



MICROFINANCE INSTITUTIONS OUTREACH AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NORTH CENTRAL NIGERIA

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Abstract

The study examines Microfinance Institutions (MFIs) Outreach and the growth of SMEs in North Central Nigeria. MFIs Outreach was measured using the breadth of outreach proxied by loans to SMEs, Savings of SMEs with MFIs and customer outreach of MFIs. A cross-sectional research design with a descriptive survey method was used to carry out the study. The population of the study consisted of 13378 SMEs in North Central Nigeria, while a sample size of 388 was derived using the Taro Yamane formula. Data was obtained using a questionnaire on a 5-point Likert scale ranging from strongly disagree to strongly agree. The data was analysed using ordinal regression with the aid of SPSS 26. It was found that loans to MFIs and customer outreach of MFIs have a significant effect on the growth of SMEs, while SMEs' savings with MFIs have no significant effect on the growth of SMEs. The study concludes that customers outreach of MFIs and loans from MFIs to SMEs have positively affected the growth of SMEs in North Central Nigeria and therefore recommends that MFIs should review downwards the interest rates charged on their loans, MFIs should build greater visibility nationwide, more synergy with SMEs and sustain their efforts at cash collection while compelling SMEs to maintain some amount of savings before accessing other services of the MFIs should be discouraged.

Keywords: Microfinance Institutions, Outreach, Growth of SMEs, Depth of Outreach and Breadth of Outreach



Introduction

Small and medium enterprises (SMEs) are the main drivers of economic growth in several nations. Tende, Barde, and Abbah (2016) observed that SMEs are recognised as an essential source of employment, revenue generation, poverty alleviation, and regional development. In industrialised countries like the US, Germany, and South Korea, 64% of industrial employment is in small and medium-sized businesses. One of the biggest obstacles to the growth of SMEs in Nigeria is financial accessibility. Kale (2019) reported that personal savings were the most common source of capital for most enterprises, both Micro and SMEs. According to the report, there's a widespread lack of capital and poor integration into the financial markets, which may be due to low business planning incidence and low formalisation. The National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) survey reported that 73% of SME operators cited the need for financial assistance as their top priority.

About 35% of the economically active population uses the formal financial system to get services, while the remaining 65% have limited access to financial services. Through credit unions, moneylenders, friends, family, and microfinance programs from non-governmental organisations (NGOs), the informal financial sector frequently serves this 65 percent. To improve monetary stability, the CBN put the microfinance policy framework into effect in 2005. This framework intends to enhance the country's financial infrastructure to meet the financial needs of the underserved group while identifying and regulating existing informal institutions.

Microfinancing is the provision of loans, savings accounts, money transfers, insurance, and other financial services to low-income individuals. Morduch (2005) noted that one way to accomplish the goals of microfinance institutions (MFIs) and guarantee the long-term sustainability of their services is through increased outreach. The volume of internal resources that an MFI may generate depends on its outreach level, which is crucial to the sustainability and viability of its services (Osotimehin et al, 2011). Outreach refers to the efforts made by MFIs to offer microfinance services to those who are less privileged. Two dimensions of outreach are depth and breadth. While depth refers to the socioeconomic standing of the clients served by microfinance institutions (MFIs), breadth refers to the number of clients served and the variety of services offered. This study focuses on the breadth of outreach using MFI customer outreach, SMEs' deposits with MFIs, and MFI loans to SMEs as proxy indicators.

Statement of the Problem

The major reason for the promotion of MFIs is to increase access to finance, especially to those not adequately served by the conventional commercial banks. The viability and sustainability of MFIs have been shown by studies to depend on the outreach they can achieve, which means that for the MFIs to adequately serve the SMEs and other targets, they must increase their level of outreach (Osotimehin et al, 2011). Sustainability and outreach, however, are seen to be two conflicting objectives, with the rift between the two driven by informational asymmetries and the high transaction costs they entail. Literature on the impact of MFIs on SMEs is fraught with



inconsistent results, with some concluding on positive impacts while others reporting negative impacts. While the study by Azaref and Gilgal (2018), Kisaka and Mwewa (2014) found a positive effect of MFIs' savings on the growth of SMEs, Gathogo (2014) observed that MFIs play a smaller role in the growth of SMEs. Furthermore, Ala'a (2016) found that MFI loans contributed significantly to the growth of SMEs, while Prah (2016) and Naburgi and Salihu (2015) reported that loans from MFIs do not have a significant effect on the growth of SMEs due to unfavourable credit terms.

