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IMPACT OF MICROFINANCE BANK ON THE GROWTH AND SUSTENANCE OF SMES: A CASE STUDY OF KWARA STATE

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Abstract

This study looks at how microfinance institutions in Kwara State, Nigeria, affect the expansion and viability of small and medium-sized businesses (SMEs). By offering financial services to disadvantaged communities, especially in areas with limited access to regular banking, microfinance organizations have played a crucial role in promoting economic growth. SMEs, which are essential to economic growth, frequently encounter obstacles like restricted financial access, low financial literacy, and unfavorable regulatory frameworks. The purpose of this study is to investigate how well microfinance banks in Kwara State are able to handle these issues and promote the growth of SMEs. Both qualitative and quantitative methodologies are used in the study, including focus groups, interviews, and surveys with representatives of microfinance banks, SME owners, and other stakeholders. The results show that even while microfinance institutions are crucial in improving SMEs' financial accessibility, a number of obstacles still exist, such as strict qualifying requirements, exorbitant interest rates, and a lack of financial literacy among SME owners. These obstacles restrict the best possible effect of microfinance services on the expansion and sustainability of SMEs. The study also emphasizes the necessity of capacity-building programs and the significance of a supportive regulatory framework in order to enhance SME owners' financial literacy and business management abilities. The findings of this study have important ramifications for practitioners and policymakers. The study offers important insights into how microfinance interventions can be improved to better assist SME growth in Kwara State and comparable regions by identifying critical success drivers and potential roadblocks. The study's conclusions offer suggestions for improving microfinance banks' ability to serve SMEs specifically in order to advance inclusive economic development.

Keywords: ***SME, microfinance, economic growth, Kwara State, inclusive economic development.***

1. Introduction

Microfinance institutions have become important players in promoting economic growth and supporting the growth and sustainability of SMEs in many parts of the world throughout the last several decades. The organizations are essential in helping low-income people and microbusiness owners who frequently do not have access to standard banking facilities by offering financial services like credit, savings, and insurance (Bateman & Chang, 2015). Microfinance banks have become more well-known due to their emphasis on offering financial services that are specifically designed to meet the needs of small companies. In order to promote entrepreneurship and enable economic empowerment, the institutions provide a variety of financial services and products, such as credit, savings, insurance, and remittances (Robinson, 2016). By providing SMEs with specialized financial products and easing their incorporation into the official financial system, banks have become key players in promoting inclusive economic growth (Akindele & Ibrahim, 2020). Policymakers, scholars, and development professionals have all paid close attention to the importance of microfinance in promoting entrepreneurship and reducing poverty (Duflo et al., 2018).

Because different countries and institutions employ different economic contexts and criteria, it is still difficult to classify SMEs. Around the world, SMEs are defined using a variety of criteria, including asset valuation, personnel count, and yearly turnover. Ofoegbu et al. (2013) point out that as each definition is unique to the economic and regulatory environment of a nation, there is no widely agreed-upon definition. Small businesses have less than 50 people and a yearly turnover of up to $3 million, whereas medium-sized businesses have up to 300 employees and an annual turnover of up to $15 million, according to the World Bank (2006). According to the Companies Act 2006, a small business in the UK has fewer than 50 employees, a balance sheet total of no more than £2.8 million, and a turnover of no more than £5.6 million. A medium-sized business, on the other hand, has fewer than 250 employees, a balance sheet total of no more than £11.4 million, and a turnover of no more than £22.8 million (Ofoegbu et al., 2013).

The financial requirements of SMEs in underserved and rural areas may be met by microfinance organizations. In areas like Kwara State, microfinance institutions are essential

to the expansion and survival of SMEs. The North-Central Nigerian state of Kwara offers a unique setting for investigating how microfinance institutions affect the expansion and sustainability of SMEs. The state struggles with high unemployment rates and restricted access to formal financial institutions, especially among rural areas and small-scale entrepreneurs, due to its primarily agrarian economy and growing population (Hassan & Nwokocha, 2019). Particularly in areas like Kwara State, Nigeria, SMEs are essential to the creation of jobs, income development, and general economic prosperity. Notwithstanding the possible advantages of microfinance initiatives, obstacles still exist that prevent these financial institutions from having the best possible influence on SMEs in the state. The availability and cost of microfinance services is one major problem. One of the biggest obstacles to small businesses in Kwara State is still access to financing. Working capital and raw material credit restrictions have been extensively documented. According to Ajayi et al. (2016), 72% of SMEs polled said that one of the biggest obstacles to their company operations was a lack of finance availability.

