



IMPACT OF MICROFINANCE BANK SERVICES ON GROWTH OF SMALL BUSINESSES IN MINNA, NIGER STATE NIGERIA

¹Faith Nnawo Taidi
(+2348034265639)
faithnnawotaidij@gmail.com

&
²Shuaib Ndagi Sayedi (Prof)
(+2348063744043)
ssndagi@gmail.com

&
³Salihu Adelabu Abdulwaheed (Prof)
Salihu Abdulwaheed Adelabu
(+2349093234086)
(Adelabusalihu21@gmail.com)

^{1,2&3}Department of Business Administration, Ibrahim Badamasi Babangida University,
Lapai, Niger state

The growth of Small and Medium Enterprises (SMEs) is crucial for economic development of any nation, yet the specific impact of micro-finance bank services on these businesses remain underexplored in Minna, Niger state. This research examines the impact of micro-finance bank services on growth of sma11 business in Minna, Niger State. A survey research design was employed, targeting owners/managers of registered businesses in Minna. The population of the study was 2452 and samples of 344 subjects were drawn using Taro Yamane's Formula. This research utilized a structured questionnaire with a five-point Likert scale to collect primary data. The results show that microfinance loan and savings indicate significant impact on SME growth. Micro-insurance shows an insignificant impact on SME growth in the area. The study concludes that micro-finance bank services have significant impact on the growth of small businesses in Minna, Niger State. Therefore, the study recommends that MFBs should create awareness and benefits of micro-finance services among SMEs in Minna, Niger state, Again, microfinance institutions in Minna should also continue to improve access to microfinance loans for SMEs.

Keywords: Microfinance Loans, Savings, Micro-Insurance, enterprise Growth, Minna, Niger State.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are the backbone of economies worldwide, especially in developing countries like Nigeria. SMEs play a key role in advancing local economic progress and fostering inclusive, sustainable development (Oluremi & Maku, 2024). SME represent about 90% of businesses and more than 50% of employment globally. SMEs contribute up to 40% of national income (GDP) in emerging economies. According to estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs (Burnett & Kinder, 2025). According to Okafor, Onifade and Ogbechi (2023), the small and medium enterprise (SME) sector is vital for poverty reduction and



economic growth, especially within sub-Saharan Africa. To assist small businesses, microfinance institutions and banks have been utilized as tools to provide support and microcredit (Clarkson, 2023). Oluremi and Maku (2024) highlight that the experiences of many countries show that entrepreneurship, expressed through SMEs, can significantly help achieve a nation's economic development goals. These goals include creating jobs, redistributing income, expanding output, fostering local entrepreneurship and technology, distributing industries across regions, and producing intermediate goods to enhance both inter- and intra-industrial connections. Despite their importance, SMEs often encounter significant challenges which impede their development and sustainability. Among the most critical obstacles is the limited access to adequate fiscal resource, which restricts their ability to expand, innovate, and manage risks effectively (Adebayo, 2024).

The global microfinance market is on a strong upward trajectory, with projections indicating consistent growth from 2023 through 2034. Valued at \$251.41 billion in 2023, the market is expected to expand to \$279.22 billion in 2024 and reach \$310.10 billion by 2025. This momentum continues as the market is forecasted to surpass the \$400 billion mark by 2028, reaching \$424.79 billion. A significant leap is anticipated in 2029, with the market projected to hit \$471.77 billion, followed by \$523.95 billion in 2030. The growth trend extends into the 2030s, with estimates of \$581.89 billion in 2031, \$646.25 billion in 2032, and \$717.73 billion in 2033. By 2034, the market is expected to reach an impressive \$797.11 billion more than tripling its value from 2023. This sustained expansion highlights the vital role of microfinance in fostering financial inclusion, supporting small businesses, and empowering underserved communities across the globe (Burnett & Kinder, 2025).

Microfinance loans offer SMEs the capital required to invest in their operations, expand their activities, and enhance their overall performance. Microfinance savings accounts provide a safe and reliable means for SMEs to accumulate and manage their financial resources, thus promoting financial stability and sustainability. Additionally, micro-insurance serves as a valuable tool for mitigating business risks, protecting SMEs from unforeseen events, and enhancing their resilience. Microfinance is viewed by some as a movement aimed at ensuring that as many poor and near-poor families as possible have ongoing access to a comprehensive range of high-quality financial products. These products include not only loans but also savings options, insurance policies, and money transfer services (Bi & Pandey, 2024).