Studies related to MFIs and SMEs have focused mainly on microfinance services and growth of SMEs (Taiwo et al, 2016), microfinance institutions' credit terms and financing and productivity of microenterprises (Naburgi & Salihu, 2015). This study explored the MFIs' outreach perspective and how this affects the growth of SMEs in North Central Nigeria. If the outreach of MFIs will enhance their profitability, sustainability and overall performance, it is necessary to explore the nexus between MFIs' outreach and the growth of SMEs and this formed the focus of this study. It is expected that if the MFIs are to pursue outreach goals, then the benefits of this effort in helping the SMEs achieve growth should be determined.

Objectives of the Study

The broad objective of this study was to examine the effect of MFIs outreach on level of growth of SMEs in North Central Nigeria. The specific objectives included the following:

- i. To determine the effect of loans to SMEs from MFIs on level of growth of SMEs in North Central Nigeria
- ii. To access the effect of SMEs savings with MFIs on level of growth of SMEs in North Central Nigeria
- iii. To examine the effect of customers' outreach by MFIs on level of growth of SMEs in North Central Nigeria

Literature Review

Microfinance Institutions Outreach

Microfinance entails giving low-income people access to loans, savings accounts, money transfers, insurance, and other financial services. The goal of microfinance, according to the CBN (2005), is to provide financial services to the poor, who are usually overlooked by established financial institutions. Three features distinguish microfinance apart from other formal financial instruments: the simplicity of use, the lack of asset-backed collateral, and the restricted quantity of loans and/or savings accumulated. Yunus and Jolis (2006) opined that microfinance is a simple strategy that has proven effective in helping the world's poorest people overcome poverty.

Improving outreach can help MFI become more viable and continue to provide its services in the long term. Outreach is the effort made by MFIs to offer loans and other financial services to a growing number of people. Schreiner (2002) sees outreach as the extent to which microfinance organizations have reached people who do not have access to traditional financial services. Two



ways to measure outreach are breadth and depth (Lafourcade, Isern, Mwangi and Brown 2005). The breadth of outreach measures the number of clients served and the scope of services rendered, including total deposit savings and total outstanding portfolio. Depth of outreach evaluates the socioeconomic status of MFI customers.

Small and Medium Enterprises (SME) Growth

There is no standard definition of what constitutes an SME. Depending on their goals, different organisations within the same nation may use different definitions. Kurfi (2006) observes that definitions frequently include annual gross sales, capital investment, employment, and output as criteria. In the United States, an independent company with less than \$5 million in capital is considered a small-scale enterprise. SMEs are defined by the European Commission as companies with less than 250 workers (Lucas, 2005). Micro, Small, and Medium-Sized Enterprises (MSMEs) are defined as follows in the SMEDAN 2017 report: Micro businesses employ 1–9 people and have total assets (not including land and buildings) under N5 million; small businesses employ 10–49 people and have total assets (not including land and buildings) over N5 million but not over N50 million; and medium-sized businesses employ 50–199 people and have total assets (not including land and buildings) over N50 million. According to Khanka (2014), the company's internal growth is a steady and continuous process. Every successful small business startup eventually faces the challenge of handling expansion or development. Growth can indicate many things, including an increase in total sales volume, manufacturing capacity, employment, production output, and the use of raw resources and energy. Several academics use growth criteria, such as assets, market share, physical production, and profitability, to assess a company's performance (Delmar et al, 2003). Qualitative measures like market position, product quality, and goodwill are useful. As a business grows, several opportunities and hazards need to be considered.

Theoretical Framework

The Contract Theory

Contract Theory, developed in 1776 by Adam Smith, serves as the foundation for this study. Smith studied the relationships between farmers and peasants in his book *Wealth of Nations*. He drew attention to the twisted incentives included in sharecropping contracts, which were common in seventeenth-century Europe. When one side of a business transaction has more or different information than the other, this is known as asymmetric information. This is the basic idea that underpins contract theory.

