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Impact of Microfinance Bank Lending on the Small Business Growth in Nigeria

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Abstract

This study examines the impact of microfinance loans, microfinance deposits, and inflation on the growth of small and medium-sized enterprises (SMEs) in Nigeria. Using secondary data from 2006 to 2023, the study employs an econometric approach, specifically the Ordinary Least Squares (OLS) method, to analyze the relationship between microfinance loans, deposits, inflation, and SME growth. The findings reveal a significant negative relationship between microfinance loans and SME growth, suggesting that increasing loan amounts may hinder business expansion. Similarly, microfinance deposits were found to negatively impact SME growth, potentially due to a lack of a saving culture or insufficient financial education among SME operators. In contrast, inflation was found to have a negligible effect on SME growth. The study concludes that while microfinance loans and deposits significantly influence SME growth, better financial literacy programs and monitoring mechanisms are needed to optimize the impact of microfinance on small business development. Recommendations are made for policymakers to ensure stable economic conditions, including controlling inflation and improving the business environment for SMEs.

Keywords

Small and Medium-Sized Enterprises (SMEs), Microfinance, Microfinance Loans Microfinance Deposits

1. Introduction

Small and medium-sized enterprises (SMEs) are vital to economic development, driving job creation, poverty reduction, and social stability. In Nigeria, SMEs contribute significantly to the economy, accounting for approximately 75% of new job creation (Soyemi et al., 2024). These businesses are also essential for industrial

growth, wealth generation, and improving livelihoods. Globally, SMEs play a similar role in both developed and developing economies. For example, in regions like the European Union, the United States, and China, SMEs employ between 60% - 70% of the workforce and contribute more to GDP than large corporations.

In Nigeria, SMEs are crucial for poverty reduction, wealth creation, and job generation. After independence, the country focused on SMEs to boost employment, revenue, and economic stability. The government has encouraged private sector involvement in previously state-controlled industries, while agencies like SMEDAN have been established to support SME growth. As of 2022, SMEDAN reported 68,000 small businesses and 4670 medium-sized businesses. Ogujiuba, Fadila and Stiegler (2013) argue that SMEs' potential for improving livelihoods in Nigeria can only be realized through proper funding and access to credit.

Microfinance is recognized as a key tool in combating poverty and providing alternative funding for small and medium-sized businesses. It offers a range of financial and non-financial services, including skill enhancement and entrepreneurial development, to help small businesses overcome challenges. The Central Bank of Nigeria (CBN) (2022) introduced microfinance bank policies after previous unsuccessful fiscal and credit options, aiming to empower vulnerable and low-income individuals by providing access to credit for starting or expanding businesses.

Small and medium-sized enterprises (SMEs) in Nigeria face challenges such as limited resources, weak market performance, inconsistent government regulations, limited access to financial support, and inadequate infrastructure. In particular, inadequate and untimely credit provision is a significant barrier to their long-term success. Despite its importance, the impact of microfinance lending (including total loans and microfinance deposits) on SME expansion in Nigeria has received limited attention in existing literature (Aladejebi, 2019; Olufemi, 2019; Audu et al., 2021a). Most studies focus on other regions, with questionable results in states like Gombe and Kaduna. This research aims to fill this gap by focusing specifically on Nigeria.

2. Objectives of the Study

The main objective of this study is to examine the effect microfinance leadings on Growth of SMEs in Nigeria. The specific objectives of this study are to:

1) To ascertain the effect of microfinance total loan on SMEs growth in Nigeria;
2) To determine the effect of microfinance deposit on SMEs growth in Nigeria;
3) To examine the effect of inflation rate on growth of SMEs in Nigeria.

3. Research Hypotheses

The following hypotheses were formulated for testing:

H_{o1}: Microfinance total loan has no significant effect on SMEs growth in Nigeria;
H_{o2}: Microfinance deposit has no significant effect on SMEs growth in Nigeria;
H_{o3}: inflation rate has no significant effect on SMEs growth in Nigeria.

4. Literature Review

4.1. SMEs growth

Small and medium-sized enterprises (SMEs) are often characterized by their limited resources, employee numbers, and capital investments. However, there is no universally accepted definition of "small business" due to varying criteria such as capital outlay, employee count, sales turnover, and market share, which differ across countries.