To address shortcomings in the informal microfinance sector, the Central Bank of Nigeria (CBN) introduced a microfinance policy in 2005, paving the way for the licensing of microfinance banks in the country. This policy aimed to establish a structured framework to provide a variety of microfinance services sustainably over the long term, particularly targeting poor and low-income populations. It also sought to create conditions for setting up microfinance banks and to strengthen the CBN's regulatory and supervisory roles in maintaining monetary stability and managing liquidity (CBN, 2023). The establishment of microfinance banks was a response to the failure of existing microfinance institutions to sufficiently meet the financing needs of disadvantaged groups.

Small and Medium Enterprises (SMEs) are crucial drivers of economic growth in Nigeria, accounting for 96% of businesses and 84% of employment (Adebayo, 2024). However, they face



significant challenges, including limited access to financial resources, poor financial management, and high interest rates, which restrict their growth and sustainability (Chilembo, 2021). Though, SMEs struggle more than large firms to get bank loans and rely on internal funds or help from friends and family. It has been estimated that 65 million firms (40% of SMEs) in developing countries face a \$5.2 trillion annual financing gap, 1.4 times current global SME lending. East Asia and Pacific holds 46% of this gap, Latin America and the Caribbean 23%, and Europe and Central Asia 15%. Latin America, Caribbean and Africa have the highest gap relative to demand, at 87% and 88%. About half of SMEs lack formal credit access, with an even larger gap when including micro enterprises (<https://www.worldbank.org/en/topic/sme/finance>).

The failure rate among SMEs is alarming, with 50% collapsing within the first year and 95% failing within five years, eroding trust in the microfinance system (Anthony, 2022). Microfinance institutions face challenges in assessing creditworthiness and managing risk, while SMEs lack market demand, competitiveness, and product offerings (World Bank Group, 2019). These failures are attributed to inadequate microfinance services provided by microfinance banks.

Microfinance services, including loans, savings, and insurance, have mixed impacts on SME growth. While some studies show positive effects, others report no significant influence or even negative consequences (Yusufu *et al.*, 2023; Audu *et al.*, 2021). The effectiveness of microfinance services in Minna, Niger State, is unclear, highlighting the need for a comprehensive investigation into the specific context to fill the research gaps. This study will be beneficial to managers of microfinance banks and point of referral to the future academic researchers. The broad objective of this study is to examine the impact of microfinance bank services on SME growth in Minna, Niger State. The specific objectives include to:

- i. To examine the impact of microfinance loans on the growth of SMEs in Minna, Niger State.
- ii. To assess the impact of microfinance savings accounts growth of SMEs in Minna, Niger State.
- iii. To assess the impact of micro-insurance on the growth of SMEs in Minna, Niger State.

To achieve the objectives, the following hypotheses are tested.

H₀₁: Microfinance loans has no significant impact on the growth of SMEs in Minna, Niger State.

H₀₂: Microfinance savings accounts has no significant impact on the growth of SMEs in Minna, Niger State.

H₀₃: Micro-insurance has no significant impact on the growth of SMEs in Minna, Niger State.

2. LITERATURE REVIEW AND THEORY

The part reviews conceptual and empirical literature as well as the theory.

2.1 Concept of Small and Medium Enterprises

The acronym SMEs is commonly utilized within the European Union and by global institutions such as the World Bank, the United Nations, and the World Trade Organization. Small and Medium Scale Enterprises are generally understood to be businesses capable of employing up to 500 workers at a time and are regarded as vital components of any economy (Aremu and Adeyemi, 2022). According to Child *et al.* (2022), SMEs are firms characterized by their size commonly determined by the number of staff or the yearly revenue, with thresholds varying by country. Ogunsanwo *et al.* (2022) describe SMEs as businesses with revenues, assets, or employee counts



that fall below specific national limits, which vary according to each country's regulatory framework. The European Union defines Small and Medium Enterprises (SMEs) as businesses with fewer than 250 employees and an annual turnover of up to €50 million or a balance sheet total not exceeding €43 million. The EU further classifies these enterprises into micro (under 10 employees), small (under 50 employees), and medium-sized (under 250 employees) categories, using turnover and balance sheet limits to support their economic contribution (Ibidunni *et al.*, 2020). In Nigeria, for example, SMEs are commonly classified as businesses employing between 10 and 199 people, with annual turnovers ranging from approximately N25 million to under N1 billion, reflecting their importance in national job creation and GDP contributions (Okoli & Ezedebego, 2025). Similarly, India's SME classification utilizes investment and revenue caps to broaden access to government support, promoting scale-up and innovation (Adeosun & Shittu, 2021). The Nigerian National Council on Industry (2021) defines Small and Medium Enterprises (SMEs) as businesses with total capital investment ranging from a minimum of N1.5 million to a maximum of N200 million, which includes working capital but excludes land costs, and employing between 10 and 300 individuals.

