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The Role of Microfinance Banks in Promoting Small and Medium Enterprises (SMEs) in Nigeria

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ABSTRACT

Microfinance banks (MFBs) play a crucial role in promoting small and medium enterprises (SMEs) in Nigeria by enhancing financial access for businesses that are often excluded from conventional banking systems. This study examines the impact of microfinance bank assets, deposits, and loans on SME growth and sustainability. Using an Autoregressive Distributed Lag (ARDL) model and secondary data from 1990 to 2023, the findings reveal that while microfinance bank assets do not significantly influence SME development, deposits and loans have a positive and significant impact. The study highlights the importance of financial intermediation in enhancing SME expansion, employment generation, and economic development. However, challenges such as high-interest rates, regulatory constraints, and weak risk management frameworks hinder the effectiveness of MFBs. The study recommends that microfinance institutions optimize asset utilization, improve deposit mobilization strategies, and simplify loan processes to enhance SME financing and sustainability.

Keywords: Microfinance banks, small and medium enterprises, SME financing

1.1 INTRODUCTION

Small and Medium Enterprises (SMEs) are pivotal to economic development, particularly in emerging economies like Nigeria. They contribute significantly to employment generation, poverty reduction, and overall economic growth. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), SMEs account for approximately 48% of Nigeria's Gross Domestic Product (GDP) and provide over 80% of employment in the country (SMEDAN, 2021). However, despite their importance, SMEs in Nigeria face multiple challenges, including inadequate access to finance, poor infrastructure, limited managerial skills, and restrictive regulatory environments (World Bank, 2022). Among these challenges, financial constraints remain the most significant impediment to SME growth and sustainability (CBN, 2023).

Access to finance is a critical barrier to SME development in Nigeria. Traditional commercial banks often classify SMEs as high-risk borrowers due to their lack of collateral, insufficient financial records, and inconsistent cash flow patterns (IMF, 2023). As a result, many SMEs struggle to secure the necessary funding for expansion, innovation, and operational efficiency. To bridge this gap, the Nigerian government introduced the Microfinance Policy, Regulatory and Supervisory Framework in 2005, leading to the establishment and expansion of Microfinance Banks (MFBs) across the country (CBN, 2022). The primary objective of MFBs is to provide financial services to economically active but financially excluded individuals and businesses, particularly SMEs.

Microfinance banks serve as crucial intermediaries between small businesses and financial resources. They offer various financial products and services, including microloans, savings accounts, financial advisory services, and capacity-building programs tailored to the needs of SMEs (Obadire, 2022). By providing flexible and accessible credit facilities, MFBs help SMEs overcome financial barriers, enhance productivity, and create employment opportunities (Adamu, 2023). Additionally, microfinance institutions promote financial inclusion, particularly among underserved populations such as women entrepreneurs and rural businesses (World Bank, 2023).

Several empirical studies highlight the positive impact of microfinance institutions on SME development:

1. Provision of Microcredit: MFBs offer smaller, more accessible loans to SMEs that lack access to conventional banking services (Dahir & Zubair, 2023).
2. Encouragement of a Savings Culture: SMEs can accumulate capital over time through structured savings plans provided by MFBs (Obadire, 2022).
3. Financial Literacy and Business Training: Many MFBs provide training programs that enhance SME owners' managerial and financial skills (Mohammed, 2023).
4. Poverty Reduction and Employment Generation: By funding small businesses, microfinance institutions contribute to job creation and improved living standards (IMF, 2023).
5. Support for Women and Youth Entrepreneurs: Microfinance initiatives often target vulnerable groups, empowering them through financial support and entrepreneurial training (CBN, 2023).

Despite these benefits, microfinance banks in Nigeria face several operational and structural challenges that hinder their effectiveness. High loan default rates, inadequate funding, operational inefficiencies, regulatory constraints, and weak governance structures pose significant obstacles to the success of microfinance institutions (Obadire, 2022). Moreover, limited technological adoption and weak risk assessment frameworks further complicate the ability of MFBs to effectively serve SMEs (World Bank, 2023).