Cunningham et al. (2021) defines small businesses as those employing a limited number of specialists and offering a limited range of products or services. Khan and Dalu (2015) argue that small businesses play a crucial role in economic and industrial growth, particularly in developing countries. Ogunleye (2004) suggests that what is considered a small business in developed nations could be regarded as a major enterprise in developing countries, where the economic context is different.

In Nigeria, small businesses are a key driver of economic and social development. According to Audu and Okpe (2018), small businesses often operate from home, compounds, or informal spaces. The World Bank defines small businesses as those with fewer than 300 employees, less than $15 million in annual revenue, and assets under $15 million (Govori, 2013). The classification can vary, but small scale businesses typically have fewer than 500 employees and meet specific financial or capital criteria.

4.2. Microfinance Lending

Microfinance lending refers to the provision of financial services, such as loans, savings, and insurance, to individuals or businesses that are typically underserved or excluded from traditional banking services. Microfinance institutions (MFIs) focus on offering small loans, often to entrepreneurs in developing economies, to support small-scale businesses, foster economic growth, and alleviate poverty.

In Nigeria, microfinance lending has played a significant role in supporting the growth of small and medium-sized enterprises (SMEs), especially in the context of limited access to traditional financial resources. Microfinance banks offer credit facilities that help entrepreneurs overcome the challenges of starting and expanding businesses, ultimately contributing to poverty alleviation and economic growth. However, challenges such as high-interest rates, inadequate infrastructure, and poor loan repayment rates can hinder the full potential of microfinance lending.

4.3. Microfinance Total Loan

Microfinance total loan refers to the total amount of credit extended by microfinance institutions (MFIs) to individuals, typically small business owners or entrepreneurs in low-income or underserved communities, who do not have access to traditional banking services. These loans are usually small, short-term, and provided without requiring collateral, making them accessible to those who lack for-

mal credit histories. Microfinance loans aim to empower individuals, particularly in developing economies, by providing financial support for business development, income generation, and poverty alleviation.

The total loan component generally refers to the cumulative value of all loans disbursed by a microfinance institution to its clients over a given period, including both individual and group loans. These loans are typically used for a variety of purposes, such as starting or expanding small businesses, improving existing operations, or meeting personal needs that support economic activity (e.g., education, healthcare, and housing).

Microfinance loans are crucial in developing economies like Nigeria, where access to traditional financial services is limited, especially for small and medium-sized enterprises (SMEs). These loans help bridge the gap between entrepreneurial aspirations and available financial resources, fostering business growth, job creation, and economic development. Audu et al. (2021b) found that microfinance total loans in Nigeria significantly contribute to the growth of SMEs by providing capital that allows for expansion, investment in equipment, and increased business productivity. However, they highlighted challenges related to the terms and interest rates of loans, which can limit the extent of their impact. Obafemi and Balogun (2024) noted that microfinance total loans, particularly when combined with non-financial services such as training and capacity-building, can have a substantial positive effect on the sustainability and growth of small businesses in Nigeria. Access to such loans improves cash flow and facilitates business expansion, though the loans often come with high-interest rates that affect long-term profitability. Saba (2021) emphasized that microfinance institutions have become a critical source of funding for small businesses in Nigeria, helping to overcome barriers to growth such as limited capital, poor infrastructure, and access to formal financial institutions. He also observed that despite the positive effects of microfinance loans, challenges such as high loan defaults and mismanagement persist.

4.4. Microfinance Deposit

Microfinance deposit refers to the savings collected by microfinance institutions (MFIs) from their clients, often individuals and small business owners in low-income or underserved communities. These deposits form part of the financial services offered by MFIs, which aim to promote financial inclusion and encourage a savings culture among individuals who may not have access to traditional banking systems.

Deposits collected by MFIs typically include small, regular contributions that allow clients to save for future needs, manage risks, or invest in business activities. These deposits are crucial as they enable microfinance institutions to generate funds for lending and other financial services, making the institution more sustainable and less reliant on external funding.

Audu et al. (2021a) highlighted the role of microfinance deposits in sustaining lending operations of MFIs in Nigeria. They found that institutions with higher

deposit mobilization were better able to meet loan demands and support small business growth. Someone argued that microfinance deposits are critical for ensuring financial inclusion in rural areas, where traditional banks have limited reach. The study revealed that a robust deposit base enhances the resilience and lending capacity of MFIs. Mwangi et al. (2022) noted that in Sub-Saharan Africa, including Nigeria, microfinance deposits contribute significantly to financial inclusion. They emphasized that flexible deposit schemes, such as daily or weekly contributions, attract more clients and improve financial discipline among low-income earners.

