loans (Mohini et al, 2006).
- Inconsistent SME financial statements and audits. "As SMEs are often not required to adopt international accounting standards when preparing their financial statements, large discrepancies arise in the ways firms report their financial positions. An assessment of the investment climate in China for example, points out that Chinese firms may have two or three sets of books for different audiences. Auditing such statements can be labour- and time-intensive,

which raises the cost of loan processing for SMEs" (Mohini et al, 2006). This cumbersome process can discourage a business from seeking funds.

o Management weaknesses. "Despite evidence that lack of access to finance constrains many MSMEs, actual effective (or bankable) demand may itself be constrained by weaknesses in firm management and the dossiers their management can present when applying for credit. Programs to increase financing for SMEs often begin with training and business development services to strengthen firms' management and productivity. However, sole proprietorships, such as many SMEs, have few incentives to obtain external audits of their financial statements to improve management and productivity, and such audits are also expensive relative to the size of loans that SMEs may be seeking. Thus banks often complain that loan applications from SMEs do not meet their standards" (Mohini et al, 2006).

o According to the European commission, experts agree that in the banking model, it was not so much regulation that hindered provision of microcredit as risk and costs (Anyanwu, 2004). Financial institutions regard microloans as risky if there is no collateral. This combined with the asymmetric information effect and the fact that processing microloans involves a certain amount of fixed costs means that the smaller the loan, the less profitable it is likely to be to the lender (Expert Group Report, 2007).

RESEARCH METHODS

This section restates the research question and hypothesis and describes the research design, the characteristics of the research population, the sampling design, data collection methods, and data analysis method.

Research Design

This study seeks to describe characteristics of a population or a phenomenon. According to Osuagwu (1999), descriptive research collects and describes the opinions of subjects or respondents pertaining to particular business issues. It also looks at the incidence of occurrence of certain business phenomena.

Characteristics of the Research Population

The population of this study consisted of 39 businesses in Yola-Jimeta, Adamawa state, Nigeria. The businesses included small-scale retailers, a few wholesalers, and some service businesses. Fifteen of the respondents had secondary school certificates, 11 had university degrees, 10 had polytechnic degrees, two had masters' degrees, and one had a primary school certificate. The respondents had an average of three years of work experience. Respondents included 10 females and 29 males.

Sampling Design

Non-probability sampling method was used in choosing the respondents. The type of non-probability sampling used was reliance on available subjects. Questionnaires were distributed based on the willingness of business owners to fill them out.

Data Collection Method

The data collection method was the survey research method, which involved collecting data, opinions, or impressions of subjects. Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions of respondents (Social Research Methods, 2006).

Questionnaires were the research instrument used. The first section of the questionnaire assessed the respondents' understanding of microfinance banks and the problems they have faced with microfinance banks. The questions in this section were closed-ended, while those in the second section were open-ended questions that asked for the respondents' opinions on ways microfinance banks could make their loans more attractive and reasons that have prevented them from applying for loans. The last section of the questionnaire gathered background information on the respondents.

Questions in section one of the projects included items with “Yes or No” answers, an open-ended question, and other questions with options from A to E that respondents could choose from. The second section of the questionnaire was designed so that respondents could provide free responses, i.e., open-ended questions.

Data Analysis Method

Out of 50 copies of the questionnaire administered, 39 valid ones were retrieved, resulting in an effective response rate of 78%. These retrieved questionnaires were used in preparing the master data sheet. With the use of an Excel spreadsheet, descriptive statistics such as frequency, mean, and standard deviation were calculated. The data were further analyzed by the use of Statistical Package for the Social Science Software (SPSS).

RESULTS

Descriptive Statistics and Comments

Results and their associated discussions from sections A and C of the questionnaires are presented in the following tables and diagrams.

Table 1 shows that 61.5% of the respondents know what a microfinance bank is, while 38.5% do not.

Table 1. Percentage of business owners who know what a microfinance bank

Note: 1-Yes, 2 No

		Frequency Y	Cumulative %
Valid	1.00	24	61.5
	2.00	15	100.0
	Total	39	

Table 2 shows that 17.9% of the respondents have applied for a loan from a microfinance bank, while 82.1% have not.