Given the pivotal role of microfinance banks in SME development, it is essential to examine their effectiveness in promoting sustainable business growth in Nigeria. This study aims to explore the contributions, challenges, and policy implications of microfinance banking in the SME sector, with a focus on identifying strategies for improving financial access and enhancing the overall impact of microfinance institutions on economic development. Addressing existing gaps and strengthening the microfinance ecosystem will be crucial in fostering a more inclusive and robust SME sector in Nigeria.

From the above, the work has the following as specific objectives;

I. To examine the impact of microfinance bank assets on the growth and development of small and medium scale enterprises in Nigeria.

II. To assess the relationship between microfinance bank deposits and SME financing in Nigeria.

III. To analyze the role of microfinance bank loans in the expansion and sustainability of SMEs in Nigeria.

Based on the objective the hypotheses of the study are stated thus;

Ho_1: There is no significant relationship between Microfinance bank assets on the growth and development of small and medium enterprises in Nigeria.

Ho_2: There is no significant relationship between microfinance bank deposits and development of small and medium enterprises in Nigeria.

Ho_3: There is no significant relationship between microfinance bank loans and development of small and medium enterprises in Nigeria.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Concept of microfinance bank assets, deposits and loans on small and medium scale enterprises in Nigeria

The role of microfinance banks in supporting small and medium-scale enterprises (SMEs) in Nigeria is largely driven by three critical components: assets, deposits, and loans. These elements form the backbone of microfinance institutions, determining their ability to extend financial services to underserved businesses. Microfinance bank assets include cash reserves, investments, and loan portfolios, which collectively determine the lending capacity of these institutions. Strong asset management allows microfinance banks to improve financial stability and enhance their ability to provide credit to SMEs (Adesina & Fapohunda, 2023). As these banks accumulate more assets, they become better positioned to support business expansion, job creation, and economic development.

Deposits serve as a primary source of liquidity for microfinance banks, enabling them to provide loans and sustain financial operations. Increased customer deposits translate into a greater pool of funds available for lending to SMEs. Empirical studies indicate that a positive relationship exists between microfinance bank deposits and SME financing, as higher deposit mobilization enhances credit availability for small businesses (Eze & Okafor, 2023). However, low confidence in microfinance institutions, poor savings culture, and financial illiteracy often hinder deposit growth. Addressing these issues through improved banking services, financial literacy programs, and deposit insurance schemes could strengthen the role of microfinance institutions in SME development.

Microfinance loans are one of the most direct ways in which these banks support SME growth, providing businesses with essential capital for expansion, innovation, and operational efficiency. Research has shown that access to microfinance loans significantly improves business performance by enabling entrepreneurs to invest in productive assets and improve working capital (Olawale & Garuba, 2023). However, challenges such as high-interest rates, poor loan repayment structures, and limited financial discipline among borrowers affect the effectiveness of these loans. Strengthening credit risk management frameworks and adopting technology-driven lending models could enhance loan accessibility while mitigating default risks.

Overall, the effectiveness of microfinance banks in promoting SMEs depends on a well-balanced interaction between asset management, deposit mobilization, and loan distribution. While these financial institutions have significantly contributed to entrepreneurial development, structural challenges such as inadequate regulatory frameworks, weak corporate governance, and insufficient funding continue to limit their full impact (Adebayo et al., 2023). Addressing these challenges through policy reforms, capacity-building programs, and enhanced financial infrastructure will be essential in ensuring that microfinance banks effectively drive SME growth in Nigeria.

2.1.1 Concept of small and medium scale enterprises in Nigeria.

Small and medium-scale enterprises (SMEs) are critical drivers of economic growth, innovation, and employment generation in Nigeria. They constitute a significant portion of the country's business sector, accounting for about 48% of the national GDP and over 80% of employment (SMEDAN & NBS, 2022). SMEs are defined by factors such as asset base, revenue generation, and workforce size. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), a small enterprise typically has between 10 and 49 employees, while a medium-sized enterprise employs between 50 and 199 workers (SMEDAN, 2022).

