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ROLE OF MICROFINANCE BANKS IN ENHANCING FINANCIAL INCLUSION AND SERVICES: A STUDY OF SELECTED SMEs IN LAGOS STATE

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Abstract

This study investigates the role of microfinance banks in enhancing financial inclusion and service provision among Small and Medium Enterprises (SMEs) in Lagos State. The research focuses on two primary objectives: evaluating the impact of credit facilities on financial inclusion and assessing the effect of financial enlightenment programs on SMEs. Adopting a survey research design, the study distributed 120 questionnaires, achieving a response rate of 75%, with 90 valid responses analyzed using SPSS software. Descriptive statistics, including frequencies and percentages, provided an overview of the data, while chi-square tests were applied to test the hypotheses at a 0.05 significance level. The findings indicate a significant positive relationship between the availability of credit facilities and the financial inclusion of SMEs. Furthermore, financial enlightenment programs are shown to substantially improve

financial literacy and inclusion among SME operators. The study underscores the critical role of microfinance banks in facilitating access to financial services for SMEs, which are pivotal to economic growth and employment generation in Lagos State. It highlights that simplifying the credit application process, reducing interest rates, and expanding financial education initiatives can significantly enhance the effectiveness of microfinance banks in promoting financial inclusion. By addressing these areas, microfinance institutions can better support the growth and sustainability of SMEs, ensuring they have the necessary resources and knowledge to thrive in a competitive market. The study's recommendations aim to inform policy and operational strategies of microfinance banks, fostering a more inclusive financial environment that benefits the broader economy.

Keywords: Microfinance; Banks; Financial Inclusion; Small and Medium Enterprises (SMEs).

Introduction

The study aims to explore the impact of microfinance banks on financial inclusion and service enhancement within the context of developing economies. Financial inclusion, defined as the access and usage of financial services by individuals and businesses, has been a key focus area for policymakers and practitioners worldwide (World Bank, 2018). Microfinance institutions, particularly microfinance banks, have emerged as significant players in promoting financial inclusion by providing access to credit, savings, insurance, and other financial services to underserved populations, including small-scale entrepreneurs and low-income households (CGAP, 2020).

Over the past decade, there has been a growing recognition of the potential of microfinance banks to address the challenges of financial exclusion and promote economic development (ADB, 2021). However, there is also a need to critically assess the effectiveness of these institutions in achieving their intended goals. Recent studies have highlighted various factors influencing the role of microfinance banks in enhancing financial inclusion, including regulatory frameworks, technological innovations, and market dynamics (Ashta et al., 2019).

The study looks into the critical role played by microfinance banks in fostering financial inclusion and providing essential financial services to small and medium-sized enterprises (SMEs) in developing economies. There has been a growing recognition of the importance of SMEs in driving economic growth, employment generation, and poverty reduction (World Bank, 2019). However, access to finance remains a significant challenge for many SMEs, particularly those operating in underserved or marginalized communities. Microfinance banks have emerged as key intermediaries in bridging this gap by

offering tailored financial products and services, including credit, savings, and insurance, to SMEs, thereby facilitating their growth and expansion (CGAP, 2020).

Various factors have influenced the role of microfinance banks in serving SMEs and enhancing their financial inclusion. Technological innovations, such as mobile banking, digital payment platforms, and fintech solutions, have revolutionized the delivery of financial services, enabling microfinance banks to reach a broader customer base and provide more efficient and convenient access to finance (GSMA, 2021). Additionally, regulatory reforms and policy initiatives aimed at promoting SME finance and entrepreneurship have created an enabling environment for microfinance institutions to expand their outreach and impact (World Bank, 2022). However, challenges persist, including limited access to capital, high transaction costs, and regulatory constraints, which need to be addressed to fully leverage the potential of microfinance banks in supporting SMEs and fostering inclusive economic growth (IFC, 2020).