Contract theory plays a critical role in understanding the dynamics between microfinance institutions (MFIs) and small businesses. This theoretical framework, which explores the design, enforcement, and fulfillment of agreements under conditions of asymmetric information and uncertainty, is essential to explaining how MFIs and small businesses interact. In particular, contract theory sheds light on the challenges MFIs face when lending to small businesses, which



are typically characterized by high risk and limited access to traditional financial services (Armendariz & Morduch, 2010).

When economic actors have varying access to information, adverse selection may result in market inefficiencies. When banks are not aware enough about the risk involved in their customers' financial activities, information asymmetry in lending happens. This will force them to set a high interest rate to reduce the danger of not being able to tell which investors are trustworthy and which are not. Situations when lenders are unable to keep an eye on borrower behavior or precisely calculate returns are known as moral hazards in lending. Therefore, even if the investment is lucrative, the borrower is not required to repay the loan and can suffer a loss while keeping the profit (Armendariz & Morduch, 2005).

Microfinance institutions often deal with borrowers who have limited credit history and unreliable information, creating a situation of information asymmetry. Small businesses, especially in developing economies, may lack transparency, which makes it difficult for MFIs to assess the true risk involved in lending. According to contract theory, the design of contracts between MFIs and small businesses must address this information asymmetry. Mechanisms such as collateral requirements, group lending, and monitoring clauses are commonly used to mitigate this risk. These strategies align the interests of both parties and reduce the potential for adverse selection and moral hazard, both key concerns in contract theory.

Methodology

The study used a cross-sectional approach and a descriptive survey design. The study's population is made up of SMEs from North Central Nigeria which include the Federal Capital Territory of Abuja, Niger, Kwara, Kogi, Nasarawa, Plateau, and Benue state with 13,378 SMEs (SMEDAN/NBS, 2017). Yamane (1967) formula yielded a sample size of 388. The appropriate sample for this study was selected using the stratified sampling technique.

The sample size using Taro Yamane formula was determined as follows:

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

Where;

n = required sample

N = Total population

e = Level of significance

1 = constant



Table 3.1: Total number of SMEs in North Central Nigeria

| S/N | States | Population |
|-----|----------------|------------|
| 1 | Benue State | 1,811 |
| 2 | Kogi State | 1,027 |
| 3 | Kwara State | 1,416 |
| 4 | Nasarawa State | 2,604 |
| 5 | Niger State | 2,121 |
| 6 | Plateau State | 1,574 |
| 7 | FCT, Abuja | 2,825 |
| | Total | 13,378 |

Source: SMEDAN/NBS 2017

Substituting into the formula,

$$n = \frac{13378}{1 + 13378(0.0025)}$$

$$n = 388$$

To give a fair and equal allocation according to the respective population size, Bowley’s proportional allocation formula was adopted as thus:

$$n_i = \frac{nN_i}{N}$$

Where n_i = number allocated to each location

n = total sample size

N_i = total population of each location

N = overall population

Table 3.2: Sample of SMEs in North Central Nigeria

| S/N | Areas | Population | Sample |
|-----|----------------|------------|---------------------------------|
| 1 | Benue State | 1,811 | $\frac{1811 * 388}{13378} = 52$ |
| 2 | Kogi State | 1,027 | $\frac{1027 * 388}{13378} = 30$ |
| 3 | Kwara State | 1,416 | $\frac{1416 * 388}{13378} = 41$ |
| 4 | Nasarawa State | 2,604 | $\frac{2604 * 388}{13378} = 75$ |
| 5 | Niger State | 2,121 | $\frac{2121 * 388}{13378} = 62$ |



| | | | |
|---|---------------|--------|--------------------------------------|
| 6 | Plateau State | 1,574 | $\frac{1574 \times 388}{13378} = 46$ |
| 7 | FCT, Abuja | 2,825 | $\frac{2825 \times 388}{13378} = 82$ |
| | Total | 13,378 | 388 |

Source: Researcher’s computation 2024

Methods of Data Collection

The data meant for the empirical analysis was collected using a structured questionnaire, designed to consist of two sections. The first section was based on the socio-economic and demographic information of the respondents, while the second section involved information on each of the three research questions. A five-level Likert scale was used and scaled from 1-5, with (1) representing strongly disagree, (2), disagree, (3) representing Undecided, (4) agree, while (5) represented strongly agree.