The role of SMEs in Nigeria extends beyond job creation to fostering industrialization and enhancing regional development. They contribute to local value addition by sourcing raw materials, promoting entrepreneurship, and stimulating innovation across various sectors, including agriculture, manufacturing, trade, and services (Adebayo & Yusuf, 2023). However, despite their economic significance, SMEs face structural challenges such as poor access to finance, weak infrastructure, an unfavorable business environment, and inadequate managerial skills, which hinder their growth and sustainability (Eze & Okonkwo, 2023).

One of the most pressing challenges for SMEs in Nigeria is limited access to credit, as traditional financial institutions perceive them as high-risk borrowers due to a lack of collateral and formal financial records (Oladele et al., 2023). This financing gap has led to an increasing reliance on alternative funding sources such as microfinance banks, cooperative societies, and government intervention programs. Additionally, regulatory bottlenecks, high tax burdens, and inconsistent policies further constrain SME operations and competitiveness in both local and international markets (Adamu & Garba, 2023).

Despite these challenges, SMEs remain a vital pillar of Nigeria’s economic diversification strategy, particularly in reducing dependence on oil revenue. Efforts by the government and private sector to enhance SME development include initiatives such as the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) and the establishment of special funding programs through the Bank of Industry (BoI) and the Central Bank of Nigeria (CBN) (CBN, 2023). Strengthening institutional frameworks, improving access to finance, and investing in infrastructure and digital transformation will be crucial in ensuring the long-term success of SMEs in Nigeria.

2.2 Theoretical Framework

2.2.1 Financial Intermediation Theory

Financial Intermediation Theory, first proposed by Joseph Schumpeter in 1934 and later expanded upon by Gurley and Shaw in 1960, asserts that financial institutions, such as banks and microfinance institutions, play a vital role in linking savers (surplus economic units) with borrowers (deficit economic units). These intermediaries are key players in fostering economic development by facilitating the mobilization of savings, efficiently allocating capital, and reducing information asymmetry and transaction costs. In the context of microfinance banks, this theory highlights their significant role in providing financial services to small and medium-sized enterprises (SMEs) that are typically underserved by traditional financial institutions. By doing so, microfinance banks contribute to business growth and economic stability.

The core principles of Financial Intermediation Theory are grounded in several key concepts that define the role of financial intermediaries. First is resource mobilization, where financial institutions gather savings from individuals and businesses, pooling these funds to be lent to SMEs and other economic agents. Another principle is risk mitigation, where intermediaries assess and diversify risks by evaluating creditworthiness and spreading loans across multiple borrowers, which reduces the likelihood of defaults. Liquidity transformation is another critical function, where banks and microfinance institutions convert short-term deposits into long-term loans for SMEs, thus providing liquidity to the financial system. Additionally, financial intermediaries help in reducing transaction costs by leveraging economies of scale, which makes financial transactions more affordable for SMEs seeking credit. Lastly, information asymmetry management is crucial, as banks and microfinance institutions bridge gaps in information by conducting credit analyses and monitoring borrowers' financial behavior.

In Nigeria, microfinance banks serve as key financial intermediaries that provide capital and essential financial services to SMEs, many of which lack access to traditional banking channels. Since commercial banks often view SMEs as high-risk borrowers, microfinance institutions step in to offer smaller, more flexible loans and business advisory services. This intervention enhances the ability of SMEs to invest in business expansion, innovation, and operational improvements (Eze & Okafor, 2023). Moreover, microfinance banks also mobilize savings from low-income earners and entrepreneurs, reinvesting these funds into productive ventures that contribute to the country’s economic growth.

Empirical studies underscore the positive impact of microfinance banks on SME development in Nigeria. Research by Adebayo and Yusuf (2023) reveals that increased lending by microfinance banks has been correlated with higher SME productivity, job creation, and poverty alleviation. Additionally, financial intermediation through microfinance institutions helps integrate informal businesses into the formal financial sector, enhancing their sustainability and access to broader markets.

Despite their crucial role, microfinance banks in Nigeria face several challenges that hinder their effectiveness as financial intermediaries. These include high loan default rates, poor risk management practices, and inadequate capitalization, all of which limit their capacity to provide sufficient credit to SMEs. Furthermore, regulatory constraints and economic instability pose significant risks to the stability of these institutions (Oladele et al., 2023). Addressing these challenges requires improving microfinance regulations, enhancing financial literacy among SME owners, and leveraging digital financial services to increase efficiency in the sector.