Table 2. Percentage of businesses that have applied for a loan from a microfinance bank
Note: 1-Yes, 2-No

		Frequency y	Percent	Valid %	Cumulative %
Valid	1.00	7	17.9	17.9	17.9
	2.00	32	82.1	82.1	100.0
	Total	39	100.0	100.0	

Table 3 shows that 10.3% of the 17.9% from Table 2 who had applied for a loan received it, while 7.6% did not receive it.

Table 3. Percentages of businesses that obtained a loan from a microfinance bank
Note: 0-Not Applicable, 1-Yes, 2-No

		Frequency Y	Cumulative %
Valid	.00	32	82.1
	1.00	4	92.4
	2.00	3	100.0
	Total	39	

Table 4. Reasons that have stopped businesses from applying for loans
Note: 0-Not Applicable, 1-Ignorance of microfinance loan availability, 2 high interest rates charged on loans, 3-lack of collateral, 4-religious believes, 5-other

		Frequency y	Cumulative %
Valid	.00	5	12.8
	1.00	8	33.3
	2.00	5	46.2
	3.00	13	79.5
	4.00	2	84.6
	5.00	6	100.0
	Total	39	

As shown in Table 4, 33.3% of the respondents reported that lack of collateral prevented them from applying for a loan, 20.5% have not applied for a loan because of ignorance about microfinance banks, 12.8% have not applied because of high interest rates, and 5.1% have not due to religious beliefs.

This finding partially supports the hypothesis that business owners are not applying for funds from microfinance banks due to ignorance about the existence of microfinance banks and their purpose and fear of rising interest rates.

Table 5. Rates of interest business are willing to pay on a loan
Note: 0-Not applicable, 1–1-6%, 2–7-12%, 3–13-18%, 4–19%-24%, 5-25-30%, 6–above 30%

		Frequency Y	Cumulative %
Valid	.00	1	2.6
	1.00	19	51.3
	2.00	11	79.5
	3.00	2	84.6
	4.00	2	89.7
	5.00	1	92.3
	6.00	3	100.0
	Total	39	

This table shows that 48.7% of the respondents are willing to pay between 1% and 6% on a loan, 5.1% are willing to pay between 13% and 24%, and only 7.7% of the respondent are willing to pay above 30% on a loan. This shows that even if banks are willing to give loans to small and medium-size businesses, they are willing to pay very little as a cost of capital.

Chart 1 show that 51.3% of the respondents have no collateral, 28.2% have land as collateral, 10.3% have houses, and 7.7% have equipment. This supports findings that lack of collateral has been the major reason that has stopped business owners from applying for a loan. This means that for businesses to patronize microfinance banks, the banks would have to offer noncollateralized loans.

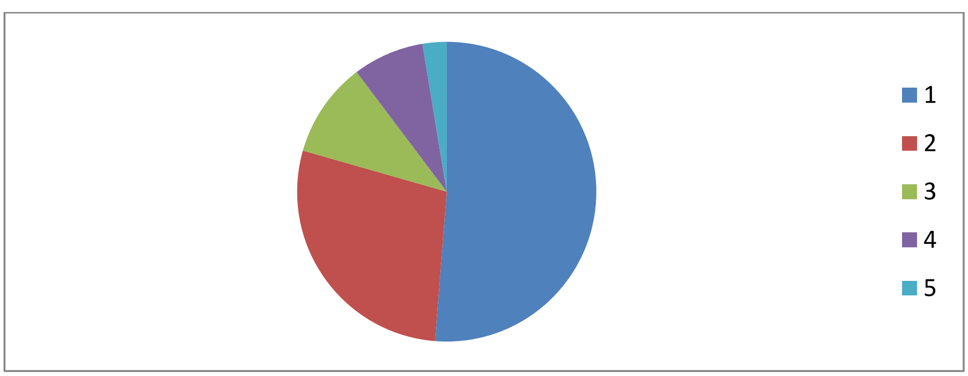

Chart 1. *Collateral owned by businesses*

Note: 1-None, 2-Land, 3-Houses, 4-Equipment, 5-Other

Chart 2 shows that 74.4% of the respondents think that obtaining a loan from a microfinance bank will help their business, 5.1% think that it won't help their business, and 20.5% are not sure. This shows that business owners know that more funds will help their businesses grow, but some factors hinder them from obtaining these funds.