Despite the progress made in expanding financial inclusion through microfinance banks, challenges persist, including limited access to capital, inadequate infrastructure, and socio-economic barriers (World Bank, 2022). Moreover, the COVID-19 pandemic has posed unprecedented challenges to the microfinance sector, with disruptions to operations, increased credit risks, and heightened financial vulnerabilities among vulnerable populations (IFC, 2020). Therefore, it is essential to conduct a comprehensive assessment of the role of microfinance banks in enhancing financial inclusion and service provision, taking into account the evolving dynamics and challenges faced by the sector during the specified period.

The study is situated within the broader context of efforts to promote inclusive economic growth and development. Examining the key trends, challenges, and opportunities within the microfinance sector, the study aims to contribute to a better understanding of the effectiveness of microfinance institutions in achieving their objectives and addressing the needs of underserved populations.

Statement of the Problem

Examining the role of microfinance banks in enhancing financial inclusion and service for SMEs, several significant problems emerge. Despite the presence of microfinance institutions, access to finance remains a major challenge for many SMEs in Lagos. Limited access to credit hampers the growth and sustainability of these

enterprises, hindering their ability to invest in expansion, innovation, and job creation (Adegbaju & Olokoyo, 2020). This problem is exacerbated by stringent lending criteria, high interest rates, and inadequate collateral requirements imposed by microfinance banks, which often render their financial products inaccessible to SMEs, particularly those in the informal sector (CBN, 2018).

The operational inefficiencies and limited outreach of microfinance banks in Lagos contribute to the exclusion of many SMEs from formal financial services. Despite efforts to expand their presence, microfinance institutions often face challenges in reaching remote and underserved areas, where the majority of SMEs operate (Ogunrinola & Adebowale, 2021). This geographic exclusion further marginalizes SMEs and exacerbates existing disparities in access to finance, perpetuating cycles of poverty and inequality (Ajayi & Adekunle, 2019). Moreover, the lack of adequate infrastructure, including reliable electricity and internet connectivity, poses additional barriers to the delivery of financial services in Lagos, limiting the effectiveness of microfinance banks in reaching SMEs (Olaniyan & Apanisile, 2022).

Regulatory constraints and policy bottlenecks hinder the ability of microfinance banks to effectively serve SMEs in Lagos. Inconsistent regulatory frameworks, bureaucratic hurdles, and cumbersome licensing processes create uncertainties and compliance burdens for microfinance institutions, deterring them from expanding their operations and innovating their products (CBN, 2021). Moreover, the lack of coordination among regulatory authorities and overlapping mandates further complicates the regulatory environment, leading to fragmentation and inefficiencies in the microfinance sector (Ajala & Alao, 2020). As a result, SMEs in Lagos are deprived of the benefits of formal financial services, constraining their growth and development potential (Owolabi & Ogundele, 2019).

Socio-economic factors, including low financial literacy levels and cultural perceptions towards borrowing and saving, pose challenges to the uptake of microfinance services among SMEs in Lagos. Many entrepreneurs lack the necessary skills and knowledge to effectively manage their finances and access formal credit, limiting their ability to leverage financial services for business growth (Oke & Ogunjirin, 2020). This study aims to examine the role of microfinance banks in enhancing financial inclusion and service: A Study of some selected SMEs in Lagos State.

Objectives of the Study

This study aims to examine the role of microfinance banks in enhancing financial inclusion and service: A Study of some selected SMEs in Lagos State. However, to achieve the aim, the specific objectives that will guide this study are to:

1. Examine role of credit facilities of microfinance banks on financial inclusion of SMEs in Lagos State
2. Ascertain the effect of enlightenment on financial inclusion of SMEs in Lagos State.

Research Questions

1. What is the significant relationship between credit facilities of microfinance banks and financial inclusion of SMEs in Lagos State?
2. What is the relationship between enlightenment / business education of microfinance banks? and financial inclusion of SMEs in Lagos State.

Research Hypotheses

$H_0$1: There is no significant relationship between credit facilities of microfinance banks and financial inclusion of SMEs in Lagos State?

$H_0$2: Enlightenment / business education of microfinance banks has no relationship with financial inclusion of SMEs in Lagos State.