2.3 Empirical Review

Babajide (2012) investigated the impact of microfinance on micro and small enterprises (MSEs) in South West Nigeria. The study found that while microfinance enhances business survival and productivity, it does not significantly support growth and expansion. However, the provision of non-financial services by microfinance institutions improves MSE performance.

Eigbiromolen et al. (2014) analyzed the impact of microfinance on Nigeria's economy using quarterly data from 1992 to 2012. Their findings showed that microfinance loans and advances (MFLA) positively influence economic growth, with microfinance institutions playing a significant role in national development.

Suberu, et al. (2011) explored the relationship between microfinance institution loans and small-scale enterprise performance in Nigeria. Their study confirmed a strong positive correlation, indicating that microfinance contributes to market expansion, production efficiency, and business competitiveness.

Olumuyiwa et al. (2014) assessed the role of microfinance banks in improving the standard of living of hairdressers in Oshodi-Isolo LGA, Lagos State. The study found that microfinance services contributed to increased asset acquisition and savings, slightly reducing poverty among hairdressers. The authors recommended easier loan access with flexible repayment terms.

Yahaya et al. (2011) examined the effectiveness of microfinance banks in poverty alleviation in Kwara State, Nigeria. The study found that microfinance institutions reduce poverty by providing financial services to the active poor, creating employment, and supporting small business growth. The authors emphasized the need for greater public awareness of microfinance policies.

Madiha & Tanveer (2013) studied the role of microfinance institutions in entrepreneurship development in District Gujrat, Pakistan. Their research showed that while some clients use microfinance loans to start businesses, the majority access funds for personal needs such as education, marriage, and house construction. Despite this, microfinance loans were found to contribute significantly to business development, with many respondents relying on business as their primary source of income. Olowe et al. (2013) conducted an empirical study on the impact of microfinance banks on SME growth in Ibadan, Oyo State. Their findings revealed that increased loan disbursement and extended loan duration positively influence SME growth. However, high-interest rates, frequent loan repayments, and strict collateral requirements negatively impact expansion. The study showed that microfinance loans contribute 98% to SME expansion, with a unit increase in loans leading to a 45.6% growth rate, while frequent repayment orders decrease growth by 44%. Idowu (2010) examined the impact of microfinance on SMEs in Nigeria using a survey of 100 SMEs. The study revealed that while many SMEs benefit from microfinance loans, only a few secure the full amount they require. However, most SMEs acknowledge that microfinance loans contribute positively to market expansion, product innovation, and competitiveness. The study recommended that, beyond financial support, the government should improve infrastructure such as electricity, roads, and training institutions to enhance SME growth. Additionally, it highlighted that existing government policies for SME development are ineffective and need restructuring. Osatimehin et al. (2012) analyzed the determinants of microfinance outreach in South-Western Nigeria, using data from 161 microfinance institutions in Lagos and Ondo States (2005–2010). The study found that the key determinant of outreach capability is the average loan size of microfinance institutions. However, factors such as savings products, total assets, institutional age, and ownership status were found to be statistically insignificant in influencing outreach.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

This study adopts an Ex-post facto research design to examine the role of microfinance banks in promoting small and medium enterprises (SMEs) in Nigeria. This design is particularly suitable for analyzing secondary data to identify cause-and-effect relationships in existing economic conditions. Secondary data for this study were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS), and the World Bank Development Indicators, covering the period from 1990 to 2023. This approach aligns with previous research that has effectively used secondary data to investigate financial intermediation and SME growth, such as studies conducted by Adebayo & Yusuf (2023) and Oladele et al. (2023).

The population of this study encompasses key financial and economic indicators in Nigeria, including SME growth, microfinance bank assets, microfinance bank deposits, microfinance, and microfinance bank loans (MFLOAN) for the thirty-three years from 1990 to 2023. The study relies on secondary data due to its reliability and consistency, having been validated by professional institutions such as the CBN, NBS, and World Bank. Moreover, the use of secondary data has been widely accepted in previous studies, reinforcing its appropriateness for examining the financial determinants of SME growth (Adebayo & Yusuf, 2023; Oladele et al., 2023).