Reliability Test

Reliability refers to a measure of the degree to which the responses to the questionnaire are consistent for reliable results. The study ensured the reliability of the data collection instruments to enable the instruments to solve the research problems. Therefore, a pilot study was carried out to determine the reliability of the questionnaires. To test the reliability of the instruments, internal consistency techniques were applied using Cronbach’s Alpha. The alpha value ranges between 0 and 1, with reliability increasing with the increase in value. An alpha coefficient ranging from 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability, while 0.8 and above indicates strong reliability.

Techniques for Data Analysis and Model Specification

The descriptive statistics, such as frequency and percentage distribution, were used to summarise the socio-demographic variables, while an empirical analysis was conducted using ordinal regression analysis. The ordinal regression is a non-parametric alternative to linear regression. Thus, the regression equation was used to determine the relationship between customers’ outreach of MFIs, savings with MFIs by SMEs, loans from MFIs to SMEs and the level of growth of SMEs in North Central Nigeria. The coefficients and their 95 percent confidence interval were reported, as well as P-values.

The model specification for the study is shown as follows:

$$GSME = \beta_0 + \beta_1 CSO + \beta_2 MFS + \beta_3 MFL + \epsilon_t$$

Where:

GSME = Level of growth of SMEs

CSO = Customer outreach of MFIs to SMEs

MFS = Savings with MFIs by SMEs

MFL = Loans from MFIs to SMEs

β_0 = The autonomous parameter estimate (Intercept or constant)

$\beta_1 - \beta_3 =$ Parameter coefficients of customer outreach, savings with MFIs; and loans from MFIs to SMEs.

$\epsilon_t =$ Random variable (Residual error term)

Data Presentation

Administered Questionnaire and Returned Questionnaires

From the administered questionnaire in Table 4.1, it could be observed that out of 466 distributed questionnaires, 16 were not returned and 9 were not properly filled, and 12 were invalid: thus, making the properly filled and usable questionnaires 429. The 429 properly filled questionnaires were thus used for the analysis. This shows that 90.46 percent of the administered doses were used for the analysis in this study. As the sample for the study is 388, we factored in an attrition rate of 20% to account for both defective and unreturned questionnaires. According to Kadam and Bhalerao (2010), researchers often increase the sample size by a certain percentage (commonly 10–20%) to account for potential non-response or dropouts. Consequently, additional 78 copies of questionnaire were added to the sample size of 388 bringing the distributed questionnaire to 466.

Table 4.1: Administered Questionnaires and Returned Questionnaires

| S/ N | Locations | Distributed Questionnaires | Not Returned | Not properly filled | Invalid | Properly filled and received |
|------|----------------|----------------------------|--------------|---------------------|-----------|------------------------------|
| 1 | Benue State | 62 | 2 | 2 | 1 | 57 |
| 2 | Kogi State | 37 | 1 | 0 | 2 | 34 |
| 3 | Kwara State | 50 | 2 | 1 | 1 | 46 |
| 4 | Nasarawa State | 90 | 2 | 2 | 3 | 83 |
| 5 | Niger State | 75 | 3 | 2 | 2 | 68 |
| 6 | Plateau State | 54 | 2 | 1 | 1 | 50 |
| 7 | FCT, Abuja | 98 | 4 | 1 | 2 | 91 |
| | Total | 466 | 16 | 9 | 12 | 429 |

Source: Field survey, 2024 (SPSS-26)

Table 4.2: Loans to SMEs from MFIs

| Loans to SMEs from MFIs | | Percentage Response | | | | |
|-------------------------|--|---------------------|-------|-------|-------|--------|
| Items | | SD (%) | D (%) | U (%) | A (%) | SA (%) |
| | | | | | | |

| | | | | | | |
|---|---|------|------|-----|------|------|
| 1 | The interest rates from the bank have not been favourable to my business | 4.5 | 1.5 | 6.0 | 6.0 | 82.0 |
| 2 | The regular changes of the bank charges for loans offered whenever there are changes in the economy or regulatory policies are affecting our business | 17.4 | 5.6 | 5.6 | 10.4 | 61.1 |
| 3 | The bank offers a good repayment plan for loans obtained for my business | 12.4 | 1.7 | 3.3 | 72.7 | 6.6 |
| 4 | The bank loan duration does not consider the business type/size, and scope. | 1.1 | 30.7 | 9.9 | 19.8 | 38.5 |
| 5 | The bank has been able to provide my business with the amount required for my business operation | 9.9 | 19.8 | 1 | 38.6 | 30.7 |