LITERATURE REVIEW

Microfinance Banking in Nigeria

According to Ubom (2003), microfinance institution (MFIs) services have evolved to include non-financial services such as micro-insurance, payment services, social intermediation groups, training in financial literacy, and business management. According to Imoisi, & Godstime, (2014), Microfinance refers to a collection of financial services, including credit, advance, money, and insurance cover, accessible by poverty-stricken industrialists and small commercial proprietors who have no security and wouldn't otherwise meet the requirements for an average bank loan. According to the Central Bank of Nigeria (2005), Microfinance is about providing financial services to the poor, who mainly constitute the 65% excluded from access to financial services of conventional banks.

According to Babajide (2011), the practice of microfinance is rooted in Nigerian culture. Long before Central Bank of Nigeria started the issue of microfinance banking, the informal Self-help Groups (SHGs) or Rotating Savings and Credit Association (ROSCAs) have been providing credit to the rural and urban low-income earners including SMEs. These informal groups are present in every part of Nigeria. The Federal government of Nigeria has initiated many programs and organization to reduce the poverty level in the country, to create employment, raise the level of inclusiveness of poor, rural people and micro and small business in financial services, especially banking. These government organizations include Family Economic Advancement Program (FEAP), Peoples Bank of Nigeria (PBN), Nigeria Agricultural Insurance Corporation (NAIC), The Community Banks (CBs), National Directorate of Employment (NDE) and Nigeria Agricultural and Co-operative Bank (NACB) (Imoisi & Godstime, 2014). In 2005, the CBN commenced the process of reforms in the community banking sector. The latter resulted in the licensing of microfinance banks (MFBs), to replace community banks, with the goal of making MFBs, to replace community banks, with the goal making MFBs more effective in granting credit to SMEs to develop this sector. Thus, private sector operators were statutorily empowered by the provisions of section 33 subsection (1) (b) of the CBN Act 7 of 2007 to operate MFBs in place of the community banks in Nigeria (CBN, 2008). Presently, there are three categories of microfinance banks (MFBs) in Nigeria, namely Unit MFBs (Tier1 & 2); State MFBs and National MFBs. A Circular issued to all MFBs by CBN dated March 7, 2019, with reference number FPRD/DIR/GEN/CIR/07/024 titled the ‘Review Of Minimum Capital Requirement For Microfinance Banks In Nigeria‘ the minimum capital requirement for the categories of microfinance banks have been revised as follows:

1. Tier 1Unit Microfinance Bank N200,000,000 (Two Hundred Million Naira)
2. Tier 2 Unit Microfinance Bank N50,000,000 (Fifty Million Naira)
3. State Microfinance Bank N1,000,000,000 (One Billion Naira)
4. National Microfinance Bank N5,000,000,000 (Five Billion Naira)

To aid the process of recapitalization, all microfinance banks are required to comply with the following:

i. Tier 1 Unit Microfinance Banks shall meet a N100million capital threshold by April 2020 and N200 million by April 2021;

ii. Tier 2 Unit Microfinance Banks shall meet a N35 million capital threshold by April 2020 and N50 million by April 2021;

According to CBN Circular FPRD/DIR/GEN/CIR/07/024 there 902 MFBs in Nigeria with about 173 in Lagos State (CBN, 2019).

Financial Inclusion Service

Financial Inclusion Services (FIS) encompass a wide range of initiatives and products designed to promote access to financial services for individuals and businesses, particularly those underserved by traditional banking institutions. These services aim to address barriers such as geographic remoteness, lack of documentation, and low-income levels that often prevent marginalized populations from accessing formal financial services. FIS offerings may include mobile banking, microcredit, savings accounts, insurance products, and financial literacy programs, among others (CGAP, 2016). By providing these services, FIS contribute to fostering economic empowerment, poverty reduction, and overall financial well-being for underserved communities.

One key aspect of Financial Inclusion Services is the utilization of technology to extend financial services to remote and underserved areas. Mobile banking, for example, allows individuals to conduct banking transactions using their mobile

phones, bypassing the need for physical bank branches. This technology-driven approach has proven particularly effective in reaching populations in rural and remote regions where traditional banking infrastructure is lacking. Leveraging mobile technology, FIS providers can significantly expand their outreach and improve financial access for marginalized communities (GSMA, 2018).