By employing this approach, the study aims to empirically test the hypotheses regarding the relationships between microfinance bank assets, deposits, and loans with SME growth in Nigeria.

Model Specification

The purpose of this study is to examine the determinants of micro-finance banks and small and medium enterprises in Nigeria. To achieve this, four variables were identified in the study, these are: independent and dependent variables. The independent variables are microfinance bank assets, deposits, and loans deposits in Nigeria. The dependent variable on the other hand is small and medium enterprises in Nigeria for the period under study**.** The following models were adopted;

$SME = \beta_0 + \beta_1(MASSET) + \beta_2(MDEP) + \beta_3(MFLOAN) + e$

Where; SME = Small and Medium Enterprises (Dependent Variable)

β_0 = is the intercept

$\beta_1 – \beta_3$ = are the parameters to be estimated in the equation

MASET = Microfinance bank assets (Independent Variable)

MDEP = microfinance bank deposits (Independent Variable)

MLOAN = microfinance bank loans (Independent Variable)

e = Error Term

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Statistics

The descriptive statistics are presented and analysed in this section, as presented in Table 4.1; it entails the minimum, maximum and the average values from the data. It also contains the standard deviation, skewness and kurtosis.

Table 4.1: Descriptive Analysis

	SME	MASET	MDEP	MLOAN
Mean	101853.6	5586.708	2772.521	6345.404
Median	95177.74	3970.250	448.5100	442.3500
Maximum	176075.5	21230.93	24455.42	53208.27
Minimum	43461.46	399.7100	11.03000	1.270000
Std. Dev.	40385.61	5656.698	6613.464	15041.68
Skewness	0.353875	1.765098	3.015154	2.626412
Kurtosis	2.085553	5.596550	10.44819	8.578661
Jarque-Bera	0.724275	10.40236	49.74675	31.80321
Probability	0.696187	0.005510	0.000000	0.000000
Sum	1324097.	72627.20	36042.77	82490.25
Sum Sq. Dev.	1.96E+10	3.84E+08	5.25E+08	2.72E+09
Observations	33	33	33	33

Source: *Author's computation using Eviews 10.0 Software*

The descriptive statistics for the dependent and independent variables used in this study are presented in Table 4.1. From 1990 to 2023, the mean values of Small and Medium Enterprises (SME), Microfinance Bank Assets (MASET), Microfinance Bank Deposits (MDEP), and Microfinance Bank Loans (MLOAN) are ₦101,853.6 billion, ₦5,586.7 billion, ₦2,772.5 billion, and ₦6,345.4 billion, respectively. These mean values are notably lower than the maximum values observed for these variables, which are ₦176,075.5 billion for SME, ₦21,230.93 billion for MASET, ₦24,455.42 billion for MDEP, and ₦53,208.27 billion for MLOAN. This indicates that while the means represent the average size of these economic indicators, there are substantial variations, with the maximum values being significantly higher, suggesting that some years or entities experienced much larger values.

Skewness measures the asymmetry of a distribution around its mean. The skewness values for SME, MASET, MDEP, and MLOAN are all positive, implying that the distributions for these variables are skewed to the right. In other words, there are a few instances where the values of these variables are exceptionally high, which is characteristic of a right-tailed distribution.

Kurtosis, which indicates the "tailedness" of the distribution, shows that for all variables except SME, the kurtosis values are greater than three. This suggests that the distributions of MASET, MDEP, and MLOAN are leptokurtic, meaning they have fatter tails and more extreme values compared to a normal distribution. In contrast, SME's distribution is closer to a normal distribution, as its kurtosis is around three, indicating a more typical distribution shape.

4.2 Unit Root Test

In determining the characteristics of time series variables, a preliminary analysis is to test whether the series are stationary or not. In other words, this preliminary analysis is conducted to test for the presence of a unit root in the series. The Augmented Dickey Fuller (ADF) unit root test was applied and the results are shown in table 4.2.

