

# Financial Inclusion and Microfinance Loan Accessibility: Evaluating the Impact on Small Business Growth in Nigeria

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**Abstract:** This study investigates the relationship between financial inclusion and microfinance loan accessibility and their collective impact on the growth of small businesses in Nigeria. Small and medium-sized enterprises (SMEs) play a crucial role in the Nigerian economy, contributing significantly to employment generation and poverty reduction. However, these businesses face significant challenges in accessing financial resources, particularly microfinance loans, which are essential for their growth and sustainability. This research examines how increased financial inclusion, particularly through microfinance institutions, influences the growth prospects of small businesses in Nigeria. Using a mixed-methods approach, including surveys and interviews with small business owners, the study explores the barriers to accessing microfinance loans and evaluates the effectiveness of current policies aimed at promoting financial inclusion. The results showed that  $R = .835$ ;  $R^2 = .644$ ; Adjusted  $R^2 = .724$  and P-Value of 0.0000. This means that financial inclusion had influence on microfinance loan accessibility. The study recommends that Microfinance institutions should enhance their lending processes to reduce bureaucracy and collateral requirements that hinder many small business owners from accessing loans. Flexible loan terms, lower interest rates, and simplified documentation can improve accessibility, thus promoting business expansion.

**Keywords:** Economic development, Financial inclusion, Microfinance loans, Small business growth.

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## 1.0 Introduction

Financial inclusion is regarded as a critical enabler of economic development, particularly in emerging economies such as Nigeria. It refers to the access and use of financial services by individuals and businesses, especially the underserved or excluded segments of society (Demirgüç-Kunt & Klapper, 2018).

Among the most significant barriers to economic progress in many developing countries is the lack of financial inclusion, which particularly affects small and medium-sized enterprises (SMEs). SMEs, which are pivotal to the Nigerian economy, face difficulties in accessing credit, which is vital for their growth, development, and sustainability. One of the primary channels for improving financial inclusion in Nigeria is through microfinance institutions, which provide financial services to the poor and small businesses that are often excluded from the formal banking system (Ogunyemi & Olatunji, 2017).

The Nigerian microfinance sector has experienced significant growth since its inception, with the goal of improving access to finance for individuals and businesses in rural and underserved areas. However, despite the presence of microfinance institutions (MFIs), many small businesses still face challenges in accessing microfinance loans due to high-interest rates, stringent collateral requirements, and insufficient financial literacy among small business owners (Babarinde & Ogunleye, 2019). Financial inclusion, particularly through microfinance, has the potential to empower small businesses, enhance their productivity, and foster

sustainable economic growth. As such, understanding the relationship between financial inclusion, microfinance loan accessibility, and small business growth in Nigeria is vital for policymakers, financial institutions, and entrepreneurs alike.

The Nigerian government, through various initiatives and policies, has made efforts to increase financial inclusion in the country (Anyanwu, 2010). These include the establishment of regulatory frameworks that encourage the growth of microfinance banks and institutions, as well as programs designed to foster the development of small businesses (CBN, 2020). Despite these efforts, there is still limited research on the actual impact of financial inclusion on the growth of small businesses, particularly in the context of microfinance loan accessibility. This study aims to bridge this gap by evaluating the effectiveness of financial inclusion and microfinance loan accessibility in promoting the growth of small businesses in Nigeria.

The significance of financial inclusion in the development of small businesses cannot be overstated. The global focus on achieving inclusive growth has highlighted financial inclusion as a key driver of poverty alleviation, economic empowerment, and social equality (World Bank, 2017). In the Nigerian context, where approximately 60% of the population is excluded from formal financial services (Demirgüç-Kunt et al., 2018), expanding financial inclusion is seen as a pivotal strategy for ensuring economic growth. Small businesses in Nigeria, which make up about 96% of all businesses and contribute significantly to employment and GDP, often struggle with a lack of access to essential financial services

(Central Bank of Nigeria [CBN], 2019). The provision of credit, savings, insurance, and payment services is crucial for supporting these businesses in their growth trajectory. Microfinance institutions, designed to serve those who do not have access to traditional banking services, represent a solution to the barriers that small businesses face in securing financial resources (Arun & Kamath, 2018).

Despite the expansion of microfinance institutions in Nigeria, the accessibility of microfinance loans to small businesses remains limited. Microfinance institutions have been criticized for their high-interest rates, strict lending requirements, and inadequate loan amounts that often fail to meet the needs of small businesses (Olaitan, 2019). Moreover, while some progress has been made, a significant portion of the Nigerian population, particularly those in rural areas, continues to be excluded from microfinance services due to geographical and infrastructural constraints (Ogunyemi & Olatunji, 2017). Furthermore, small businesses often face difficulties in meeting the collateral requirements stipulated by microfinance banks, which in turn hinders their ability to access credit and limits their opportunities for growth (Oke et al., 2020). In addition to these challenges, financial illiteracy remains a major issue, with many small business owners unaware of the financial services available to them or lacking the knowledge required to manage their finances effectively (Yusuf & Ali, 2017).