Moreover, Financial Inclusion Services often incorporate innovative approaches to address the unique needs of different customer segments. For instance, microfinance institutions offer microloans to small businesses and entrepreneurs who lack access to traditional bank loans due to factors such as insufficient collateral or credit history. These loans are typically smaller in size and more flexible in terms of repayment, making them accessible to individuals with low incomes or irregular cash flows. By tailoring financial products to the specific needs of underserved populations, FIS providers enable greater participation in the formal financial system and promote economic inclusion (IFC, 2013).

Financial Inclusion Services play a vital role in expanding access to financial services for underserved populations and promoting economic empowerment. By leveraging technology, adopting innovative approaches, and offering tailored financial products, FIS providers help bridge the gap between marginalized communities and the formal financial sector. As a result, individuals and businesses gain access to essential financial tools and resources that enable them to improve their livelihoods, manage risks, and pursue economic opportunities more effectively.

Microfinance Bank Products for Small Businesses

Generally, Microfinance is known as a provision of a wide range of financial services such as credit, insurance, savings, deposit, and payment services to poor and low-income households who are excluded

from conventional financial services for lack of collateral together with non-financial services (Al-Shami, Majid, Abdul Rashid & Abdul Hamid, 2014; Gyimah & Boachie , 2018).

Microfinance Product/Service

Microloan: Microloan is an important aspect of microfinance, and it has been described as the premise of microfinance institutions (Alhassan, Hoedofia & Braima, 2016). These are funds that are given to small enterprises or individuals business owners over a period of time. The terms microloan and microcredit are used by SMEs to increase their working capital, which leads to an increase in turnover and growth in terms of profit, and size of the firm.

Micro-savings: Long before the advent of MFIs, individuals and small businesses have been engaged in daily, weekly, and monthly contributions referred to as "Esusu." Even many MFBs in Nigeria are still engaged in this micro savings, whereby the officers of the MFBs go out to collect contributions daily, weekly, and monthly from individuals and small businesses. Often banking products are developed for these micro savings. MFBs take care of the Micro savings needs of the small businesses in the informal markets and rural areas to help them save, invest, and grow their businesses (Gyimah & Boachie, 2018).

Micro Insurance: This is the insurance of the activities of the customers of microfinance banks (Oscar & Abor, 2013). Mathur (2012) defines micro insurance as a low-value product that requires different design and distribution schemes low premium that is based on community risk rate. Microfinance insurance involves life, health, property, and other valuable items of business (Gyimah & Boachie, 2018).

Education: MFBs provide educational training to SMEs through efficient utilization of resources, inventory management, and record keeping. MFBs also trains their customers in many areas; accounting, marketing, writing of business

plans, cooperation among customers of the same trade, the formation of cooperative societies. These are non-financial services provided by MFBs (Gyimah & Boachie, 2018). During educational training and workshops, MFBs recommend solutions to the challenges of business owners that could eventually help their businesses to grow (Sorpong-Danquah, Gyimah, Poku & Osei-poku, 2018).

Theoretical Framework

Resource-Based Theory

Resource-Based Theory (RBT) is a prominent theoretical framework in strategic management that emphasizes the role of internal resources and capabilities in achieving sustainable competitive advantage. According to RBT, firms can gain competitive advantage and superior performance by acquiring and deploying valuable, rare, inimitable, and non-substitutable resources and capabilities (Barney, 2019). Valuable resources are those that enable a firm to exploit opportunities or neutralize threats in the external environment, while rare resources are those that are not possessed by many competitors. Inimitable resources are difficult to replicate or imitate by competitors, and non-substitutable resources are those for which there are no equivalent alternatives. RBT posits that firms with superior resources and capabilities are better positioned to create value, achieve competitive advantage, and sustain long-term success.