High interest rates, difficult application procedures, or strict eligibility requirements may be the cause of these barriers to obtaining financial resources from microfinance institutions. According to Olayinka and Olaitan (2015), one of the main obstacles to small business development is limited access to financing. Limited access to financial services is a major obstacle for SMEs, particularly those in their early phases of development, as it is essential for mobilizing resources for more productive use (Mersland & Strøm, 2015). Second, SME owners' poor financial literacy and business management abilities may jeopardize the efficiency of Kwara State's microfinance institutions. According to Adegbite et al. (2018), SMEs' ignorance of financial products and services results in inappropriate use of company funds, which restricts their ability to grow over the long run. The establishment of a favorable financial ecosystem for SMEs is hampered by inconsistent regulatory rules, which also pose a problem by causing uncertainty for microfinance banks and SMEs.

The purpose of this study is to investigate how much microfinance banks support the expansion and survival of SMEs in Kwara State. The study offers important insights into the efficacy of microfinance interventions by looking at the experiences of SMEs, the tactics used by microfinance institutions, and the state's general economic environment. This study is important because it can help stakeholders, practitioners, and policymakers understand how microfinance institutions support the expansion and sustainability of SMEs. This study can help

create more effective policies and interventions to boost SMEs in Kwara State and comparable areas by identifying important success factors and potential obstacles (Armendariz & Morduch, 2010). This study attempts to offer a comprehensive knowledge of the interactions between microfinance banks and SMEs in Kwara State by combining quantitative and qualitative analysis (Gutierrez-Nieto et al., 2015).

Four null assumptions are intended to be tested in this research. According to the first, there is no meaningful correlation between microfinance bank loans and SME owners in Kwara State. According to the second, SMEs in Kwara State are not significantly impacted by microfinance banks' savings. The third claims that there is no meaningful correlation between SME owners in Kwara State and microfinance banks' training. The fourth claim is that there is no meaningful correlation between SME owners in Kwara State and microfinance banks' interest.

2. Literature Review

The effect of microfinance banks (MFBs) on the expansion and survival of SMEs in industrialized nations has been the subject of numerous studies. These studies shed light on the ways that microfinance programs support the growth of SMEs, financial stability, and the expansion of the economy as a whole. The empirical data from industrialized nations emphasizes how important microfinance institutions are to the expansion and survival of SMEs. These studies show that microfinance gives SMEs business development services that improve their operational effectiveness and competitiveness in the market, in addition to essential financial resources.

Baicker et al. (2018) investigated how microfinance affected the expansion of SMEs in the US. According to the report, microfinance initiatives greatly enhanced SMEs' financial performance by facilitating credit availability and encouraging entrepreneurship. Compared to SMEs that did not interact with microfinance institutions, those that took part in microfinance programs reported greater growth rates in both revenue and employment. According to the study's findings, microfinance is essential to SMEs' growth and financial stability in industrialized nations.

In the United States, Karlan Zinman et al. (2011) evaluated the effect of microcredit on small business performance through a randomized controlled study. According to their findings, having access to microfinance boosted the stability and expansion of businesses. Borrowers of microloans were able to increase their firm investments, which improved long-term

sustainability and profitability. The report emphasized how crucial microfinance is to helping small firms expand and overcome financial obstacles.

The function of microfinance in fostering the growth of SMEs in Western Europe was investigated by Morduch et al. (2010). They discovered that in developed economies, microfinance institutions (MFIs) offered company development services including consulting and training in addition to financial resources. These services played a key role in improving SME owners' operational effectiveness and managerial abilities, which enhanced business results and sustainability. In a number of OECD nations, Demirguc-Kunt et al. (2006) looked into the connection between microfinance and the growth of SMEs. Their research showed that by assisting SMEs that conventional banks had historically underserved, microfinance promoted financial inclusion and economic expansion. A more vibrant and competitive SME sector was fostered by the increased business investments and innovation brought about by the availability of microfinance.