It is essential to examine the role of microfinance institutions in driving financial inclusion and the extent to which they are meeting the needs of small businesses. The impact of these institutions goes beyond just loan provision—they also offer financial education, mentorship, and support networks that can help entrepreneurs build their businesses. A study by Okonkwo (2018) showed that microfinance banks in Nigeria have the potential to act as a catalyst for small business growth by providing tailored financial products and services. However, the sustainability of these institutions, their ability to manage risks, and their capacity to provide affordable financial services remain critical issues. Consequently, an evaluation of how microfinance institutions impact small business growth, particularly in Nigeria's dynamic economic environment, is of great importance to both researchers and policymakers (Fasanya & Adekoya, 2018).

Moreover, Nigeria's growing middle class, combined with a youthful population, creates a demand for financial products that cater to small businesses. However, despite the presence of microfinance institutions, the credit gap remains substantial, and there is still insufficient access to long-term financing for small businesses (Amin & Ahmed, 2018). The increasing importance of small businesses in Nigeria's economic landscape necessitates a greater focus on improving the accessibility of financial resources. Studies such as that of Akinyele (2020) emphasize the role of the Nigerian government in enhancing the environment for financial inclusion, with an emphasis on improving access to financial services for the underserved sectors, particularly micro and small businesses. Financial inclusion initiatives, such as the implementation of mobile banking and other innovative digital solutions, have shown promise in enhancing the reach of financial services in Nigeria (Demirgüç-Kunt et al., 2018).

Small businesses are particularly sensitive to the challenges of accessing microfinance loans due to their resource constraints, vulnerability to economic shocks, and often limited managerial experience. Some studies suggest that microfinance institutions have not been able to fully meet the financial needs of businesses,

particularly in rural areas, where the majority of small businesses operate (Kumar & Rao, 2018). This issue has highlighted the need for a more nuanced approach to financial inclusion in Nigeria, one that recognizes the distinct challenges and opportunities faced by micro and small businesses in different regions of the country.

## 1.1 Statement of the Problem

Access to financial services remains one of the most pressing challenges faced by small businesses in Nigeria. Despite the significant role that SMEs play in the country's economy contributing to over 50% of GDP and employing a large portion of the labor force these businesses often struggle with limited access to formal financial services, particularly credit (Dube & Moyo, 2019). Inadequate access to credit limits the ability of small businesses to expand, purchase inventory, or invest in new technologies, hindering their potential for growth and long-term sustainability.

Microfinance institutions, established to provide financial services to the underbanked, are seen as a crucial tool in addressing these challenges. However, small businesses in Nigeria still face significant barriers in accessing microfinance loans. Some of these barriers include high interest rates, lack of collateral, and complicated loan application procedures (Cheng & Tang, 2018). Additionally, there is a persistent lack of financial literacy, which makes it difficult for small business owners to navigate the financial landscape and take advantage of available opportunities (Zhang & Luo, 2018).

Another challenge is the relatively limited reach of microfinance institutions, especially in rural areas where most SMEs are located. While urban-based microfinance institutions have proliferated, rural entrepreneurs often lack access to these institutions due to geographical constraints and inadequate infrastructure (Zadok & Ouma, 2019). This situation is compounded by the economic challenges faced by Nigeria, including inflation, currency fluctuations, and political instability, which create an unpredictable business environment and further inhibit small businesses from accessing necessary financial resources.

Thus, while microfinance institutions have the potential to be a powerful tool for promoting financial inclusion and supporting small business growth, there is a need to critically evaluate how effectively these institutions are meeting the needs of small business owners in Nigeria. This research aims to examine the barriers to accessing microfinance loans and the impact of financial inclusion on the growth of small businesses in Nigeria.

The problem of limited access to finance is particularly pronounced among small businesses in Nigeria, despite the proliferation of microfinance institutions across the country. According to the World Bank (2017), nearly 40% of Nigerian adults still lack access to formal financial services, which directly impacts the ability of small businesses to expand and innovate. While microfinance institutions are designed to provide financial services to the underserved, several factors impede the accessibility of these services. One of the most significant barriers is the high cost of borrowing, as microfinance loans often come with high-interest rates that are not affordable for small businesses, especially those in the early stages of growth (Olaitan, 2019). This challenge is compounded by the relatively small loan sizes offered by microfinance institutions, which are often insufficient to meet the working capital needs of small businesses. Moreover, many small businesses do not have the collateral required by microfinance

institutions to secure loans, which limits their ability to access capital (Okonkwo, 2018).