Source: Authors' Computation, 2024 (SPSS, 26)

From Table 4.2, it could be observed that majority (82 percent) of the respondents strongly agreed that the interest rates from the bank have not been favourable to my business; 61.1 percent further strongly agreed that there are regular changes of the bank charges for loans offered whenever there are changes in the economy or regulatory policies is affecting our business; 72.2 percent which constitutes the majority agreed that the bank offers good repayment plan for loans obtained for my business; 35.5 percent noted that the bank loan duration does not consider the business type/size and scope.; 38.6 per cent, which also constitutes the majority, are of the view that the bank has been able to provide my business with the amount required for my business operation.

Table 4.3: SMEs Savings with MFIs

| SMEs' Savings with MFIs | | Percentage Response | | | | |
|-------------------------|--|---------------------|-------|-------|-------|--------|
| S/No. | Items | SD (%) | D (%) | U (%) | A (%) | SA (%) |
| 1 | We finance our business operations mainly from our business savings | 20.0 | 9.1 | 10.9 | 34.5 | 25.5 |
| 2 | We are compelled to save before accessing other banking services or products offered by our banker | 12.7 | 9.1 | 9.1 | 41.8 | 27.3 |
| 3 | We set aside emergency funds that would cover 3 months' expenses | 20.9 | 2.7 | 5.5 | 38.2 | 32.7 |
| 4 | The major motivation for our savings is the interest paid on the deposited amount | 23.6 | 4.5 | 23.2 | 22.3 | 26.4 |
| 5 | We save because it allows us to borrow when the need arises | 21.8 | 13.2 | 6.8 | 41.8 | 16.4 |

Source: Authors' Computation, 2024 (SPSS, 26)

As regards to responses from SMEs Savings with MFIs, it could be observed that most of the respondents of about (34.5 percent) agreed that they finance their business operations mainly from our business savings; 41.8 percent agreed that they are compelled to save before accessing other banking services or products offered by our banker; 38.2 percent agreed that they set aside emergency funds that would cover 3 months expenses. It was observed that major motivation for SMEs savings is the interest paid on deposited amount as shown by 26.4 percent which agreed to that; and lastly, it was discovered that 41.8 percent of the respondents are of the view that they save because it allows them to borrow when the need arises as shown in Table 4.3.

Table 4.4: Customer outreach of MFIs

| SMEs' customer outreach by MFIs | | Percentage Response | | | | |
|---------------------------------|---|---------------------|-------|-------|-------|--------|
| S/No. | Items | SD (%) | D (%) | U (%) | A (%) | SA (%) |
| 1 | We do most of our savings business with MFIs | 10.9 | 8.2 | 6.4 | 39.1 | 35.5 |
| 2 | MFIs always come for cash collection, thereby removing the bottlenecks of going to the bank to save | 1.8 | 5.5 | 2.7 | 23.6 | 66.4 |
| 3 | We patronize MFIs because they provide cheaper and more flexible services | 3.6 | 1.8 | 1.8 | 66.4 | 26.4 |
| 4 | We prefer doing our banking business with MFIs | 18.2 | 2.7 | 3.6 | 35.0 | 40.5 |
| 5 | We have a banking relationship with MFIs | 4.5 | 2.7 | 4.5 | 35.5 | 52.7 |

Source: Authors' Computation, 2024 (SPSS, 26)

Concerning responses for Number of SMEs customers served by MFIs, it could be observed that most of the respondents of about 39.1 percent are of the view that they do most of their savings' business with MFIs; 66.4 percent further noted that the MFIs always come for cash collection thereby removing the bottlenecks of going to the bank to save; 66.4 percent of the respondents agreed that they patronize MFIs because they provide cheaper and more flexible services; 40.5 percent strongly agreed that they prefer doing their banking business with MFIs; and 52.7 percent which constitutes the majority strongly agreed that they have banking relationship with MFIs as shown in Table 4.4.