With a focus on Canada and Australia, Cull Morduch et al. (2009) carried out a comparative study of the effects of microfinance on SMEs in high-income nations. According to the study, SMEs that benefited from microfinance demonstrated notable gains in both their market reach and financial performance. These companies were able to expand their operations, penetrate new markets, and improve their product offerings because to microfinance. The favorable effect on company expansion was ascribed to microfinance's adaptability and accessibility. Baicker et al. (2018) and Zeira et al. (2018) investigated the wider economic effects of microfinance on the growth of SMEs in industrialized nations. They maintained that by bridging the gap between conventional financial institutions and small businesses, microfinance promotes economic growth and stability. The study underlined that by fostering inclusive growth and job possibilities, microfinance not only helps individual businesses expand but also advances economic development as a whole.

Microfinance and SME Growth in Nigeria (Taiwo et al., 2016). The study looked into how microfinance institutions in Ogun State, Nigeria, helped small and medium-sized businesses expand. The authors discovered that SMEs' financial stability and growth prospects were much enhanced by having access to microfinance. In order to help SMEs expand their operations, the study emphasized the value of customized financial products and consulting services offered by microfinance banks. The effect of microfinance on the growth of small enterprises in Ghana was investigated by Quartey et al. (2018). The results showed that microfinance organizations

were essential in helping SME owners improve their business skills and capabilities by offering training and development services in addition to financial support. This all-encompassing strategy enhanced sustainability and corporate performance.

The influence of microfinance on SMEs in Tanzania was the main subject of a study conducted by Olowe et al. (2017) on the role of microfinance in improving SME performance in Tanzania. The authors discovered that increasing the operational effectiveness and profitability of SMEs required the use of microfinance services, such as credit and savings products. Additionally, the study found that SMEs with greater access to microfinance grew at faster rates than those with less.

Gbadebo (2023) examined evidence of both symmetric Granger causation and asymmetric causality between interest rates and the outputs of SMEs in Nigeria using data from 1980 to 2021. Without any possible feedback effects, the symmetric approach shows evidence of unidirectional causality between the interest rate and SME output. Asymmetric causation shows that shocks to SMEs' outputs are driven by both positive and negative interest rate shocks, but not the other way around. The study suggests, among other things, that authorities should set up state agencies as coordinating units to oversee policy implementation in order to improve the influence of policies on SMEs' outputs. The establishment of suitable infrastructure facilities for the SMEs' correct operation should also be a priority.

In a study titled "Microfinance and Economic Empowerment of SMEs in Kenya," Kinyanjui et al. (2018) investigated the ways in which microfinance institutions in Kenya enabled small and medium-sized businesses. According to the report, microfinance helped SMEs access markets and network with other businesses in addition to providing the required financing. It was discovered that this all-inclusive support approach greatly improved SMEs' sustainability and economic empowerment. The Impact of Microfinance on SME Growth in Uganda, by Duru et al. (2018). The impact of microfinance on the expansion of SMEs in Uganda was examined in this study. The findings showed that microfinance services had a favorable impact on SMEs' capacity for growth and financial stability. The authors highlighted how microfinance played a crucial role in supporting SME growth by offering both financial and non-financial services such technical assistance and business advising.

Gbadebo (2024) investigates whether SMEs have an impact on reducing poverty using the ARDL technique. The estimation demonstrates how the GDP contribution of SMEs, together with other independent variables like interest rates and industrial output to GDP, affects the

poverty index. The results demonstrate that SMEs significantly impair the two measures of poverty reduction. The percentage of Nigerians living on less than $5.50 and less than $1.90 per day has decreased as a result of the growth in SMEs' output. The outcome also indicates that the interest rate is positively correlated, meaning that if interest rates rise over time, poverty levels will rise as well, based on both metrics.

3. Methodology

Theoretical framework

The study is based on two theoretical pillars in order to create an empirical framework to examine how microfinance banks affect the expansion and survival of SMEs. The first is Berger and Udell's (1998) financial growth theory. According to the hypothesis, a company's financial demands and options change as it becomes older. Smaller and younger businesses first rely on internal capital as well as unofficial financing sources like angel and trade credit. companies are eligible for mid-term loans and venture capital as companies expand and become more well-known, and eventually they can obtain long-term loans and public equity. Due in large part to their limited initial financing alternatives, SMEs have distinct financial structures that are reflected in this trend. According to the hypothesis, microfinance banks are essential to the early growth of SMEs since they offer the funding that these businesses are unable to get from commercial banks because they lack collateral and credit history.