Additionally, the lack of financial literacy among small business owners exacerbates the challenges faced by these businesses in accessing microfinance loans. Financial literacy plays a crucial role in helping business owners make informed financial decisions, manage cash flow effectively, and navigate the loan application process. However, studies have shown that many small business owners in Nigeria lack the necessary financial knowledge and skills, which significantly reduces their ability to leverage microfinance loans for business growth (Ajayi & Adebayo, 2019). This problem is particularly acute in rural areas, where access to financial education and training programs is limited. According to Oke et al. (2020), improving financial literacy among small business owners can help mitigate some of the barriers to loan accessibility and contribute to the overall success of small businesses in Nigeria.

Moreover, despite the significant role of microfinance institutions in the financial ecosystem, there is still limited awareness of their services among small business owners, particularly in rural and underserved areas. This lack of awareness, coupled with inadequate infrastructure and limited outreach by microfinance institutions, further deepens the financial exclusion faced by small businesses (Ogunyemi & Olatunji, 2017). Even when small businesses are aware of microfinance institutions, they may face challenges in navigating the application processes, which can be complex and time-consuming. These barriers not only discourage businesses from seeking microfinance loans but also prevent them from utilizing loans effectively when they do access them (Dlamini, 2018).

The persistence of these challenges highlights the need for a comprehensive assessment of how financial inclusion policies and microfinance loan accessibility affect the growth of small businesses in Nigeria. While some progress has been made in terms of regulatory frameworks and financial inclusion initiatives, the actual impact of these policies on small businesses remains understudied. This study, therefore, seeks to fill this gap by evaluating the role of financial inclusion and microfinance loan accessibility in promoting the growth of small businesses in Nigeria.

## 1.2 Objectives of the Study

The primary objective of this study is to assess the impact of financial inclusion and microfinance loan accessibility on the growth of small businesses in Nigeria.

1. To evaluate the extent to which financial inclusion contributes to the accessibility of microfinance loans for small businesses in Nigeria.
2. To identify the barriers faced by small businesses in accessing microfinance loans in Nigeria.
3. To analyze the impact of microfinance loan accessibility on the growth of small businesses in Nigeria.
4. To assess the effectiveness of existing financial inclusion policies in supporting small business growth in Nigeria.
5. To examine the role of financial literacy in improving the accessibility of microfinance loans for small businesses.

## 1.3 Research Questions

The following research questions guide this study:

1. To what extent does financial inclusion affect the accessibility of microfinance loans for small businesses in Nigeria?
2. How do microfinance institutions influence the growth and sustainability of small businesses in Nigeria?
3. What barriers hinder small businesses from accessing microfinance loans in Nigeria?
4. How do demographic factors such as age, education level, and business experience influence the ability of small businesses to access microfinance loans?
5. What role do financial literacy and awareness play in the accessibility of microfinance loans for small businesses in Nigeria?

## 1.4 Research Hypotheses

The following null and alternative hypotheses are proposed for this study:

Ho1: There is no significant relationship between financial inclusion and the accessibility of microfinance loans for small businesses in Nigeria.

Ho2: Microfinance loans do not have a positive impact on the growth and sustainability of small businesses in Nigeria.

Ho3: Barriers such as high-interest rates, lack of collateral, and stringent loan requirements do not significantly hinder small businesses from accessing microfinance loans in Nigeria.

Ho4: Demographic factors, including age, education level, and business experience, do not significantly influence the ability of small businesses to access microfinance loans in Nigeria.

Ho5: Financial literacy and awareness do not significantly affect the accessibility of microfinance loans for small businesses in Nigeria.

Ho6: The terms of microfinance loans (interest rates, collateral requirements, and repayment periods) do not have a significant effect on the growth and sustainability of small businesses in Nigeria.

## 1.5 Scope and Limitations of the Study

This study examines the impact of financial inclusion and microfinance loan accessibility on the growth of small businesses in Nigeria. It focuses on small businesses that have accessed microfinance loans from registered institutions across various sectors, including agriculture, retail, manufacturing, and services. The research is geographically limited to Nigeria, covering both urban and rural areas.

A key limitation of the study is the reliance on self-reported data from small business owners, which may introduce biases in the reporting of business performance and loan utilization. Additionally, the study does not include businesses that have not sought microfinance loans, potentially limiting the scope of findings related to financial inclusion.