Table 4.2: Summary of the Augmented Dickey Fuller Unit Root Test

Variable	ADF Stats	5% Critical Level	Remarks
SME	-3.291410	-3.144920	Stationary at levels
MASET	-0.675370	-3.144920	Non stationary at levels
MDEP	-0.706932	-3.175352	Non stationary at levels
MLOAN	-2.507353	-3.175352	Non stationary at levels
∆ SME	-4.100161	-3.175352	Stationary at first difference
∆ MASET	-4.655912	-3.175352	Stationary at first difference
∆ MDEP	-3.816381	-3.175352	Stationary at first difference
∆ MLOAN	-3.948961	-3.175352	Stationary at first difference

The empirical results of the Augmented Dickey Fuller (ADF) unit root test at 5 percent critical levels in table 4.3.1 indicates that the values of MASET, MDEP and MLOAN were stationary after first differencing while SME was stationary at levels. Hence, the variables have a mixed order of integration of zero and one. This conclusion is based on comparison of the Augmented Dickey Fuller statistics and the critical values provided by Mackinnon (1996).

Table 4.3: ARDL Bounds Test

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	40.34485	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Eviews

Since the value of the F-statistic (40.34) is greater than the critical value of the upper bound of *I(1)* series which is 3.67 in table 4.3, we conclude that there is cointegration among the variables. In other words, there is a long run relationship among the variables.

Test of Hypotheses

In an attempt to test the three hypotheses stated in chapter one of this study, the variables were tested using the Autoregressive Distributed Lag (ARDL) model through the use of E-views version 10.0 to determine the extent to which the independent variables (MASET, MDEP and MLOAN) influence the dependent variable (SME) in this study.

Table 4.4: Impact of cashless policy on the economy of Nigeria

Dependent Variable: SME
Method: ARDL
Date: 08/12/23 Time: 14:35
Sample (adjusted): 2010 2021
Included observations: 12 after adjustments
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (0 lag, automatic): MASET MDEP M
Fixed regressors: C

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
SME(-1)	0.680877	0.189026	3.602038	0.0087
MASET	0.065694	0.024073	2.728957	0.0149
MDEP	0.039350	0.031702	1.241242	0.2459
MLOAN	0.111233	0.025216	4.411151	0.0017
C	1.679993	0.829504	2.025298	0.0825

R-squared	0.995768	Mean dependent var	5.001667
Adjusted R-squared	0.993350	S.D. dependent var	0.159022
S.E. of regression	0.012968	Akaike info criterion	-5.558354
Sum squared resid	0.001177	Schwarz criterion	-5.356310
Log likelihood	38.35013	Hannan-Quinn criter.	-5.633158
F-statistic	411.7837	Durbin-Watson stat	1.651389
Prob(F-statistic)	0.000000		

*Note: p-values and any subsequent tests do not account for model selection.

Ho1: There is no significant relationship between Microfinance bank assets on the growth and development of small and medium enterprises in Nigeria.

Since the probability value of Microfinance bank assets (MASET) of 0.2459 is greater than the 5% level of significance, the null hypothesis is hereby accepted and we conclude that Microfinance bank assets have no significant impact on the growth and development of small and medium-scale enterprises in Nigeria.

Ho2: There is no significant relationship between microfinance bank deposits and development of small and medium enterprises in Nigeria.

Since the probability value of microfinance bank deposits of 0.0017 is less than the 5% level of significance, the null hypothesis is hereby rejected and we conclude that microfinance bank deposits have a significant impact on the development of small and medium enterprises in Nigeria.

Ho3: There is no significant relationship between microfinance bank loans and development of small and medium enterprises in Nigeria.

Since the probability value of microfinance bank loans of 0.0149 is less than the 5% level of significance, the null hypothesis is hereby rejected and we conclude that microfinance bank loans have a significant impact on the development of small and medium enterprises in Nigeria.

DISCUSSION OF FINDINGS

This study explores the role of Micro-finance banks in promoting small and medium enterprises in Nigeria, using the ARDL model to test the hypotheses.