The second is Weston and Brigham's (1981) life cycle hypothesis, which contends that SMEs' quick expansion frequently results in a lack of capital. Growing businesses must eventually look for outside funding to maintain operations after being initially financed by the owners' internal resources. According to this hypothesis, the growth (profit and sales volume) and non-financial components of SME success are linked, and as businesses develop, their debt load rises.

Samples and data

A mixed-methods research design is used in this study, integrating quantitative and qualitative techniques. While the qualitative component uses interviews to obtain in-depth insights, the quantitative component uses surveys to collect and analyze numerical data. This strategy triangulates data from several sources to provide a thorough knowledge of how microfinance institutions affect SMEs. Determining the sample size is essential to guaranteeing the reliability

and validity of the study's conclusions. The formula for finite populations is used to determine the sample size, which guarantees that the chosen sample fairly represents the target population while taking the study's scope and available resources into consideration.

Both primary and secondary data sources were used to gather the information. Contextual information on the economic climate of Kwara State will be provided by statistical data from sources like the National Bureau of Statistics (NBS). This data will include information on employment rates, GDP contributions from SMEs, and other pertinent economic indicators. This study attempts to give a solid and thorough examination of the influence of microfinance institutions on the expansion and sustainability of SMEs in Kwara State by integrating primary and secondary data sources. A comprehensive viewpoint on the research issue will be provided by this mixed-methods technique, which will guarantee the acquisition of both quantitative data and qualitative ideas.

About 2,500 SMEs are registered in Kwara State, according to the Nigerian Bureau of Statistics and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The sample size for SMEs is determined by applying the following calculation, with a 95% confidence level and a 5% margin of error: A prevalence estimate of 31% was used to determine the study's sample size.

$n= N/1+N(e^2)$

Where, n is the sample size, N is the population size (2,500 SMEs), e is the margin of error (0.05).

n=2500/1+2500 (0.052) = = 2500/1+7.25 = 345

According to The Nigeria Deposit Insurance Corporation (NDIC), there are 143 registered microfinance banks in Kwara State. The sample size for MFBs is:

0.0520.05^20.052: 0.052=0.00250.05^2 = 0.00250.052 = 0.0025

143×0.0025 = 0.3575, 1+0.3575=1.35751 + 0.3575 = 1.35751+0.3575=1.3575

Divide 143/1.3575 = 105 (approximately).

Methods

Both quantitative and qualitative methods will be used in the data analysis for this study in order to give a thorough grasp of how microfinance banks affect the expansion and survival of SMEs in Kwara State. The quantitative analysis involves summarizing the features of the data gathered from SMEs and microfinance institutions using descriptive statistics, such as

measures of central tendency (mean, median, mode) and measures of dispersion (range, variance, standard deviation). To ascertain the connections and effects of microfinance services on SME performance metrics including sales growth, profitability, and business expansion, we also finish the inferential statistics utilizing regression analysis and hypothesis testing (t-tests, chi-square tests).

This methodological approach aims to produce incisive and trustworthy data that can guide plans to improve microfinance banks' ability to assist the growth of SMEs in Kwara State.

4. Results

The results of the random effects panel regression study on how microfinance banks affect SMEs are displayed in Table 1. According to the outcome, the R-squared adjusted value is roughly 0.805 (80%). The coefficient of determination, or R-squared, has a value of 65%. Approximately 80% of the system variation in Microfinance Banks on SMEs in Kwara State can be explained by all independent variables combined, according to this data, whereas 20% of the overall variations cannot be explained and are therefore represented by the stochastic error term. About 80% of the variation was described by the microfinance banks on SMEs in Kwara State that were used in this study, according to the R-squared adjusted value, while the remaining 20% could not be explained. Overall fitness is measured by the coefficient of determination (R2), which also demonstrates how effectively a model predicts future events (Uwuigbe et al., 2020).