2.2 Concepts of Small and Medium Enterprises Growth

SME growth results from the dynamic interplay of internal capabilities and external environmental factors, integrating strategic, operational, financial, technological, institutional, and sustainability dimensions (Adewale *et al.*, 2022). SME growth is defined by resilience, which is the enterprise's capacity to adopt technology, engage in strategic collaborations, and manage finances effectively as integrated strategies to respond and adapt to crises (Koporcic and Moro, 2025). According to Akande *et al.* (2025), SME growth is defined as the combined influence of internal factors, such as managerial competence and innovation, alongside external supports including policy frameworks and access to finance that together shape the enterprise's expansion. SME growth is the process of enhancing competitiveness and adaptability by employing innovation and operational agility through methodologies such as Lean Start-Up and business model innovation (Phiri and Tembo, 2022). Okoli and Ezedebego (2025) sees SME growth as a holistic and sustainable expansion enabled by strategic agility, development of human capital, and engagement with institutional networks adapting to environmental conditions.

According to Okeke, Adepoju, and Olorunyomi (2022), SME growth is facilitated by digital transformation and business model agility, which together build resilience and improve an enterprise's capacity to respond to market disruptions. SME growth depends on institutional and infrastructural supports, highlighting the critical role of systemic public-private partnerships in enhancing SME capabilities and expanding market reach (SMEDAN, 2025).

Also, the European Commission (2022) situates SME growth within enabling policy environments that target innovation facilitation, finance accessibility, and market integration. Collectively, these perspectives confirm that SME growth is a complex, integrative process involving balanced development across financial robustness, innovation capacity, managerial skills, digital transformation, sustainability, and supportive ecosystems. This multidimensional outlook enables SMEs not only to expand economically but also to sustain competitive advantage and contribute meaningfully to inclusive and resilient economic development.



2.3. Microfinance Services

According to Lwesya and Mwakalobo (2023), microfinance products/services include the microfinance loan; micro savings and micro-insurance.

Microfinance loan- Yunus (2006) describes microloans as small-scale financial services provided to underserved communities to promote entrepreneurship and alleviate poverty. Similarly, the Grameen Bank Model (2006) emphasized microloans as financial tools enabling impoverished individuals to establish small businesses, contributing to economic growth. Hayes (2018) portrayed microloans as non-traditional, smaller loans aimed at connecting borrowers and lenders, particularly for those without access to conventional financial institutions. Nash (2019) viewed them as a means to empower individuals in low-income communities by providing capital for small businesses and fostering financial independence. Additionally, Mia (2021) presented microloans as integral to microfinance initiatives that promote socioeconomic development, entrepreneurship, and gender equality. Sunday *et al.* (2025) define microloans as small, short-term loans intended to support startups, small businesses, and entrepreneurs who might not be eligible for conventional bank financing.

Micro savings- Rutherford (2024) highlights micro-savings as financial services tailored to low-income households, enabling them to save small amounts regularly to manage risks and invest in future needs. Kura *et al.* (2023) emphasize the role of informal mechanisms like rotating savings and credit associations (ROSCAs) in addressing financial exclusion¹. Singh (2023) describes micro-savings as integral components of microfinance, improving economic welfare and empowering communities. Adusei (2013) emphasizes the significance of micro-savings in improving the welfare of the poor by supporting and complementing microcredit efforts. Stewart *et al.* (2010) view micro-savings as secure methods for financially excluded individuals to accumulate funds for emergencies and long-term goals. Hulme *et al.* (2009) identify micro-savings as safety nets for low-income individuals, balancing immediate necessities with future financial security. Nkpoyen *et al.* (2012) emphasize the role of micro-savings in promoting a saving culture among economically disadvantaged communities.