From Table 4.5, it could be observed that 36.4 percent of the respondents agreed that their business has expanded its operational and technical facilities in the last two years; 40 percent agreed that there have been new scopes covered and service lines introduced in the last two years; this was further collaborated by 71.8 percent of the respondents who confirmed that the business customers' base has been on the increase in the last two years; 54.5 percent are of the view that

the business has added new sales and branch network to facilitate distribution in the last years; 50.9 percent similarly confirmed that the sales and revenue growth of their business is attributed to financial assistance from MFIs.

Table 4.5: Growth of SMEs

| Level of Growth of SMEs | | Percentage Response | | | | |
|-------------------------|---|---------------------|-------|-------|-------|--------|
| S/No | Items | SD (%) | D (%) | U (%) | A (%) | SA (%) |
| 1 | Our business has expanded its operational and technical facilities in the last two years. | 24.5 | 4.5 | 7.3 | 36.4 | 27.3 |
| 2 | There have been new scopes covered, and service lines introduced in the last two years | 17.3 | 12.7 | 11.8 | 40.0 | 18.2 |
| 3 | The business customers' base has been on the increase in the last two years. | 2.7 | 2.7 | 6.4 | 71.8 | 16.4 |
| 4 | The business has added new sales and a branch network to facilitate distribution in the last years. | 3.6 | 5.5 | 23.6 | 54.5 | 12.7 |
| 5 | The sales and revenue growth of our business is attributed to financial assistance from MFIs | 4.5 | 4.5 | 6.4 | 50.9 | 33.6 |

Source: Authors' Computation, 2024 (SPSS, 26)

Correlational Analysis

One of the analytical techniques used in this study is Karl Pearson's correlation coefficient. An indicator of the degree of relationship between the variables was the correlation coefficient. Accurate findings were reached when the correlation analysis data were assessed and interpreted using the chosen model. To evaluate the correlation's strength, we used the Karl Pearson Correlation Coefficient (r). The range of the correlation coefficient might be -1 to +1. Strong correlations have correlation coefficients that are close to one; weak correlations have correlation coefficients that are close to zero.

Table 4.6: Correlation Results

| | GSMEs | CSO | MFS | MFL |
|-------|--------|---------|--------|------|
| GSMEs | ---- | | | |
| CSO | 0.7485 | ---- | | |
| MFS | 0.6522 | -0.4851 | ---- | |
| MFL | 0.8621 | 0.3625 | 0.5847 | ---- |

Source: Authors' Computation, 2024 (SPSS-26)

GSMEs and CSOs have a positive association, as seen in Table 4.6. The correlation value of 0.7485, which is significant, indicated a positive relationship. There was a significant and positive relationship between MFS and GSMEs. Both the robust correlation coefficient of 0.8621 between GSMEs and MFL and the correlation coefficient of 0.6522 between the two variables of interest demonstrated a strong and positive link. There is consequently a strong link between CSO, MFS, MFL, and GSMEs; according to the model specification, the correlation between GSMEs and MFL was the strongest of the three correlations studied.

Multicollinearity Test Result

The challenge of multicollinearity is unique to the study of cross-sectional data. To make sure the regression model estimates had low variance or econometric stability, this econometric quality was examined among explanatory variables. We computed the variance inflating factor (VIF) and the tolerance factor (TOL) to check for multicollinearity among the explanatory variables. The lowest value for VIF is 1.0; a value above 10 suggests that the explanatory variable in question and the other predictors in the model are likely to be collinear. A low tolerance value suggests that the variable in question is not appropriate for inclusion in the given regression equation, as it is almost a perfect linear combination of the other independent variables in the equation.