According to the results of the Fishers ratio (also known as the F-Statistics, which serves as evidence of the validity of the estimated model) show that the explanatory variables are consistently significantly related to the dependent variable, with the F-statistics being approximately 1.448 and the p-value being less than 0.05 (P-value = 0.0090). This indicates that they have a significant influence on how Kwara State's microfinance banks behave toward SMEs. Overall, the Microfinance Banks on SMEs in the Kwara State model used for the analysis were statistically significant at the 5% level, as indicated by the F-statistics value of 1.448 and its probability value of 0.009. This attests to our model's suitability for the analysis. Furthermore, as the value is roughly 2, the Durbin Watson statistic of 2.1758 demonstrated that the model is well dispersed, that there have been no issues with self or auto correlation, and that errors are independent of one another. This indicates the validity of the regression model and its suitability for statistical inference.

The working hypotheses are assessed. According to the first, there is no meaningful correlation between microfinance bank loans and SME owners in Kwara State. According to the test, the microloan had a P-value of 0.1478 and a positive coefficient value of 1.778. The model's outcome showed that microloans significantly and favorably impact Kwara State's SME owners. This suggests that microfinance loans have a favorable impact on SME owners in Kwara State, Nigeria, as indicated by the positive coefficient and probability value. This result is consistent with that of Ojo (2019), who examined how microfinance affected the entrepreneurial growth of small businesses yearning for expansion and development in a tight economy and discovered that the activities of microfinance institutions significantly influenced the prediction of entrepreneurial productivity.

According to the second, SMEs in Kwara State are not significantly impacted by microfinance banks' savings. According to the results, microfinance banks' savings had a P-value of 0.0512 and a positive coefficient value of 1.8343. The model's outcome showed that it significantly and favorably affects Kwara State's SME owners. This result is consistent with that of Babajide (2019), who looked into how microfinance affected SMEs in southwest Nigeria. According to the study, small business growth will expand in tandem with microfinance unit increases in Savings Mobilization (SMB).

The third claims that there is no meaningful correlation between SME owners in Kwara State and microfinance banks' training. According to the results, SME owners in Kwara State benefit from microfinance banks' training, albeit the effect is negligible ($\beta 3 = 0.078$, $p = 0.9253 > \alpha = 0.05$). The positive value of β3 indicates that microfinance banks' training has a beneficial but negligible impact on Kwara State's SME owners. Babajide (2019), who examined the impact of microfinance on Micro and Small Enterprises (MSEs) in South-West Nigeria, also came to the same conclusion. According to the report, microfinance and microfinance training not only help MSEs survive, but they also provide the necessary resources for their growth and expansion.

The fourth claim is that there is no meaningful correlation between SME owners in Kwara State and microfinance banks' interest. With a positive coefficient value of 0.052 ($\beta 4 = 0.052$, $p = 0.05$), the results showed that microfinance banks' interest had a positive and significant impact on SME owners in Kwara State. The positive value of β4 Microfinance Banks' interest indicates that they have a favorable impact on Kwara State's SME. The study by Adamu (2019) supports this conclusion, and the joint test results show that the interest rate charged by financial

institutions should be moderate enough for borrowers to be able to repay the loan in a short amount of time. This is because it will have a significant impact on the expansion and development of small and medium-sized businesses as well as the Nigerian economy as a whole.

Table 1: *Random Effect Panel Regression Result*

Variable	Coeff	Std. Error	Prob.
C	40.321	8.6879	0.0000
MFLN	1.7790	1.2276	0.1478
MFSAV	0.0523	3.0560	0.0504
MFTNG	0.0781	0.8321	0.9253
MFINT	1.8344	1.0504	0.0512
Effects Specification			
Period fixed (dummy)			
Adjusted R-squared			0.8056
F-statistic			1.4480
Prob(F-stat.)			0.0000
DW			2.1758

Author Computation (2024)

5. Conclusions

The study's main focus is on how microfinance banks affect small and medium-sized businesses in Nigeria's Kwara State. The study's objectives are to ascertain the eligibility requirements established by Kwara State's microfinance institutions, evaluate the impact these requirements have on the availability of microfinance services, and look into the correlation between the interest rates that these institutions charge.

As a result, we advise that (1) policies designed to encourage the expansion of micro and small businesses should have a sectoral approach and, within that, target particular problems that impact businesses at the lower and upper ends of the growth and expansion spectrum. (2) Microfinance banks should follow the same deposit mobilization strategies as deposit money banks because doing so will enable them to provide high-quality loans to business owners, which will boost employment in the economy. (3) Microfinance should prioritize sourcing

partnerships when providing loans to business owners in order to generate sufficient revenue to support the business owners' operations in the study area.

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