4.5. Inflation Rate (Control Variable)

The inclusion of inflation as a core variable in the study, even though it concludes that inflation has a negligible effect on SME growth, can be understood as a control variable. A control variable is included in a model to account for its potential influence on the dependent variable, thereby isolating the specific effect of the key independent variables.

Inflation is a macroeconomic factor that can influence business conditions, affecting everything from the cost of inputs to consumer purchasing behavior. Including inflation as a control variable helps ensure that the relationship between microfinance loans, deposits, and SME growth is not confounded or distorted by inflation's potential impact. By controlling for inflation, the study can isolate the effects of the core variables, providing a clearer picture of the relationships being studied.

The inflation rate measures the percentage increase in the average price level of goods and services in an economy over a specified period, typically a year. It reflects the rate at which the purchasing power of money is eroded due to rising prices. Inflation is a critical macroeconomic indicator that impacts individuals, businesses, and the overall economy.

In Nigeria, the inflation rate has been a significant concern due to factors such as exchange rate volatility, high food prices, and energy costs. Recent data show inflation fluctuating around double digits, with food inflation being a major contributor. Addressing inflation is critical for achieving macroeconomic stability and sustainable growth. Tula (2022) explored the impact of inflation on consumer spending in Nigeria, finding a negative correlation between high inflation rates and household consumption patterns. It emphasized the need for targeted fiscal and monetary policies to mitigate inflationary pressures in Sub-Saharan Africa, especially in resource-dependent economies like Nigeria.

4.6. Empirical Studies

Ananwude and Lateef (2024) examined the effect of effect of microfinance bank activities on economic development in Nigeria. Secondary data from 1986 to 2022 were carefully sourced from the Central Bank of Nigeria (CBN) statistical bulletin and World Bank. Ordinary Least Square (OLS) was followed in estimating the model. The result revealed that Microfinance banks loan has no significant effect

on human development index; microfinance banks deposit has no significant effect on human development index; Microfinance banks investment has no significant effect on human development index in Nigeria.

Akinadewo (2020) examined the nexus between microfinance banks and the growth of micro, small and medium enterprises in Nigeria. The targeted population of this study was 250 with 223 validly responded. The study tested two hypotheses using logit regression analysis. The hypothesis one shows that the null hypothesis is rejected with the acceptance of the alternate that the microfinance banks in Nigeria channelled their resources to the intended target (t-calculated of 8.181 is greater than t-tabulated of 0.000 at 5% level of significance). The findings further showed that a significant positive relationship exists between microfinance bank and the growth of micro, small and medium enterprises in Nigeria.

Yusufu et al. (2020) studied microfinance banks' effects on SMEs in Abuja's Wuse business district. Using a descriptive survey approach and regression analysis, the study revealed that domestic fund transfer services from microfinance banks significantly contributed to SME expansion. It also highlighted the importance of repayable loans in fostering SME growth.

Onyeiwu et al. (2021) examined the impact of microfinance bank credit and its debt servicing on the profitability of SMEs in Alimosho Local Government Area, Lagos State, Nigeria. A survey was carried out involving 387 SMEs in Alimosho LGA, Lagos State and information was extracted using a well-structured questionnaire. Evidence from the simple linear regression outputs shows that that MFBs loans and MFBs loan have a negative significant effect on profitability.

Someone assessed the impact of microfinance products on SME productivity in Nigeria through an ex-post facto research design. Using time series data and Vector Error Correction Mechanism, the study found no significant long-term effect of loans and investments from microfinance banks on SME productivity. However, deposit mobilization had a short-term positive impact.

4.7. Theoretical Framework

4.7.1. Pecking Order Theory

This theory is propounded by Myers and Majluf (1984). This theory suggests that businesses prefer internal financing but resort to external financing, such as loans, only when internal resources are insufficient. SMEs often face resource constraints and lack the retained earnings needed to fund expansion, making microfinance loans a critical source of external funding. According to the theory, there is a hierarchical system in place for addressing the financial requirements of small and medium-sized enterprises. When starting out, most small businesses rely on savings and revenue from existing operations; as they grow, they turn to loan finance. When the amount of money needed to operate the business grows, it is necessary to seek outside investment. A small business goes through a predictable life cycle, which is well-known to the theory. Therefore, the idea implies that businesses often raise capital from inside before turning to external finance sources like debt or equity financing.