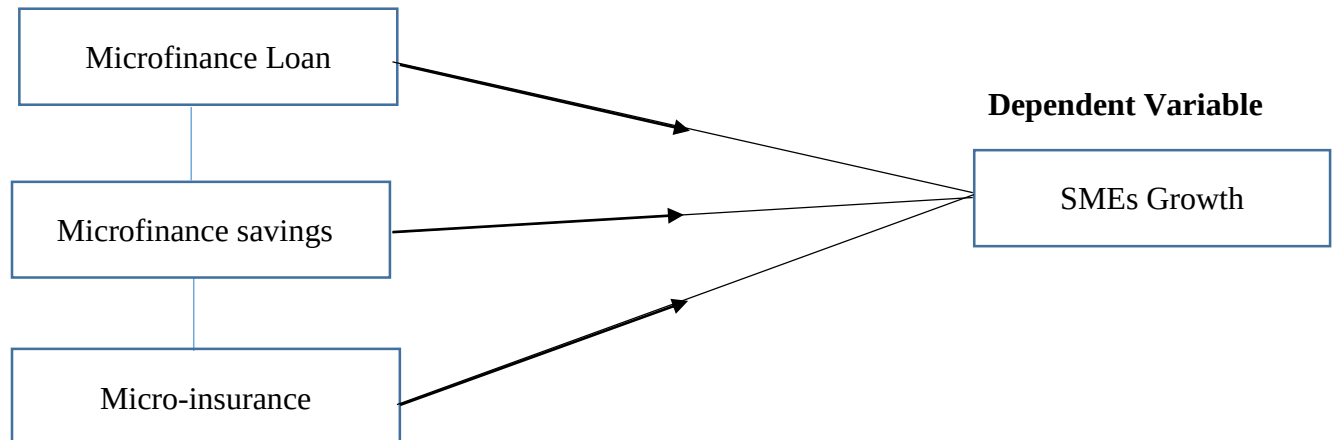
Micro-insurance- Nwajei and Oziwele (2023) defined micro-insurance as a financial service designed to provide insurance coverage to low-income individuals, addressing risks such as health, life, property, and agriculture. Churchill (2013) describes micro-insurance schemes as community-based initiatives aimed at offering affordable insurance products to underserved populations. Loewe (2021) highlights micro-insurance as an approach to downscale commercial insurance to meet the needs of low-income earners, providing an alternative to social insurance. Radermacher and Roth (2014) emphasize that micro-insurance combines the principles of insurance with the concept of microfinance to offer protection against specific risks for low-income groups. Piesse (2014) defines micro-insurance as the use of innovative mechanisms, such as weather index coverage, to address risks in developing regions. Agboola and Epetimehin (2021) define micro-insurance as a financial service designed to provide affordable insurance products to low-income individuals and small businesses, covering risks such as health, property, and agriculture.

2.3 Conceptual Framework

This research utilizes microfinance loan, microfinance savings and micro-insurance

Figure 1: A framework for the measurement of Enterprise growth.

Independent Variable



Source: Researchers' Conceptualization (2025)

2.4 Empirical Literature Review

Khan and Dalu (2021) investigated the role of microfinance in reducing poverty and promoting the growth of small and medium-sized enterprises (SMEs) across South Asia through surveys and regression analysis of 500 SMEs in South Asia, demonstrated that microfinance loans significantly enhance SME productivity and profitability. This study is limited by its broad regional focus without sufficiently addressing the diverse and context-specific factors across other countries. Buckley (2022) employed a survey and regression analysis of 250 SMEs to demonstrate that microfinance loans significantly enhance access to capital and drive enterprise growth. The study has since spurred further research into optimizing loan structures, improving financial literacy among entrepreneurs, and evaluating long-term effects on employment and innovation. The study's reliance on statistical methods and lack of qualitative insights may limit understanding of borrower experiences and contextual factors shaping loan effectiveness. Njoku *et al.* (2022) analyzed the contribution of microfinance banks to agricultural development in Nigeria, using data from 1990 to 2020 and the Error Correction Model, concluding that microfinance loans positively impacted agricultural output in the short term. The research is limited by its focus on macro-level data without incorporating primary or qualitative data from farmers and other stakeholders.

Ahmed and Khan (2018) investigated microfinance savings and SME growth in Pakistan, analyzing panel data from 400 SMEs. They found that savings accounts facilitated access to credit, improving SME performance. However, Unlike the largely positive view in the Pakistan study, recent findings indicate microfinance loans and micro savings in Nigeria may negatively impact SME growth due to factors like high-interest rates, poor loan management, lack of a savings culture, and financial literacy gaps among SMEs. This raises the need for deeper investigation into why these services are less effective and how they can be improved or tailored locally. Smith and Johnson (2019) analyzed microfinance savings and small business growth in the United States,