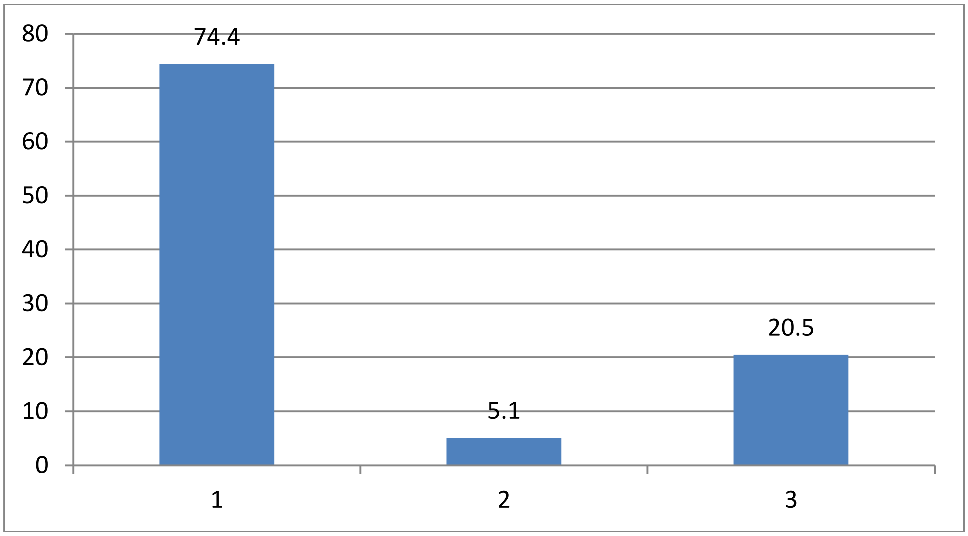

Chart 2. *Percentages of business owners who think a microfinance bank will help their business*

Note: 1-Yes, 2-No, 3-Not sure

Table 6 shows that 33.3% of the respondents believe that loans obtained from microfinance banks will help them increase inventory, 28.2% believe the loan will enable them expand their business by opening up a new branch, 10.3% think the loan will increase their profits, and 23.1% think it will increase their sales. This shows that if business owners are given loans for their businesses and they manage the loans, properly it will have a positive effect on their businesses.

Table 6. How microfinance loans will help their businesses

Note: 0-Not applicable, 1-Increase in inventory, 2-Open up additional branches, 3-Increase sales, 4-Increase profits

		Frequency Y	Cumulative %
Valid	.00	2	5.1
	1.00	13	38.4
	2.00	11	66.6
	3.00	9	89.7
	4.00	4	100.0
	Total	39	