Microfinance bank assets on the growth and development of small and medium enterprises in Nigeria: The study finds that microfinance bank assets have a positive but statistically insignificant impact on SME growth in Nigeria, as indicated by an ARDL coefficient of 0.039350 and a p-value of 0.2459. This suggests that while asset accumulation may theoretically support SME development, its real impact is minimal. This aligns with prior research by Gbandi and Amissah (2014) and Imeokparia and Ediagbonya (2014), who emphasize that SMEs remain underfunded despite the expansion of financial institutions. Further studies, such as Abere et al. (2020) and Thankgod and Igbinovia (2022), suggest that broader macroeconomic factors, including monetary policy and inflation, significantly influence SME financing. The findings imply that merely increasing microfinance bank assets is insufficient for SME growth; instead, targeted financial policies, improved credit accessibility, and a more favorable regulatory environment are necessary. Future research should investigate how lending terms, financial literacy, and government interventions mediate the relationship between microfinance assets and SME development in Nigeria.

Microfinance bank deposits and development of small and medium enterprises in Nigeria: The study's findings indicate that microfinance bank deposits (MDEP) play a significant role in the development of small and medium enterprises (SMEs) in Nigeria. The ARDL results reveal a positive coefficient of 0.111233 with a p-value of 0.0017, demonstrating a statistically significant impact of microfinance bank deposits on SME growth. This suggests that an increase in microfinance bank deposits enhances SME development, likely by improving access to credit and working capital. These results align with existing literature, such as Adesanya and Olanrewaju (2020), who found that financial intermediation by microfinance institutions significantly boosts SME sustainability. Similarly, Oke et al. (2019) emphasize that microfinance deposit mobilization provides an essential funding source for SMEs, which are often excluded from traditional banking systems. However, a notable gap in the literature exists regarding the long-term effects of microfinance deposit fluctuations on SME resilience, particularly during economic downturns. Future research should explore how variations in microfinance liquidity influence SME growth patterns.

There is no significant relationship between microfinance bank loans and development of small and medium enterprises in Nigeria: Based on the Autoregressive Distributed Lag (ARDL) results, microfinance bank loans (MLOAN) have a statistically significant impact on the development of small and medium enterprises (SMEs) in Nigeria. The positive coefficient of 0.065694 suggests that an increase in microfinance bank loans leads to a corresponding rise in SME development, indicating that access to credit plays a crucial role in business expansion. This finding aligns with existing economic theories that emphasize the importance of financial support in fostering entrepreneurial activities and business sustainability. The rejection of the null hypothesis highlights the effectiveness of microfinance lending in enhancing SME growth. However, challenges such as high interest rates, loan repayment difficulties, and stringent collateral requirements may still hinder the full potential of microfinance in SME development. Addressing these limitations through policy interventions and tailored financial products could further strengthen the impact of microfinance institutions on Nigeria's SME sector.

CONCLUSION

This study examined the role of microfinance banks in promoting small and medium enterprises (SMEs) in Nigeria using the Autoregressive Distributed Lag (ARDL) model. The findings revealed that while microfinance bank assets have no significant impact on SME growth, microfinance bank deposits and loans play a crucial role in fostering SME development. The significant positive relationship between microfinance bank deposits and SME growth suggests that increased financial intermediation enhances business expansion. Similarly, the positive impact of microfinance bank loans underscores the importance of accessible credit in supporting SME development. However, the lack of significance of microfinance bank assets indicates that merely increasing institutional assets does not necessarily translate into improved SME performance. These findings highlight the need for microfinance institutions to enhance financial accessibility, optimize asset utilization, and develop SME-friendly credit policies to maximize their impact on economic growth and business sustainability in Nigeria.

RECOMMENDATIONS

1. microfinance institutions should focus on optimizing asset utilization by increasing direct lending to SMEs rather than holding excessive reserves or non-lending investments.
2. Given that microfinance bank deposits have a significant positive impact on SME development, policies should be implemented to encourage higher deposit mobilization, such as offering attractive savings products and ensuring depositor confidence through improved financial security and transparency.
3. Since microfinance bank loans significantly contribute to SME development, financial institutions should simplify loan application processes, reduce interest rates, and offer more flexible repayment terms to enhance accessibility and affordability for small businesses

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