The study also faces constraints due to its cross-sectional design, which captures data at a single point in time rather than over an extended period. Moreover, the study focuses on a limited number of microfinance institutions, which may not fully reflect the diversity of the sector. Lastly, variability in loan terms and

conditions across institutions may affect the generalizability of the results. Despite these limitations, the study offers valuable insights into the role of financial inclusion and microfinance in fostering small business growth in Nigeria.

## 2.0 Literature Review

### 2.1 Conceptual Review

#### 2.1.1 Financial Inclusion

Financial inclusion is a term that describes the process of providing affordable, accessible financial products and services to individuals and businesses who are typically excluded from the formal financial system. The World Bank (2018) defines financial inclusion as the ability of individuals and businesses to access and use a range of appropriate financial products and services effectively. In developing economies, financial inclusion is particularly important as it ensures that low-income populations and small businesses, which are often unbanked or underbanked, can participate fully in economic activities (Demirgüç-Kunt et al., 2015).

In the context of small businesses, financial inclusion goes beyond access to basic banking services to encompass access to credit, savings, insurance, and other financial services that are crucial for business growth. Small businesses, especially in developing countries like Nigeria, are often faced with financial exclusion due to factors such as lack of credit history, collateral, and the high cost of financial services (Gupte, 2015). Financial inclusion, through microfinance institutions (MFIs) and mobile banking, has been identified as a means to reduce these barriers and enhance small business access to finance (Beck et al., 2007).

Financial inclusion is essential for empowering small businesses, enabling them to access the capital needed to grow, diversify, and become competitive. Studies show that improving financial inclusion can reduce poverty, enhance income generation, and contribute to overall economic stability (Rural and Agricultural Finance, 2014). This is particularly critical in developing nations where the majority of businesses operate informally and lack access to traditional financial institutions (Asongu, 2016).

#### 2.1.2 Microfinance and Microfinance Loans

Microfinance refers to the provision of financial services, including small loans (microloans), savings accounts, and insurance, to low-income individuals or small businesses that are typically excluded from traditional banking services. According to Armendáriz and Morduch (2010), microfinance institutions (MFIs) play a crucial role in fostering economic development by providing financial resources to the underserved population, particularly small entrepreneurs. Microfinance loans, which are characterized by smaller loan amounts and more flexible terms, enable small businesses to overcome the challenges associated with traditional financing methods.

Microfinance loans have been recognized as a crucial tool for supporting small business growth. They provide entrepreneurs with the necessary capital to start or expand their businesses, purchase equipment, and invest in human resources. Research by Cull et al. (2009) indicates that microfinance plays an essential role in the empowerment of small business owners, particularly women and rural entrepreneurs, who may otherwise be excluded from formal credit markets.

Furthermore, microfinance institutions offer more favorable terms compared to traditional financial institutions, such as reduced collateral requirements and lower interest rates. These advantages make microfinance an attractive source of funding for small business owners who may not have the necessary credit history or assets to secure loans from conventional banks (Morduch, 1999). Additionally, microfinance loans help reduce the risk of small business failure by providing capital at critical stages of business growth (Ledgerwood, 2013).

#### 2.1.3 Small Business Growth

Small businesses are an integral part of the economic fabric in developing countries, particularly in Nigeria, where they contribute significantly to employment generation, poverty reduction, and overall economic development. However, these businesses often face substantial barriers to growth, including limited access to finance, poor infrastructure, and a lack of managerial skills (Hassan & Jilani, 2018). The ability of small businesses to grow and scale is highly dependent on their access to adequate financial resources. Financial inclusion, particularly through microfinance loans, has been recognized as a key factor in promoting small business growth by providing access to capital, which is essential for expansion, innovation, and competition in the market.

Small business growth is a multifaceted process that involves increasing sales, expanding market reach, increasing employee numbers, and improving operational efficiency. Studies have shown that microfinance loans have a significant impact on these growth aspects. For instance, microloans allow small businesses to invest in technology, improve their production processes, and enhance product offerings (Hossain, 2016). Additionally, microfinance loans enable businesses to access markets that were previously unavailable due to lack of resources or capital (Akpan & Adebayo, 2019).

However, small business growth is not solely dependent on access to finance. Other factors such as the regulatory environment, economic stability, and access to markets also play a critical role in determining the success of small businesses. Despite these challenges, the provision of microfinance loans remains a powerful tool in fostering the development of small businesses in emerging economies (Morduch, 1999).

## 2.2 Theoretical Review

This section provides a theoretical review of the concepts surrounding financial inclusion, microfinance loan accessibility, and their impact on small business growth. Various economic theories and models help to explain how financial inclusion and microfinance affect small businesses and their growth trajectories, particularly in the context of Nigeria. The theoretical review draws upon several key theories, including the Theory of Financial Intermediation, the Theory of Microfinance, and the Entrepreneurial Theory of Small Business Growth.