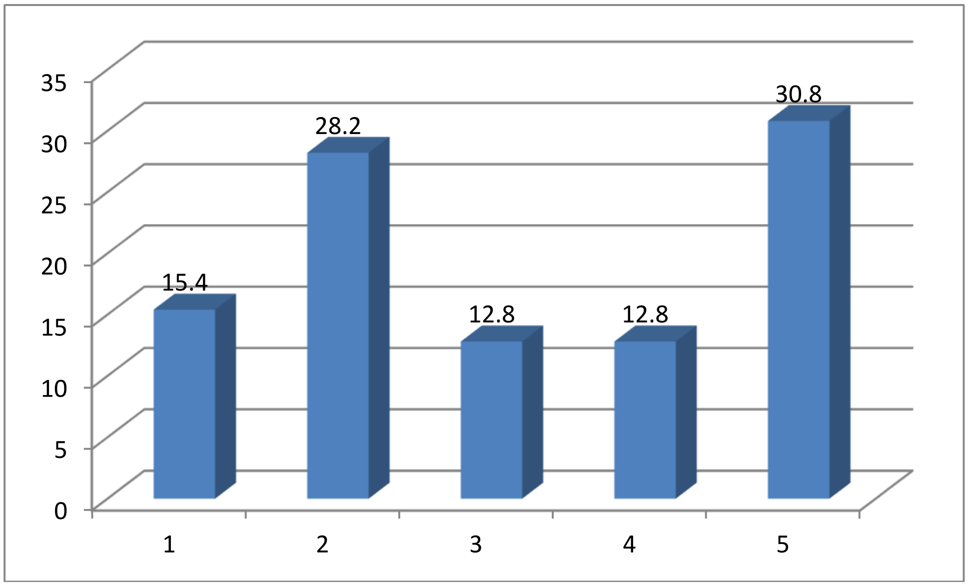

Chart 3. *Percentages of businesses that want their sales to grow*

Note: 1-1 Million, 2-2-4 Million, 3-4-6 Million, 4-6-8 Million, 5-Above 8 Million. Chart 3 shows that 30.8% of the respondents want to see their annual sales grow above 8million. This shows that business owners see the potential for growth of their business, and to actualise this potential, they would have to borrow.

Table 7 Conditions that will make businesses borrow from a microfinance bank
Note: 1-Less paperwork, 2-Less bureaucracy, 3-Non-collateral loans, and 4-Proximity of microfinance banks, 5-Other

		Frequency Y	Cumulative %
Valid	1.00	7	17.9
	2.00	10	43.6
	3.00	16	84.6
	4.00	4	94.9
	5.00	2	100.0
	Total	39	

Table 7 shows that 41% of the respondents will borrow money from a microfinance bank if they can obtain non-collateral loans. This is a very important finding because 33% of the respondents from Table 4 reported that lack of collateral has been the main hindrance in obtaining loans. The table also shows that 25.6% will borrow if there is less bureaucracy, 17.9% will borrow if there is less paperwork involved, and 10.3% will borrow if their businesses were close to a microfinance bank.

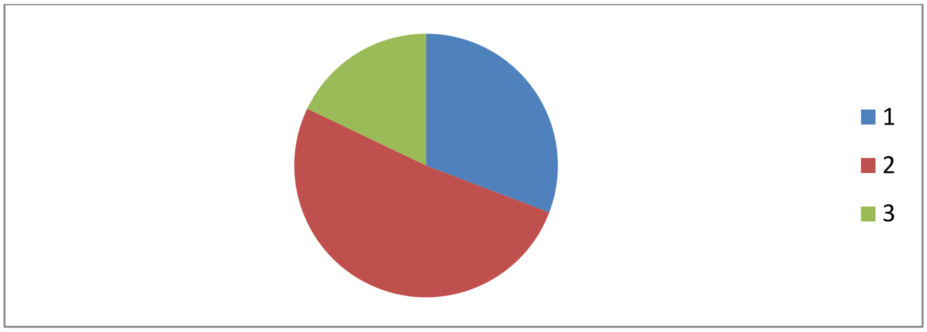

Chart 4. *Percentages of business owners that have seen an advertisement of a microfinance bank*

Note: 1-Yes, 2-No, 3-Not sure

Chart 4 shows that 51.3% of the respondents have never seen an advertisement for a microfinance bank, 30.8% have seen a microfinance advertisement and 17.9% are not sure whether they have seen a microfinance advertisement. This supports the hypothesis that businesses are not applying for funds from microfinance banks due to ignorance of business owners about the existence of microfinance banks and their purpose.

Demographics Statistics of Respondents

Table 8. Level of education

Note: 1-Primary education, 2-Secondary education, 3-Polytechnic degree, 4-University degree, 5-Other

		Frequency Y	Cumulative %
Valid	1.00	1	2.6
	2.00	15	41.0
	3.00	10	66.7
	4.00	11	94.9
	5.00	2	100.0
	Total	39	

Table 8 shows that 38.5% of the respondents had only a secondary school certificate, 28.2% had a university degree, 25.6% had a polytechnic degree, 5.1% had a graduate school certificate, and 2.6% had a primary school certificate (Anyanwu, 2004).