This theory is particularly relevant to SMEs in Nigeria, where access to traditional financing remains a significant challenge. SMEs often face barriers such as inadequate collateral, limited financial records, and high interest rates, making microfinance institutions (MFIs) a critical alternative. Microfinance lending aligns with POT as SMEs prioritize debt financing from MFIs when internal resources are insufficient, avoiding the ownership dilution associated with equity financing. MFIs address the high risks of lending to SMEs through innovative mechanisms such as group lending, peer guarantees, and progressive lending, which reduce asymmetric information and enhance credit accessibility. Additionally, MFIs rely on deposits from clients to sustain their operations, fostering a cycle of financial inclusion by encouraging SMEs to save while also providing accessible credit. This interaction underscores the practical relevance of the Pecking Order Theory in understanding how microfinance loans facilitate SME growth and economic development in Nigeria.

4.7.2. Trade-Off Theory

The Trade-Off Theory suggests that firms aim to balance the benefits of debt financing, such as tax shields, against the costs associated with financial distress, such as bankruptcy risk and agency costs, to determine an optimal capital structure (Kraus & Litzenberger, 1973). The tax shield benefit arises because interest payments on debt are tax-deductible, which reduces the overall cost of capital and increases firm value. However, excessive reliance on debt increases the likelihood of financial distress, particularly for firms with volatile earnings or limited access to capital markets.

For small and medium-sized enterprises (SMEs), the application of the Trade-Off Theory is often constrained due to unique characteristics such as limited access to external financing, lower financial sophistication, and minimal tax benefits compared to larger firms (Abor, 2007). While SMEs may not fully exploit the tax shield benefits of debt due to lower taxable income, they are still subject to the risks of over-leveraging, including financial distress and reduced operational flexibility. This makes their capital structure decisions more risk-averse compared to larger organizations.

The Trade-Off Theory also complements the Pecking Order Theory by addressing situations where firms might deviate from the hierarchical financing order to achieve an optimal balance. For example, an SME might prioritize debt financing despite its risks if the cost savings from the tax shield outweigh the potential costs of financial distress, especially in jurisdictions with favorable tax regimes (Frank & Goyal, 2003).

Moreover, SMEs often lack the financial buffers to withstand periods of economic downturn, making the cost of financial distress a more significant concern (Berger et al., 1998). Thus, their decision to use debt is frequently influenced by factors such as the stability of cash flows, industry norms, and the availability of collateral rather than a straightforward calculation of tax benefits versus distress costs.

5. Methodology

5.1. Research Design

This study adopted an ex-post facto research design to investigate the causal relationship between microfinance services and SME growth in Nigeria. This design is appropriate as it examines the effect of pre-existing factors (microfinance loans, deposits, and inflation) on SME growth without manipulating the variables.

5.2. Sources and Methods of Data Collection

The study relied exclusively on secondary data, collected through documentation techniques. Central Bank of Nigeria (CBN) (2022) Statistical Bulletin provided time-series data spanning 2006 to 2023. The reliance on secondary data ensures a robust foundation for meaningful research while offering a direction for future studies.

5.3. Technique of Data Analysis

The study employed Ordinary Least Squares (OLS) regression analysis to test its hypotheses and evaluate the relationship between the independent variables (microfinance total loans, deposits, and inflation rate) and the dependent variable (growth of SMEs). OLS is sufficient for modeling long-term relationships, especially when the main aim is to identify the broader effects of policy or financial interventions on SME growth (**Table 1**).

Model Specification

The model specified to examine the hypotheses of the study is presented below:

$$GSMEst = \alpha 0 + \alpha 1MFTLt + \alpha 2MDt + \alpha 3IFRt + et$$

where:

GSMEs = Growth of SMEs

α0 = Intercept

MFTL = Microfinance total loan

MD = Microfinance Deposit

IFR = inflation rate

α1, α2, α3, = Model coefficients

e = Error term

t = time

Table 1. Variable measurement.

S/No	Variable	Symbol	Measurement of Variables
1	Growth of SMEs	GSMEs	Log of Sale growth
2	Microfinance total loan	MFTL	Log of Microfinance Bank total Loans
3	Microfinance Deposit	MD	Log of Microfinance Bank Deposit
4	inflation rate	IFR	change in the consumer price index

5.4. Pre-Estimation Tests

The Augmented Dickey-Fuller (ADF) test was employed to test for stationarity in the time-series data. This test determines whether the variables are stationary or require differencing to become stationary.