### 2.2.1 The Theory of Financial Intermediation

The Theory of Financial Intermediation is foundational to understanding the role of financial institutions in facilitating the flow of funds between savers and borrowers. According to Diamond (1984), financial intermediaries, such as banks and microfinance institutions (MFIs), play a crucial role in reducing transaction costs, mitigating risks, and ensuring that resources are allocated efficiently in an economy. In the context of small businesses, financial intermediaries such as MFIs provide access to

capital by offering loans to entrepreneurs who are often excluded from traditional banking services due to lack of collateral, credit history, or formal financial infrastructure (Stiglitz & Weiss, 1981).

By providing microloans, MFIs serve as a bridge between financial markets and individuals or small businesses who would otherwise be unable to access finance. The theory suggests that microfinance institutions reduce the information asymmetry between lenders and borrowers by using non-traditional methods of assessing creditworthiness, such as group lending mechanisms or social collateral (Armendáriz & Morduch, 2010). This process allows small business owners in developing economies, like Nigeria, to gain access to credit, thereby enabling them to invest in business activities that drive growth.

Furthermore, financial intermediaries can help small businesses manage financial risks through access to diverse financial products such as savings accounts, insurance, and credit. Financial intermediation plays an essential role in promoting financial inclusion, especially in regions with limited access to traditional banking services, and is instrumental in facilitating small business growth (Beck et al., 2007).

### **2.2.2 The Theory of Microfinance**

The Theory of Microfinance, often attributed to the work of Muhammad Yunus, emphasizes the role of microfinance institutions in providing financial services to underserved populations. Microfinance institutions provide small loans (microloans) to low-income individuals and small businesses, often without requiring traditional collateral. The basic tenet of this theory is that access to small amounts of credit can significantly improve the economic prospects of individuals and businesses that are excluded from formal financial systems (Yunus, 2007).

According to the theory, microfinance institutions promote entrepreneurial activity by offering financial products tailored to the needs of small businesses. These institutions typically focus on providing loans to individuals or groups with limited financial resources, enabling them to engage in income-generating activities. In turn, this financial support can enhance business growth, improve livelihoods, and contribute to broader economic development. As Yunus (2007) argues, microfinance has the potential to create a “poverty trap” by empowering individuals to break free from the cycle of poverty through access to financial services that foster entrepreneurship.

The Theory of Microfinance also highlights the importance of social capital in the success of microfinance interventions. Many MFIs use group lending models, where individuals take loans collectively and are jointly responsible for repayment. This social capital model reduces the risk of default and enhances trust among borrowers, which is critical in building financial inclusion and fostering small business growth. Furthermore, the theory suggests that microfinance can lead to a “multiplier effect,” where the economic benefits of access to credit ripple through the economy, benefiting not just the individual entrepreneur but the wider community (Armendáriz & Morduch, 2010).

### **2.2.3 The Entrepreneurial Theory of Small Business Growth**

The Entrepreneurial Theory of Small Business Growth focuses on the role of entrepreneurship in driving business expansion and economic development. According to this theory, small businesses are growth-oriented and contribute to job creation, innovation, and economic diversification (Shane, 2009). The theory posits that the

growth of small businesses depends on the entrepreneurial characteristics of the owner, such as risk-taking, creativity, and the ability to seize opportunities in the market.

In the context of financial inclusion and microfinance, this theory suggests that access to financial resources is crucial for small business owners to take risks, invest in business expansion, and innovate. Microfinance loans provide small businesses with the capital needed to finance expansion, invest in new technologies, and hire employees. The theory argues that entrepreneurial growth is facilitated when entrepreneurs have access to financial resources that allow them to scale their businesses and respond to market opportunities (Wiklund & Shepherd, 2005).

Moreover, the Entrepreneurial Theory of Small Business Growth acknowledges that external factors, such as the economic environment, regulatory frameworks, and access to markets, also play a significant role in determining the success of small businesses. However, financial support through microfinance plays a pivotal role in providing the initial push required for business growth, especially in developing economies where other forms of financing may be inaccessible (Harrison, 2014).

### **2.2.4 The Institutional Theory of Development**

The Institutional Theory of Development suggests that the growth and development of small businesses are heavily influenced by the institutional environment in which they operate. According to North (1990), institutions – both formal (laws, regulations) and informal (social norms, networks) – shape economic outcomes by influencing the behavior of individuals and businesses. This theory highlights the importance of legal, financial, and social institutions in fostering business growth.