Table 4.7: Multicollinearity Result

| Variable | Coefficient | Tolerance | VIF |
|----------|-------------|-----------|----------|
| CSO | 0.695852 | 0.325966 | 3.524126 |
| MFS | 0.236251 | 0.421440 | 4.265240 |
| MFL | 0.965224 | 0.215987 | 1.269581 |

Source: Authors' Computation, 2024 (SPSS-26)

The results of the Tolerance and Variance Inflating Factors (VIF) tests for the multi-collinearity status of the explanatory variables included in the regression model are shown in Table 4.7. Since the VIF is not beyond the threshold, the findings showed that multi-collinearity is not present in the data. This indicates that the VIF has not achieved the 10-point threshold, meaning that no VIF value is more than 10. In contrast, the tolerance factor is higher than the 0.1-point threshold for each of the model's explanatory variables. Thus, the outcome suggests that the regression model's estimations were consistent with little variation and were not skewed.

Ordinal Regression Results

We employed ordinal regression to examine the impact of MFI outreach on the growth of SMEs in North Central Nigeria. Due to the scoring of questionnaire responses on a Likert scale, ordinal regression—a non-parametric alternative to linear regression—was utilized.

Ordered Regression Parameter Estimate

Calculating the expected change in log odds of falling into a higher (as opposed to lower) category of the dependent variable while maintaining other independent factors constant is the simplest way to understand ordinal regression coefficients.

Table 4.8: Parameter Estimate of Ordinal Regression

| Parameter Estimates | | | | | | |
|--|----------|------------|--------|-----|-------|-----------|
| Variables | Estimate | Std. Error | Wald | df | Sig. | Odd Ratio |
| CSO | 0.2411 | 0.4259 | 9.0111 | 348 | 0.000 | 1.2726 |
| MFS | -0.6982 | 1.5988 | 1.2699 | 348 | 0.114 | 0.4974 |
| MFL | 0.5987 | 0.2566 | 9.4872 | 348 | 0.000 | 1.8197 |
| Link function: Logit., Dep Var.: GSMEs | | | | | | |

Source: Authors' Computation, 2024 (SPSS-26)

The coefficient of CSO shows that for every one unit increase in CSO, there is a predicted increase of 0.2411 in the log-odds of being at a higher level on growth of SMEs. The negative regression coefficient for MFS (with a value of -0.6982) shows that for every one unit increase in MFS, there is a predicted decrease of 0.6982 in the log-odds of being in a higher level of growth of SMEs (while holding other predictors constant). Lastly, the coefficient of MFL shows that for every one unit increase in MFL, there is a predicted increase of 0.5987 in the log-odds of being at a higher level on growth of SMEs.

Statistical Test of Hypothesis

This study employed t-statistics to assess the three hypotheses. The t-statistic evaluates the significance of variables in the regression model to ascertain if microfinance institutions' outreach significantly impacts the growth of small and medium-sized enterprises.

In each of these tests, the Probability Value (PV) functioned as the criterion for accepting or rejecting the null hypothesis. A p-value less than 0.05 indicates that outreach initiatives for microfinance firms are statistically significant at the 5% threshold. They are absent in other instances.

Test of Hypothesis One H₀₁: Loans to SMEs from MFIs have no significant effect on the level of growth of SMEs in North Central Nigeria.

According to Table 4.8, the Wald statistic for the relationship between SME development and savings with MFIs is 1.2699, with a p-value of 0.114, both of which are more than 0.05. Accordingly, the study accepts the second null hypothesis (H₀₂) and concludes that the growth rates of SMEs in North Central Nigeria are not significantly impacted by the savings that SMEs make with MFIs.

Test of Hypothesis Two H₀₂: SMEs' savings with MFIs have no significant effect on the level of growth of SMEs in North Central Nigeria

Table 4.8 also indicates that the Wald-statistic value for the relationship between SMEs savings with MFIs and growth of SMEs is captured by the Wald-statistic value of 1.2699 and its associated PV of 0.114, which was found to be greater than 0.05. Therefore, the study accepts the



second null hypothesis (H_0_2) and concludes that SMEs savings with MFIs has no significant effect on the level of growth of SMEs in North Central Nigeria.

Test of Hypothesis Three H_0_3 : Customer outreach by MFIs has no significant effect on the level of growth of SMEs in North Central Nigeria.

Microfinance institutions' customer outreach has a significant impact on the expansion of small and medium-sized businesses in North Central Nigeria, as Table 4.8 demonstrates. The corresponding p-value was 0.000 (less than 0.05), and the Wald statistic was 9.0111. The study concludes that MFIs' customer interactions have a significant influence on the growth rates of SMEs in North Central Nigeria, hence rejecting the null hypothesis (H_0_3).