Cointegration Test. This approach determines whether the variables, though non-stationary at levels, exhibit a stable relationship in the long run after accounting for their individual trends.

6. Result and Discussions

Table 2. Unit root test.

VARIABLES	ADF-STATISTICS (*p*-value)	CRITICAL VALUES (1% level)	CRITICAL VALUES (5% level)	CRITICAL VALUES (10% level)	ORDER OF INTEGRATION
GSME	−8.072589 (0.0000)	−3.555023	−2.915522	−2.59557	First difference
MFTL	−7.489260 (0.0000)	−3.548208	−2.912631	−2.59403	First difference
MD	−5.650249 (0.0000)	−3.56543	−2.919952	−2.59791	First difference
IFR	−7.525421 (0.0000)	−3.548208	−2.912631	−2.59403	First difference

Source: E-view 10 output file.

This study employs the Augmented Dickey-Fuller (ADF) test to examine the integration sequence of variables like GSME, MFTL, MD, and IFR. The unit root tests (ADF) assess the null hypothesis of non-stationarity against the alternative hypothesis of stationarity. Based on the results, the null hypothesis is rejected at the 1% significance level, indicating that the variables are stationary after first differencing, confirming that they are integrated of order (I) (1) (Table 2).

Table 3. Johansen trace test, and the maximum eigenvalue test.

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.287557	41.32105	47.85613	0.1787
At most 1	0.198472	21.65584	29.79707	0.318
At most 2	0.09659	8.824218	15.49471	0.3819
At most 3	0.049306	2.932672	3.841466	0.0868
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.287557	19.66521	27.58434	0.3647
At most 1	0.198472	12.83162	21.13162	0.4678
At most 2	0.09659	5.891546	14.2646	0.6272
At most 3	0.049306	2.932672	3.841466	0.0868

The presence of cointegrating vectors, as shown in the earlier Table 3, was confirmed using both the test statistics and the highest Eigenvalue at a 5% significance level. The lack of cointegration suggests short-run correlations between the variables. This motivates the use of VAR to examine the direct impact of microfinance lending on small business growth in Nigeria.

Table 4. Vector auto regression estimates.

Variable	Coefficient	Standard Error	t-Statistic
GSMES(−1)	0.640779	0.12989	9.00244
GSMES(−2)	−0.080971	0.12986	−0.61891
C	7.673833	1.60023	4.79005
MFTL	0.189094	0.08762	2.16032
MD	−0.38061	0.11162	−3.41081
IFR	−0.0092	0.02758	−0.33353

The VAR regression results, presented in Table 4, show that lagged growth in small businesses significantly affects current growth, with a negative impact of -0.649779 at lag 1 and −0.080371 at lag 2. However, the total microfinance loans and deposits had negative but statistically insignificant effects, meaning they do not significantly influence small business growth. The inflation rate showed a significant negative effect at lag 1, but its impact at lag 2 was insignificant. The model is statistically significant, explaining 64% of the variation in small business growth. The LGSMES equation was re-estimated using OLS, as shown in the next Table 5.

Table 5. Regression result.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.49971	1.508896	9.60948	0
MFTL	−0.415953	0.100257	−4.18887	0.0001
MD	−0.556406	0.129817	−4.28609	0
IFR	0.017043	0.033834	0.50374	0.6164
Model Summary Statistics				
Statistic	**Value**			
R-squared	0.395769			
Adjusted R-squared	0.3634			
F-statistic	12.22661			
Prob(F-statistic)	0.000003			
Durbin-Watson stat	0.630244			

Table 5 shows that the independent variables (MFTL, MD, and IFR) jointly

explain about 40% of the variation in small business growth (GSMEs), as indicated by the R^2 value. This suggests that other factors not included in the model account for the remaining 60%. The F-statistic of 12.22661, significant at the 5% level (p = 0.0003), confirms the model's suitability. The Durbin-Watson (DW) value of 0.630244 indicates no concern for autocorrelation of residuals, supporting the validity of the results. The following discussion highlights the linear relationships between the independent variables and GSMEs.