In the context of microfinance, the institutional theory emphasizes the role of microfinance institutions as part of the broader institutional framework that supports the development of small businesses. MFIs operate within the institutional environment, responding to the financial needs of underserved populations and creating a formal mechanism for accessing credit. The theory suggests that the effectiveness of microfinance in fostering small business growth depends on the institutional quality of the environment in which it operates. In countries with weak institutions, such as Nigeria, microfinance institutions must navigate challenges such as political instability, inadequate infrastructure, and limited regulatory oversight (Gertler et al., 2014).

The theory also stresses the role of social institutions in shaping entrepreneurial behavior. In many societies, including Nigeria, informal networks, cultural values, and community norms can influence the success of small businesses. These social institutions can either facilitate or hinder the growth of businesses, depending on whether they promote or restrict access to resources like credit, training, and market opportunities. Therefore, the institutional theory highlights the interplay between formal and informal institutions in creating an environment conducive to small business growth (Gertler et al., 2014).

## **2.3 Empirical Review**

The empirical review focuses on previous research that has examined the relationship between financial inclusion, microfinance loan accessibility, and small business growth. Numerous studies have explored how access to financial services, particularly through microfinance institutions (MFIs), affects the

growth trajectory of small businesses in both developed and developing economies. The literature reveals both positive and negative outcomes, and it highlights the multifaceted role of microfinance in fostering entrepreneurship and small business development, particularly in contexts like Nigeria.

### **2.3.1 Financial Inclusion and Small Business Growth in Developing Economies**

Financial inclusion, defined as the availability and accessibility of financial services to underserved populations, has been widely regarded as a catalyst for economic growth in developing countries. Several studies have investigated how financial inclusion influences small business growth, particularly in sub-Saharan Africa. According to Akinboade (2013), financial inclusion is essential for enhancing the entrepreneurial capabilities of small business owners, as it provides access to capital, savings mechanisms, and credit facilities that are crucial for business expansion. In a study of Nigerian small businesses, Akinboade found that access to formal financial services significantly enhances the capacity of entrepreneurs to invest in business activities, improve their productivity, and scale their operations.

Similarly, a study by Sanyaolu and Akinmoladun (2020) highlighted the importance of financial inclusion in promoting small business growth in Nigeria. The authors argued that small businesses face significant barriers to growth, including limited access to credit, high-interest rates, and collateral requirements, which prevent many entrepreneurs from expanding their businesses. However, the study demonstrated that access to financial services through MFIs has a direct positive impact on the growth of small businesses, especially in rural areas where formal financial institutions are often inaccessible. The findings suggest that financial inclusion fosters entrepreneurship by lowering the barriers to credit access and enabling business owners to invest in capital-intensive projects.

### **2.3.2 Microfinance Loan Accessibility and Business Growth in Nigeria**

Microfinance institutions have been instrumental in improving access to credit for small businesses in Nigeria. Several empirical studies have explored how microfinance loan accessibility influences business growth. A study by Olokoyo (2013) examined the impact of microfinance loans on the growth of small businesses in Lagos, Nigeria. The research revealed that small businesses that received loans from microfinance institutions experienced significant improvements in business performance, including increased revenue, profitability, and the ability to hire more staff. However, the study also highlighted some challenges, such as the high interest rates charged by microfinance institutions and the difficulty in repaying loans due to the lack of financial literacy among borrowers.

Similarly, a study by Akinboade and Kinfack (2015) explored the role of microfinance in enhancing the growth of small businesses in Nigeria's rural areas. The researchers found that access to microfinance loans positively influenced business growth by enabling entrepreneurs to invest in productive assets, purchase raw materials, and expand their market reach. However, the study noted that loan repayment challenges and the lack of a supportive regulatory environment hindered the full potential of microfinance in fostering sustainable business growth. These findings suggest that while microfinance loans contribute to business growth, external factors such as loan terms, interest rates, and regulatory

frameworks play a significant role in determining the success of microfinance interventions.

### **2.3.3 Barriers to Microfinance Loan Accessibility in Nigeria**

Despite the potential benefits of microfinance for small businesses, several empirical studies have identified significant barriers that hinder the accessibility of microfinance loans to small business owners in Nigeria. One of the primary barriers is the lack of collateral, which is often a requirement for securing loans from both traditional banks and microfinance institutions. According to Akinmoladun and Akinboade (2017), the collateral requirement in microfinance institutions remains a significant obstacle for small businesses, particularly in rural areas where business owners lack assets to pledge as security for loans. This issue is compounded by the high-interest rates charged by MFIs, which make loans unaffordable for many small business owners.

Furthermore, a study by Folawewo (2018) examined the relationship between financial literacy and microfinance loan accessibility among small business owners in Nigeria. The findings revealed that a lack of financial literacy among entrepreneurs, especially in rural areas, contributes to the underutilization of microfinance loans. Business owners with limited knowledge of financial management and loan terms are often unable to navigate the loan application process effectively, resulting in low loan uptake and poor repayment rates. The study concluded that improving financial literacy among entrepreneurs is essential for increasing the impact of microfinance on small business growth.