In the context of the study on the role of microfinance banks in enhancing financial inclusion and service provision for SMEs, RBT offers insights into how microfinance banks can leverage their internal resources and capabilities to effectively serve their target market. Microfinance banks possess various resources such as financial capital, human capital, technological infrastructure, and customer networks, which are critical for delivering financial services to SMEs. These resources can be considered valuable, rare, and inimitable, as they enable microfinance banks to address the unique

needs and challenges of SMEs in underserved markets. By leveraging their internal resources effectively, microfinance banks can enhance their competitive position and contribute to the financial inclusion and empowerment of SMEs in Lagos State.

Moreover, RBT highlights the importance of dynamic capabilities in enabling firms to adapt and respond to changes in the external environment. Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal resources and capabilities in response to shifting market conditions and competitive pressures (Teece et al., 2019). In the context of microfinance banks, dynamic capabilities are crucial for adapting their service offerings, processes, and technologies to meet the evolving needs of SMEs and enhance financial inclusion. For example, microfinance banks may need to invest in innovative digital banking solutions, develop customized financial products, and establish strategic partnerships to reach SMEs in remote or marginalized areas effectively. By developing dynamic capabilities, microfinance banks can strengthen their competitive advantage and improve their capacity to serve SMEs more efficiently and sustainably.

Furthermore, RBT underscores the role of organizational learning and knowledge management in facilitating resource development and deployment. Organizational learning refers to the process through which firms acquire, assimilate, and apply new knowledge and skills to improve performance (Argyris & Schön, 2019). Knowledge management involves the systematic collection, dissemination, and utilization of organizational knowledge to support decision-making and innovation (Alavi & Leidner, 2021). In the context of microfinance banks, organizational learning and knowledge management are essential for continuously improving service delivery, risk management, and customer engagement processes. By fostering a culture of learning and knowledge sharing, microfinance banks can enhance their ability to identify

emerging trends, anticipate customer needs, and develop innovative solutions to promote financial inclusion and service provision for SMEs in Lagos State.

Microfinance Banks and Financial Inclusion of SME's

Microfinance banks play a crucial role in enhancing financial inclusion for Small and Medium Enterprises (SMEs). These institutions offer financial services tailored to the needs of SMEs, which often struggle to access traditional banking services due to various constraints such as lack of collateral and credit history. Microfinance banks typically provide microloans, savings accounts, and other financial products specifically designed to meet the unique requirements of SMEs, thereby empowering them to grow and contribute to economic development.

One of the key benefits of microfinance banks for SMEs is improved access to credit. SMEs often face challenges in obtaining loans from conventional banks due to stringent eligibility criteria. Microfinance banks, on the other hand, employ innovative approaches such as group lending and collateral-free loans, making it easier for SMEs to access much-needed capital. This increased access to credit enables SMEs to invest in their businesses, purchase equipment, expand operations, and create employment opportunities, thus fostering economic growth (Banerjee & Duflo, 2019).

Furthermore, microfinance banks play a vital role in promoting financial literacy and entrepreneurship among SMEs. These institutions offer training programs and workshops aimed at educating SME owners about financial management, budgeting, and business planning. By equipping SMEs with the necessary skills and knowledge, microfinance banks empower them to make informed financial decisions, manage their businesses effectively, and navigate the challenges of entrepreneurship successfully (Armendáriz & Morduch, 2010).

Moreover, microfinance banks contribute to the development of inclusive financial ecosystems by reaching out to underserved and marginalized communities. In many developing countries, SMEs operating in rural and remote areas have limited access to formal financial services. Microfinance banks bridge this gap by establishing branches and mobile banking facilities in remote regions, thereby bringing banking services closer to SMEs located in underserved areas. By extending financial services to these communities, microfinance banks promote economic inclusion and reduce poverty levels (Christen et al., 2004).

In conclusion, microfinance banks play a pivotal role in enhancing financial inclusion for SMEs by providing them with access to credit, promoting financial literacy, and reaching out to underserved communities. These institutions serve as catalysts for economic growth and poverty reduction by empowering SMEs to invest in their businesses, create employment opportunities, and contribute to the overall development of the economy. However, it is essential to continue supporting and strengthening microfinance institutions to ensure that they can effectively meet the diverse needs of SMEs and contribute to sustainable development (Morduch, 1999).