using econometric modeling with a sample of 200 small businesses. They discovered that savings accounts reduced financial vulnerability and supported business expansion. The study mainly focuses on the positive impact of microfinance savings but does not consider the role or comparative effects of other microfinance services, such as loans and microinsurance, which could have different or complementary impacts on small business growth in the US context. It lacks exploration of heterogeneity among the small businesses studied. Kumasi *et al.* (2022) observed the role of microfinance savings in agronomic enterprise growth in Ghana, using Structural Equation Modeling (SEM) with a sample of 200 agribusinesses. The study reveals that savings services positively impacted agricultural productivity and enterprise growth. However, the sustainability and long-term effects of savings mobilization on agricultural productivity and enterprise resilience remain unexplored; questions remain about how initial gains translate into prolonged growth.

Micro insurance has been recognized as a crucial tool for enterprise growth across continents, as demonstrated by research studies. Singh and Patel (2019) studied micro-insurance's impact on rural enterprises in India, analyzing data from 400 rural businesses through mixed-methods research. Their findings revealed that microinsurance improved access to credit and supported enterprise development. The Indian study recognizes micro-insurance as an instrument to protect low-income households against uncertainties and to improve informal sector development, but it also highlights regulatory and infrastructural challenges such as the need for flexible premium collection and stronger linkage between micro-insurance and microfinance institutions (MFIs). These challenges are even more pronounced in Nigeria, where microinsurance penetration remains low, regulatory frameworks are evolving, and MFIs face operational constraints. This presents a gap to investigate how these factors uniquely affect microinsurance effectiveness for Nigerian rural enterprises. Oluwaseun and Adeyemi (2020) explored the link between micro-insurance and agricultural enterprise growth in Nigeria by analyzing data from 250 agribusinesses using regression techniques. Their findings showed that micro-insurance reduced financial risks for farmers, increasing productivity and enterprise growth. Lopez *et al.* (2024) examined women-owned enterprises in Colombia, employing SEM with 250 women entrepreneurs. Their findings showed that micro-insurance empowered women entrepreneurs and boosted business success. Lopez *et al.* focused on microinsurance, but women entrepreneurs in Nigeria often need a holistic package integrating loans, savings, business training, and mentorship. The study does not examine how combining microinsurance with other microfinance services might produce greater or more sustainable empowerment and business success. There is a gap in understanding these combined effects in Nigeria, where financial ecosystems are typically less developed and more fragmented.

2.4 Gibrat's Theory of Growth/Decline

In relation to this study on the impact of microfinance bank services on the growth of SMEs in Minna, Niger State, these theoretical perspectives provide a foundation for understanding how and why entrepreneurs make financial decisions and how these decisions influence business growth. Thus, this study adopts Gibrat's Theory which was propounded by Gibrat in 1931. This theory suggests that small and large firms have equal chances of experiencing growth or decline in proportion to their current size. However, for micro and small enterprises, sales and employment growth are more accurate measures than profits, market share, or return on investment. Sales growth can be compared and documented, serving as a reliable indicator of size and growth (Santhosh, 2023). The criticism of Gibrat's Theory highlights that its central assumption that firm



growth rates are independent of initial firm size is often contradicted by empirical evidence. Research shows that smaller and younger firms generally experience faster growth than larger, older firms, which challenges the theory's assertion of size-independent growth. Additional factors such as firm age, liquidity, managerial resources, and capital significantly influence growth, dimensions that Gibrat's Theory overlooks. While some suggest that the law might apply as a long-term regularity for mature firms, it does not hold universally across all firms or time periods (Coad, 2009).

This theory enables the researcher to better understand the dynamics of micro and small enterprises and the influence that access to microfinance has on their growth. Microfinance services aimed at low-income entrepreneurs contribute significantly to business growth by improving access to capital, enabling savings, and providing risk protection through microinsurance. According to Bulla *et al.* (2019), enterprise growth can be both qualitative and quantitative. Qualitative growth involves changes within the enterprise, such as those affecting managers or owners. Quantitative growth focuses on sales returns, total assets, labor force size, and the range of different services and products offered.

3. METHODOLOGY

This study employed quantitative research design through a survey research approach to meet the objective of this study. This was done to collect primary data from SMEs in Minna, Niger State. The target population is small business owners/managers that engaged in agriculture, food and beverages and crafts in Minna, Niger state. The population of registered SME business in Minna is 2452 (NSSMEA, 2025). The researcher used sample size of 344 respondents using this formula formulated by Yamane (1967). A 5 points likert scale structural questionnaire was used. A total of 344 copies of questionnaire were distributed by the researchers through hand delivering to the respondents who are SMEs owners/managers in Minna, Niger State. Out of 334 copies of questionnaire administered, 310 copies of questionnaire were properly completed, returned and valid for the analysis. While, 4 copies of questionnaire were returned without responses and 30 were incorrectly filled.