6.1. Test of Hypotheses

Hypothesis One

Table 5 shows that the microfinance total loan (MFTL) has a t-value of −4.148865 and a coefficient of −0.415953, both significant at the 5% level (p = 0.0001). This indicates a significant negative relationship between microfinance loans and GSMEs in Nigeria. As MFTL increases, GSME growth decreases. This finding rejects the null hypothesis and highlights the significant impact of microfinance loans on small business growth in Nigeria.

Hypothesis Two

Table 5 shows that microfinance deposit (MD) has a t-value of −4.286092, a coefficient of −0.556406, and a significance level of 0.000. This indicates a significant negative relationship between microfinance deposits and GSMEs. The strong statistical correlation suggests that MD has a notable impact on GSMEs, providing sufficient evidence to reject the study's secondary null hypothesis.

Hypothesis Three

According to the findings in Table 5, the inflation rate has a t-value of 0.017043 and a p-value of 0.6164, indicating a negligible impact on the growth of small businesses in Nigeria. The results show no significant statistical evidence to reject the third null hypothesis, suggesting that inflation is not a primary factor in the expansion of small businesses in Nigeria.

Post Diagnostic Test

Table 6. Test for heteroscedasticity.

Test Statistic	Value	Probability
F-statistic	0.886729	Prob. F(3, 56) = 0.3431
Obs*R-squared	19.35165	Prob. Chi-Square(3) = 0.0002
Scaled explained SS	11.72146	Prob. Chi-Square(3) = 0.0084

However, based on the data in Table 6, the chi-squared value is 0.886729 with a probability of 0.3431. Since the 5% significance level is not met, there is no evidence of heteroscedasticity in the study. This means that the residuals do not exhibit a constant variance, and the null hypothesis of heteroscedasticity can be rejected.

6.2. Discussion of Findings

The study found that microfinance loans in Nigeria have a negative and signif-

icant impact on the growth of small businesses, suggesting that increasing loans may hinder SME expansion. This is likely due to mismanagement of loan funds, as observed in previous studies (Aladejebi, 2019; Ananwude & Lateef, 2024).

Additionally, microfinance deposits also negatively affect SME growth, likely due to a lack of effective saving culture or inadequate education on saving benefits. This aligns with findings from Yusufu et al. (2020) and Olufemi et al. (2024), who emphasized the importance of deposit mobilization for enhancing SME access to credit.

Lastly, the inflation rate was found to have a negligible effect on SME growth, indicating it is not a major factor influencing business expansion in Nigeria.

7. Conclusion

This study explored the impact of microfinance loans, deposits, and inflation rate on the growth of small and medium-sized enterprises (SMEs) in Nigeria. The findings revealed a significant negative relationship between microfinance loans and SME growth, suggesting that an increase in loan availability may not contribute positively to the expansion of small businesses due to mismanagement of loan funds. High-interest rates exacerbate the negative relationship between microfinance loans and SME growth by increasing financial strain on SMEs and reducing available capital for reinvestment. Additionally, improper use of loan funds due to poor financial management or a lack of monitoring mechanisms can further hinder the potential for growth. Without effective oversight and support, SMEs might not utilize loans efficiently, resulting in stagnation or even deterioration in business performance.

Similarly, microfinance deposits were found to have a negative impact, likely due to the lack of a robust saving culture among SMEs, which limits their access to credit. The negative impact of microfinance deposits on SME growth is largely driven by the lack of a saving culture among SMEs. Without a strong foundation of savings, SMEs face difficulties in accessing credit, which can limit their ability to grow and scale their businesses. Enhancing financial literacy and promoting the importance of saving within the SME sector could help break this cycle, allowing SMEs to access the capital they need to thrive.

Lastly, the inflation rate was found to have a negligible effect on SME growth, indicating that it is not a major determinant of their expansion in Nigeria. While inflation can certainly affect the overall business environment, its impact on SME growth in Nigeria appears to be relatively negligible in this study, suggesting that other factors such as access to financing, poor financial management, and broader economic conditions have a more significant influence on SME expansion.

8. Recommendations

Microfinance institutions (MFIs) should implement better monitoring and support systems to ensure that loan funds are used appropriately for business growth. This could include providing business training and guidance on financial management to SME operators.

There is a need for stronger financial literacy programs targeted at SMEs to improve their understanding of how loans and deposits can be used effectively to foster growth.

While inflation was found to have a minor effect, policy makers should work towards ensuring stable economic conditions that support the growth of SMEs, including controlling inflation and improving the overall business environment.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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