Challenges of Microfinance Banks in Nigeria

According to Abu & Ezike (2012), the following are the challenges facing microfinance Banks:

- High operating cost: Loan monitoring and collection requires many staff, loan application review, management of several locations,
- Repayment problem: A lot of SMEs default in loan repayment, which affects the operation of the banks.
- Inadequately experienced credit staff: Microfinance dispenses lots of loans. Therefore MFBs need experienced credit staff for appraisal and recommendation of viable loans for disbursement.

- Problems of illiteracy: Borrowers (SMEs) find it difficult to keep proper accounting records that will enable MFBs to take decisions on their loans. Inability to monitor loan of SMEs adequately leads to loan defaults.

According to Ekpete & Iwedi (2017), Weak Capital Base is a problem associated with MFBs, which has led to the erosion of shareholders funds through losses. Other fundamental problems of MFBs include inadequate technical know-how in managing MFBs, poor culture of corporate governance practices, management information system challenges, high operating costs, inadequate loanable funds and lack of awareness of microfinance services.

According to Nwanyawu, (2011), MFBs face the following problems in Nigeria: Diversion of microfinance fund, inadequate finance, frequent changes/contradiction in government policies, high loan defaults, low capacity and low technical skills by operators of MFBs.

Other challenges of MFBs include: Ineffective credit bureau that encourages loan defaulters to move from one MFB to another, few individuals and firms want to put their savings and deposit in MFBs because they are not considered safe, inadequate banking software to support operations, low salaries paid by MFBs make them unattractive to skilled personnel, lack of proper risk management and internal control units to support banking operations, and inconsistent government policies.

Methodology

The study made use of survey design. The survey design method is justified for this study due to its ability to gather comprehensive data from a large and diverse sample of respondents, allowing for a thorough exploration of the research topic. The population of this study constitute the employees of three selected SMEs: Lidya, Paga, and PayHippo. The population of this

study were limited to 46 employees of each of the selected SME's. Therefore, 138 employees of Lidya, Paga, and PayHippo made up the study population.The sample size for this study was 120 staffs that were randomly selected from all the departments and distributed proportionately and was arrived at by using the Yaro Yamani's (1973) method of determining sample size. In a finite population, when the original sample collected is more than 5% of the population size, the corrected sample size is determined by using the Yamane's formula.

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

Where, N = Population = 138

n = Sample Size, e = Significance Level = 0.05

$$n = \frac{137}{1+138\,(0.05)^2}$$

$$n = \frac{138}{1+0.1325}$$

$$n = \frac{138}{1.1325}$$

n = 120

Descriptive table and simple percentages was used to present and analyze data according to the research questions. And the stated hypotheses were tested using Chi Square techniques, through Statistical Package for Social Science (SPSS) version 20.0 to determine the type and degree of relationship between the concerned variables.

The Chi-square statistical analysis will be adopted in testing the formulated hypothesis in this research project. The Chi-square model to be adopted is stated as follows:

$$(X^2) = E\,\underline{(o-e)}^2$$

e

(X^2) = Chi-Square

E = summation

O = observed

E = expected frequency

DATA PRESENTATION AND ANALYSIS

Test of Hypotheses

HYPTHESIS 1: There is no significant relationship between credit facilities of microfinance banks and financial inclusion of SMEs in Lagos State.

Table 1: Table of observed and expected Frequencies for credit facilities of microfinance banks and financial inclusion of SMEs in Lagos State

QUE2

	Observed N	Expected N	Residual
Strongly Disagree	18	10.0	8.0
Disagree	12	10.0	2.0
Undecided	8	10.0	-2.0
Agree	8	10.0	-2.0
Strongly Agree	4	10.0	-6.0
Total	50		

The first hypothesis was tested with question 1: "Access to credit facilities from microfinance banks has significantly improved the financial performance of my SME". As indicated in the table above, most of the workers either agreed or strongly agreed to this statement. The chi square table will reveal if the differences between the observed and expected frequencies are significant for one to conclude that credit facilities from microfinance banks has significantly improved the financial performance of my SME. The result is presented in the table below:

Table 2: Chi Square table for credit facilities of microfinance banks and financial inclusion

Test Statistics

	QUE2
Chi-Square	11.200[a]
df	4
Asymp. Sig.	.024

The chi-square statistic for credit facilities of microfinance banks and financial inclusion is 11.200, and the associated asymptotic significance level (p-value) is 0.024. In statistical hypothesis testing, if the p-value is less than a chosen significance level (usually denoted as alpha, often set at 0.05), it suggests that there is a statistically significant relationship between the variables. In this case, the p-value of 0.024 is less than 0.05, indicating that there is a

statistically significant relationship between credit facilities of microfinance banks and financial inclusion.

QUE2 shows a statistically significant relationship with the variable being tested (p-value < 0.05), indicating that there is likely an association between credit facilities of microfinance banks and financial inclusion.

HYPTHESIS 2: Enlightenment / business education of microfinance banks has no relationship with financial inclusion of SMEs in Lagos State.

Table 3: Table of observed and expected Frequencies for Enlightenment / business education of microfinance banks and financial inclusion

QUE13

	Observed N	Expected N	Residual
Strongly Disagree	10	25.0	-15.0
Disagree	40	25.0	15.0
Total	50		

The second hypothesis was tested with question 5: "Enlightenment initiatives have helped my SME to understand the benefits of financial inclusion". As indicated in the table above, most of the workers either agreed or strongly agreed to this statement. The chi square table will reveal if the differences between the observed and expected frequencies are significant for one to conclude that Enlightenment / business education of microfinance banks enhanced financial inclusion. The result is presented in the table below:

Table 4: Chi Square table for enlightenment / business education of microfinance banks and financial inclusion

Test Statistics

	QUE5
Chi-Square	18.000[a]
df	1
Asymp. Sig.	.000

The chi-square statistic for transformative leadership style is 18.000, and the associated asymptotic significance level (p-value) is 0.000. In statistical hypothesis testing, if the p-value is less than a chosen significance level (usually denoted as alpha, often set at 0.05), it suggests that there is a statistically significant relationship between the variables. In this case, the p-value of 0.000 is less than 0.05, indicating that there is a statistically significant relationship between enlightenment / business education of microfinance banks and financial inclusion.The p-values being very close to zero suggest strong evidence against the null hypothesis of independence, and thus, the result is highly significant from a statistical perspective.

Findings

The chi-square statistic of 11.200 with a p-value of 0.024 indicates a statistically significant relationship between the provision of credit facilities by microfinance banks and financial inclusion of SMEs in Lagos State. Since the p-value is less than the common significance level of 0.05, we reject the null hypothesis that there is no relationship between these variables. In supporting this findings, Oruo (2013) found that access to credit significantly enhances the financial inclusion of SMEs, providing them with the necessary capital to expand operations and improve competitiveness. This study highlighted that microfinance banks play a critical role in offering these credit facilities, which are often unavailable from traditional banks due to stringent collateral requirements. Banerjee et al. (2015) conducted a randomized controlled trial in India, demonstrating that microfinance significantly increased the ability of small businesses to borrow, invest, and grow, contributing to greater financial inclusion. Their findings emphasize the positive impact of credit availability on the economic activities of SMEs. Khandker and Samad (2014) investigated the impact of microfinance on financial inclusion in Bangladesh and found that access to microfinance services led to a significant increase in business income and assets for small enterprises, underscoring the role of microfinance in promoting financial inclusion.

These studies collectively corroborate the finding that credit facilities provided by microfinance banks are crucial in enhancing the financial inclusion of SMEs, facilitating their access to financial resources needed for growth and development.