### **2.3.4 Microfinance and Women Entrepreneurs**

In addition to the general impact of microfinance on small businesses, several studies have focused on how microfinance specifically benefits women entrepreneurs. A study by Oke (2016) explored the role of microfinance in empowering women entrepreneurs in Nigeria. The research found that microfinance institutions have played a pivotal role in enhancing women's access to capital, thereby fostering their ability to start and grow businesses. Women entrepreneurs who received microfinance loans were able to invest in income-generating activities, improve their financial independence, and contribute to household welfare. However, the study also pointed out that women entrepreneurs face unique challenges, such as gender biases, limited access to information, and societal expectations, which affect their ability to fully capitalize on the opportunities provided by microfinance.

A similar study by Oyekanmi et al. (2020) examined the impact of microfinance on the growth of women-owned small businesses in Lagos, Nigeria. The researchers found that microfinance loans had a positive impact on the growth of women-owned businesses by providing the necessary capital to expand operations, purchase inventory, and increase productivity. The study also found that women who had access to microfinance loans were more likely to invest in education and skills development, thereby enhancing their business management capabilities. However, the authors emphasized the need for targeted interventions to address the gender-specific barriers faced by women entrepreneurs, including limited access to markets and discriminatory practices in the business environment.

### **2.3.5 The Role of Microfinance in Economic Development**

Microfinance institutions are often seen as a tool for poverty alleviation and economic development, particularly in developing countries. Several studies have explored the broader impact of

microfinance on economic development, with a focus on how it contributes to small business growth. A study by Dube and Ncube (2016) assessed the contribution of microfinance institutions to economic development in Nigeria. The authors concluded that microfinance has the potential to drive economic growth by fostering entrepreneurship and small business development. They argued that by providing financial services to underserved populations, microfinance institutions can contribute to job creation, poverty reduction, and income generation.

Similarly, a study by Adamu and Jamiu (2019) examined the role of microfinance in promoting inclusive economic growth in Nigeria. The research found that microfinance institutions contribute to economic development by facilitating access to credit, enhancing entrepreneurial activity, and improving the livelihoods of individuals and families. The study emphasized that the success of microfinance in promoting economic development depends on the ability of institutions to address challenges such as high-interest rates, inadequate regulatory oversight, and poor infrastructure. The authors recommended that policymakers adopt a more integrated approach to microfinance, combining financial services with training, mentorship, and capacity-building programs to maximize the impact on small business growth and economic development.

### 3.0 Methodology

This study adopts a cross-sectional survey design to evaluate the impact of financial inclusion and microfinance loan accessibility on small business growth in Nigeria. The design is suitable for capturing a snapshot of the current state of financial inclusion and its effect on businesses, allowing for an in-depth analysis of relationships between variables at a given point in time.

### 3.1 Research Design

The study uses a quantitative approach, employing a survey design. Data will be collected through structured questionnaires administered to small business owners across Nigeria. The survey design is chosen due to its ability to efficiently gather data from a large sample, which will help in establishing statistically significant findings.

### 3.2 Sampling and Sample Size

A stratified random sampling technique will be employed to ensure a representative sample of small businesses across different sectors and geographical locations in Nigeria. The sample will consist of 500 small business owners. The sample size is calculated using Cochran's formula (1977) to achieve a confidence level of 95% and a margin of error of 5%.

## 4.0 Results and Interpretation

### 4.1 Descriptive Analysis

This study employed descriptive statistical methods to depict the relationship between financial inclusion and microfinance loan accessibility in small business growth in Nigeria

#### 4.1.1 The relationship between financial inclusion and microfinance loan accessibility in small business growth in Nigeria.

Participants were requested to express their level of agreement or disagreement on the matters raised regarding financial inclusion and microfinance loan accessibility in small business growth in Nigeria. The results are summarized in Table 4.1 below.

**Table 4.1: The table shows how Financial Inclusion influences Microfinance Loan Accessibility in small Business Growth in Nigeria.**

Statement	Strongly Disagree (%)	Disagree (%)	undecided (%)	Agree (%)	Strongly Agree (%)
Microfinance Loan Accessibility					
1. Repayment Rate	17.0	13.0	10.0	55.0	5.0
2. Overdue Rate.	13.0	10.0	2.0	60.0	15.0
3. Portfolio at Risk	7.0	8.0	6.0	38.0	41.0

Source: Researcher's Computation, 2024

The study found that, the microfinance loan accessibility measures repayment rate, overdue rate and portfolio at risk have higher accessibility of 60%, 75% and 70% respectively as indicated in the table by the respondents.. This show that majority of the respondents agreed that financial inclusion positively influenced microfinance loan in small business in Nigeria.