Discussion of Findings

Findings from the study revealed that loans from MFIs have a significant effect on the growth of SMEs in North Central Nigeria. The ease of obtaining loans from MFIs with minimal conditions enabled the SMEs to grow their businesses. The MFIs offered good repayment plans for loans obtained for the SME businesses, and as such, the MFIs have been able to provide SMEs with the amount required for their business operations. This is in line with the findings of Ala'a (2016), Kibet et al (2015), and Zubairu (2012), whose results showed that MFIs' loans contributed significantly to the growth of SMEs. However, the study result does not agree with the findings of Prah (2016) and Naburgi and Salihu (2015) who reported that loans from MFIs did not have a positive effect on the growth of SMEs due to the unfavourable credit terms.

It was also discovered that SMEs' savings with MFIs have no significant effect on the growth of SMEs in North Central Nigeria. This was because most SMEs are compelled to save before accessing other banking services or products offered by their banker. This negatively impacted their financial capacity sometimes and therefore contributed to the insignificant effect SMEs' savings with MFIs have on the growth of SMEs within the period of review. This is in line with the findings of Gathogo (2014) whose study showed that MFIs play a smaller role in the economic empowerment of SMEs in Kiambu County. The finding did not, however, agree with the results of Azaref and Gelagil (2018), Kisaka and Mwewa (2014) and Osoro and Muturi (2013), who showed positive results of MFIs savings and growth of SMEs.

Furthermore, the study found that customer outreach by MFIs has a significant effect on the growth of SMEs in North Central Nigeria. These findings imply that most SMEs patronize MFIs because they provide cheaper and more flexible services, and this contributes to the growth of their business. This agrees with the findings of Heng (2015), Jegede et al (2012) and Osotimehin et al (2011), whose studies showed that there is statistical significance of microfinance customer outreach on the growth of SMEs. The finding does not agree with Shu and Oney (2014), Ylinen (2010) and Annim (2010) who reported no significant effect of customer outreach.

Conclusion

This study found that customer outreach by MFIs has a significant effect on the growth of SMEs in North Central Nigeria. This implies that most SMEs patronise MFIs because they provide



cheaper and more flexible services, and this contributes to the growth of their business. We conclude that the outreach of MFIs in North Central Nigeria, as measured by customer outreach, is high. It was further found that SMEs' savings with MFIs have no significant effect on the growth of SMEs in North Central Nigeria. This was because most SMEs are compelled to save before accessing other banking services or products offered by their banker. This negatively impacted their financial capacity sometimes and therefore contributed to the insignificant effect that SMEs' savings with MFIs have on the growth of SMEs within the period of review. We therefore conclude that compelling SMEs to save before accessing MFIs' services has not encouraged the SMEs to grow their businesses. Finally finding from the study showed that loans from MFIs significantly affect the growth of SMEs in North Central Nigeria. Obtaining loans from MFIs easily, with minimal conditions enabled the SMEs to grow their businesses. The MFIs offered a good repayment plan for loans obtained for the SME businesses. We conclude that loans from MFIs have positively affected the level of growth of SMEs in North Central Nigeria.

Recommendations

The study recommends the following:

- 1 MFIs review downwards the interest charged on loans to encourage the growth of SMEs, increase the patronage of their services and improve their outreach.
- 2 As most of the SMEs covered have banking relationships with MFIs, the MFIs should build greater visibility nationwide, more synergy with SMEs and sustain their efforts at cash collection. This will further increase the number of SMES served by MFIs.
- 3 The idea of compelling SMEs to maintain some amount of savings before accessing other services of the MFIs should be reviewed or de-emphasised. This measure has tended to reduce the SMEs' capacity to grow and therefore should be discouraged.

Suggestions for Further Research

This study examined MFIs' outreach and growth of SMES with a particular focus on the breadth of outreach without considering the depth of outreach and growth of SMEs. The depth of outreach encompasses female clients served by MFIs and the poorest of the poor served by MFIs. It is also worth investigating the outreach of MFIs on microenterprises in Nigeria.

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