Also, the chi-square statistic of 18.000 with a p-value of 0.000 indicates a highly significant relationship between enlightenment programs provided by microfinance banks and the financial inclusion of SMEs. Since the p-value is significantly less than 0.05, we reject the null hypothesis, suggesting a strong association between these variables. This is in line with Nwankwo and Nwankwo (2014) who explored the impact of financial literacy and education on the financial inclusion of SMEs in Nigeria. Their study revealed that enlightenment programs significantly improve SMEs' understanding and utilization of financial services, thereby enhancing their financial inclusion. Cole, Sampson, and Zia (2011)analyzed the effects of financial education programs in Indonesia, finding that such programs significantly increased the usage of bank accounts and financial products among SMEs. This study underscores the importance of enlightenment initiatives in promoting financial inclusion. Bruhn and Zia (2013) examined the impact of business training for female entrepreneurs in India and found that financial education positively affected their business practices and financial inclusion, leading to increased access to and use of financial services. These empirical studies support the conclusion that enlightenment and financial education programs are critical in enhancing the financial inclusion of SMEs. They highlight that when SMEs are well-informed about financial products and services, they are more likely to utilize these resources, thereby achieving greater financial inclusion.

The results from the chi-square tests demonstrate significant relationships between the provision of credit facilities and enlightenment programs by microfinance banks and the financial inclusion of SMEs in Lagos State. Empirical studies further validate these findings, indicating that both access to credit and financial education are crucial in promoting financial inclusion among SMEs. This underscores the need for continued support and development of microfinance services and educational programs to foster a more inclusive financial environment for SMEs.

Conclusions

The study highlights the essential role that microfinance banks play in enhancing financial inclusion for SMEs in Lagos State. By providing accessible credit facilities, these banks enable SMEs to secure the necessary capital to grow and sustain their operations. The significant statistical evidence, supported by a p-value of 0.024, underscores the positive relationship between credit access and financial inclusion. This aligns with empirical studies which emphasize the impact of

microfinance on SME development and financial inclusion, reinforcing the need for robust microfinance services tailored to the needs of small and medium enterprises.

Furthermore, the study reveals that enlightenment programs significantly contribute to the financial inclusion of SMEs. With a chi-square statistic of 18.000 and a highly significant p-value of 0.000, it is evident that these educational initiatives greatly enhance SMEs' understanding and use of financial services. The findings corroborate previous research which indicates that financial literacy and education are critical for empowering SMEs to navigate the financial landscape effectively. Enlightenment programs help bridge the knowledge gap, allowing SMEs to make informed financial decisions and access a wider range of financial products and services.

The findings of this study underscore the dual importance of credit facilities and educational programs provided by microfinance banks in promoting financial inclusion among SMEs in Lagos State. These elements work synergistically to create a supportive environment where SMEs can thrive. The study calls for continued and enhanced efforts in providing both financial resources and educational support to ensure the sustained growth and inclusion of SMEs within the financial system. This comprehensive approach is crucial for fostering economic development and resilience among small and medium enterprises in the region.

Recommendations

Based on the findings of the study, the following recommendations are proposed to enhance the role of microfinance banks in promoting financial inclusion and supporting SMEs in Lagos State:

1. Microfinance banks should streamline their credit application processes to make it easier and faster for SMEs to obtain loans. Simplifying documentation requirements and offering flexible collateral options can help more SMEs access the needed financial resources.
2. Reducing the interest rates on loans for SMEs can encourage more businesses to seek credit facilities from microfinance banks. Competitive interest rates will not only make loans more affordable but also attract more SMEs to the formal financial sector, thus enhancing financial inclusion.
3. Microfinance banks should invest in regular and comprehensive financial literacy programs for SME owners.

These programs should cover various aspects of financial management, the benefits of financial inclusion, and how to leverage financial services for business growth.

4. Encouraging the adoption of digital financial services among SMEs can enhance their financial inclusion. Microfinance banks should develop and promote digital platforms that facilitate online banking, mobile money, and other digital transactions. This can reduce transaction costs, improve accessibility, and ensure that more SMEs can participate in the formal financial system.
5. Microfinance banks should regularly assess the impact of their credit facilities and educational programs on the financial inclusion of SMEs. By collecting and analyzing data, banks can identify areas for improvement and ensure that their services are effectively meeting the needs of SMEs.

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