Model Specification

The models for the study will be the model adopted by Santhosh (2023). The independent variable used by the researcher are micro loan, micro savings and micro-insurance while the dependent variable was enterprise growth. However, the population studied in his research was smaller compare to this research.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where

Y = Enterprise Growth as the dependent variable

X₁ = Microfinance loan

X₂ = Microfinance savings

X₃ = Micro insurance

β₀ = The interceptor

β = Slope of regression line/ Regression coefficient

ε = Error term



Regression analysis was performed to identify the nature and strength of the relationship between a single dependent variable and one or more independent variables within the research.

4. RESULTS AND DISCUSSIONS

This part presents and analyses the data collected through the questionnaire administered to the respondents to draw conclusions and make decisions

4.1. Results

The data are presented in Table 4.1 and Table 4.2 as well as the analysis to draw conclusions.

Table 4.1 Shows the Result of the ANOVA Test for the Study.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3450.123	3	1150.041	18.524	.000
Residual	9332.877	306	30.492		
Total	12783.000	309			

Dependent Variable: Enterprise Growth

Predictors: (Constant), Microfinance Loan, Microfinance Savings, Micro Insurance

Source: Authors' computation (2025) using SPSS Version 26

The regression sum of squares is 3,450.123 with 3 degrees of freedom, and the mean square is 1,150.041. The F-statistic is 18.524, accompanied by a p-value of 0.000, which is below the 0.05 significance threshold. This signifies that the regression model is statistically significant, indicating that collectively, microfinance loans, savings, and insurance significantly influence SME growth in the area studied.

4.2 Test of Hypotheses and Discussions

Table 4.2 Coefficients

Predictor	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	12.345	1.234		10.000	.000
Microfinance Loan	0.567	0.089	0.410	6.370	.000
Microfinance Savings	0.398	0.075	0.320	5.307	.000
Micro Insurance	0.105	0.060	0.090	1.750	.081

Dependent Variable: Enterprise Growth

Source: Authors' computation (2025) using SPSS Version 26



The first null hypothesis states that microfinance loan has no significant impact on the growth of SMEs in Minna, Niger State. The findings indicate that microfinance loans have a positive and statistically significant impact on enterprise growth, evidenced by a coefficient of 0.567, a t-statistic of 6.370, and a p-value of 0.000, which is below the 0.05 significance level. Consequently, the null hypothesis is rejected. This finding is in line with the observation by Olowe *et al.* (2013), who conveyed that access to microfinance loans positively influences SME expansion in Nigeria.

The second null hypothesis states that microfinance savings accounts have no significant effect on the growth of SMEs in Minna, Niger State. However, the result demonstrates a positive and statistically significant effect of microfinance savings on enterprise growth, with a co-efficient value of 0.398, a t-statistic of 5.307, and a P-value of 0.000. Therefore, the null-hypothesis is not accepted. This finding is in line with Ibebi and Buna (2024) who found that microfinance bank deposits positively and significantly impact SMEs growth in Nigeria by improving access to working capital and credit availability.

The third null hypothesis states that micro-insurance has no significant effect on the growth of SMEs in Minna, Niger State. The result showed a positive but statistically insignificant effect of micro-insurance on enterprise growth, with a coefficient value of 0.105, a t-statistic of 1.750, and a p-value of 0.081, which exceeds the 0.05 significance threshold. Consequently, the null hypothesis is not rejected. This finding contrasts with Omoniyi and Epetimehin (2021) who found that micro-insurance significantly influences SME performance in Nigeria.

5 CONCLUSION AND RECOMMENDATIONS

Small businesses growth is crucial for economic development of any nation but the specific impact of micro-finance bank services on these businesses remain underexplored. The research studied the impact of microfinance bank services on the growth of small businesses in Minna, Niger State. The results show that microfinance loan and savings indicate significant impact on SME growth. Micro-insurance shows an insignificant impact on SME growth in the area. The study concludes that micro-finance bank services have significant impact on the growth of small businesses in Minna, Niger State. Therefore, the study recommends that MFBs should create awareness and benefits of micro-finance services among SMEs in Minna, Niger state, Again, microfinance institutions in Minna should also continue to improve access to microfinance loans for SMEs.

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