Table 9. Years of work experience
Note: 1-0 to 10 years, 2-11 to 20 years, 3-21 to 30 years

		Frequency Y	Cumulative %
Valid	1.00	32	82.1
	2.00	4	92.3
	3.00	3	100.0
	Total	39	

Table 9 shows that 82.1% of the respondents had one to 10 years of work experience, 10.3% had 11 to 20 years, and 7.7% had 21 to 30 years. This means the most of the respondents had new businesses.

DISCUSSION AND FINDINGS

Discussion of Findings with Respect to the Research Problem

The problem that this research seeks to investigate is the factors that hinder businesses from obtaining loans from microfinance banks, using Adamawa state as a case study. The analysed data in Table 4 reveals that the predominant factor that has hindered business from obtaining loans from microfinance banks is lack of collateral, while the second most emphasized reason was ignorance of business owners about microfinance banks. Most of the small businesses are reluctant to take the loans since the managers think that it would be difficult to repay back the money in the scheduled time. Additionally, the interest rates are high hence de motivating the small-scale investors to take loans with the motive of expanding their businesses. Additionally, many other investors do not obtain loans from the micro finance banks since they are not aware of the service (Malhotra, 2007). Some of the investors have no knowledge on the matter.

Discussion of Findings with Respect to the Hypothesis

The hypothesis of this research is that businesses are not applying for funds from microfinance banks due to ignorance of business owners and fear of high interest rates. It is clear from the detailed research conducted and this is in line with the hypothesis stated earlier in the study.

The findings supported the hypothesis. The data in Table 4 show that 20.5% of business owners have not applied for a loan due to their ignorance about microfinance loan availability, while 12.8% of them have not applied for a loan due to high interest rates. Table 11 shows that 51.3% of business owners have not seen an advertisement for a microfinance bank. This means that businesses are ignorant of microfinance banks because the banks are not advertising their services to people who need them, and even business owners who know about microfinance bank do not understand their significance.

CONCLUSION AND RECOMMENDATIONS

This paper discussed the factors hindering business from obtaining funds from microfinance banks. It reviews research on the impact of microfinance loans, constraints and limitations to successful microfinancing, and barriers to usage of microfinance banks. Both secondary and primary data (obtained from questionnaires distributed to business owners) were used in the study. In summary, it can be concluded that most business owners are not familiar with the concept of "microfinance" because microfinance banks have done a poor job of publicizing their services to businesses that need them (Anyanwu, 2004).

Conclusion

Since business, owners believe that microfinance loans will help their businesses grow in terms of sales, profit, and expanding their operations, MFIs have to reach out to the economically active poor businesses that cannot obtain loans from commercial banks or other financial institutions (Anyanwu, 2004). It is also important that all the small-scale investors to be educated on the matter to ensure that they are well informed so that they can pick funds that would assist in expanding their businesses. Additionally, all the micro financial companies should ensure that their terms and conditions are favorable so that they can attract the small-scale investors (Anyanwu, 2004). However, this could be made possible through reducing the interest charged on the loans for small businesses. They should also adopt a culture that allows all the well and able small investors take loans so that they can finance their projects and businesses. This situation in the long run ensures that all the small businesses benefit from the micro finance companies (Mutambanadzo, Bhiri & Makunike, 2013).

Recommendations

To rectify this situation, microfinance banks should also ensure that they offer the several services as discussed in the conclusion part. Highlighted below include some of the activities that should be practiced by the microfinance bank (Malhotra, 2007). One, there should be an increase in the number of branches for ease of access by the small businesses. Additionally they should also ensure that there is flexible repayment in terms for loans. There should also be low interest rates so that they can attract more people to enjoy the services offered by the bank. In addition to this, there should be no collateralized loans. Different types of loans should also be made available to address individual needs; and finally, all the staff should go out into the community to explain the banks' services to business owners. Eventually, it will be very positive that most of the entrepreneurs are able to accept the loans and see them as an advantage that will lead to the expansion of their businesses (Malhotra, 2007). In the end, the economy is able to grow hence being an advantage even to the country's economy.

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