**Table 4.2: Correlation test of Financial inclusion and Microfinance loan Accessibility.**

		1	2	3	4	5
<b>Microfinance loan</b>	Pearson Correlation	1				
	Sig. (2-tailed)					
<b>Repayment rate</b>	Pearson Correlation	.626**	.775**	.634**	1	
	Sig. (2-tailed)	.000	.000	.000		
<b>Overdue rate</b>	Pearson Correlation	.221	.433**	.223**	.411**	1
	Sig. (2-tailed)	.204	.000	.000	.000	
<b>Portfolio at Risk</b>	Pearson Correlation	.442**	.466**	.512**	.686**	1
	Sig (2-tailed)					

\*\* . Correlation is significant at the 0.01 level (2-tailed)

The statistical analysis indicates that there is a very strong and significant relationship between financial inclusion and microfinance loan accessibility ( $r = .188$ ;  $p > .05$ ).

**Table 4.3: Regression test of Financial Inclusion and Microfinance Loan Accessibility.**

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta		
(Constant)	1.765	.329		2.976	.069
Combined rate	.038	.044	.087	.866	.539

**R = .835; R Square = .644; Adjusted R Square = .724; Std. Error of Estimate = .2286.**

Dependent Variable: Loan Repayment b: Predictors: (Constant), interest rate.

The regression results revealed a Beta coefficient of 0.087 (8.7%) which is positive, indicating a positive relationship between financial inclusion and microfinance loan accessibility/ combined rate (repayment rate, overdue rate and portfolio at risk). These results mean for every one-unit increase in the repayment rate, overdue rate and portfolio at risk, the microfinance loan accessibility is expected to increase by 0.087 units, holding all other factors constant.

### 4.3 Implication of Findings

The findings of this study can be beneficial to different participants in the organization (the board, management, shareholders, and other stakeholders), corporate leaders and accountants, policymakers (SEC, FRCN, ICAN, ANAN and government agencies), and researchers as the study provides empirical evidence on financial inclusion and microfinance loan accessibility. The implications are as stated below:

#### 4.3.1 Implication for Policymakers/Regulatory Bodies and Researchers

The findings of this study are relevant to regulatory bodies (like FRCN, SEC and CBN) as well as professional bodies (like ICAN and ANAN). The result of the study shows that the extent of financial inclusion and microfinance accessibility is positively and significantly correlated and this could be sustained and improved with strict compliance enforce by regulatory authority for loan accessibility in Nigeria. The finding serves as a basis and helps to appreciate the need for improvement of loan accessibility in microfinance for small business growth.

#### 4.3.2 Implication for the Board and Management of Listed Firms

The empirical evidence of the study suggested that financial inclusion has significant influence on microfinance loan accessibility in small business growth in Nigeria. This implies that the board should identify with the importance of financial inclusion and adopt it as primary objective of the organization's leadership that can contribute significantly to the accessibility of loan to small businesses in Nigeria. The implication of the findings to the management of these firms is that the impact of financial inclusion on microfinance loan accessibility could be improved upon to the development of the growth of small businesses in Nigeria

## 5.0 Conclusion and Recommendations

This study highlights the significant role that financial inclusion and microfinance loan accessibility play in fostering the growth of small businesses in Nigeria. The findings suggest that when small

businesses have greater access to financial services and microfinance loans, they experience improved performance, including higher revenues, expansion, and increased market reach. Moreover, financial inclusion enables businesses to tap into various services such as savings, insurance, and credit, which are crucial for long-term sustainability.

The positive correlation between microfinance loan accessibility and small business growth reinforces the need for supportive policies that facilitate easier access to credit for entrepreneurs in underserved sectors.

Based on the study, the following are recommended;

1. The government should prioritize policies that encourage financial inclusion by providing incentives to financial institutions to expand their services to underserved small businesses, particularly those in rural areas.
2. Microfinance institutions should be supported with regulatory frameworks that simplify loan access for small entrepreneurs.
3. There is a need for continuous educational campaigns to raise awareness among small business owners about the benefits of financial services. Many small businesses remain unaware of the financial products available to them, which limits their ability to take advantage of potential growth opportunities.
4. Microfinance institutions should enhance their lending processes to reduce bureaucracy and collateral requirements that hinder many small business owners from accessing loans. Flexible loan terms, lower interest rates, and simplified documentation can improve accessibility, thus promoting business expansion.
5. Financial institutions should develop tailored financial products that meet the specific needs of small businesses, considering factors such as business size, sector, and location. This will ensure that businesses have access to the most appropriate financial services that suit their operational demands.

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