FINANCIAL INCLUSION AND POVERTY REDUCTION AMONG THE OPERATORS IN THE SMALL AND MEDIUM SCALE ENTERPRISES OF LAGOS STATE

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Abstract
This study examines the impact of financial inclusion on poverty reduction through microfinance institutions (MFIs) with a focus on small and medium enterprises (SMEs) operators. The study is a cross-sectional study adopting micro-level primary data through the use of a questionnaire. It is conducted in Lagos state being the hub of SMEs in Nigeria. SMEs, which form the population of the study, were divided into two strata, small and medium-sized enterprises after which enterprises were randomly selected from each stratum for sampling. The research instrument is a standard, closed, and pilot-tested questionnaire administered to 400 SME operators in the five geographical divisions namely, Badagry, Epe, Ikeja, Ikorodu and Lagos Island. The sample size was determined using the Yamane sample size determination formula. The data gathered were analysed in the year 2020 using two methods, descriptive statistics and logit regression. Findings reveal that all financial inclusion measurement indicators: access, usage, quality and effect, have a positive and statistically significant impact on poverty reduction. The cost of financial inclusion was surprisingly found to be positive, although insignificant. Overall, financial inclusion through MFIs is therefore found to have a preponderantly positive effect on poverty reduction and SME development. Consequently, boosting SMEs' development through financial inclusion will reduce poverty among SME owners, enabling them to reach their potential, provide gainful employment for the Nigerian populace, and promote entrepreneurship.

Keywords: Financial inclusion, poverty reduction, microfinance, SMEs, Lagos State, Nigeria
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Introduction

Poverty has always been, and continues to be a global menace to which Nigeria is not immune. It is predicted that with Nigeria's current population boom, its developmental challenges are likely to worsen, particularly poverty. Aside from Nigeria being off track in realising the poverty reduction goal of the Sustainable Development Goals (SDGs), it is further compounded by the challenging fact that poverty incidence is actually on the increase. With the country housing the highest number of the world's extremely poor people, about half of the entire Nigerian population (86.9 million), is reported to be living in extreme poverty (World Bank, 2019). Extending the definition of poverty beyond lack of or insufficient income, the situation is even gloomier. The 2022 Multidimensional Poverty Index (MPI) survey reveals that 63 per cent of Nigerians, amounting to 133 million people are multidimensionally poor (National Bureau of Statistics, 2022). This implies that about two-thirds of Nigerians experience deprivations across various dimensions of health, education and standard of living.

It is, therefore, not a surprise that numerous measures and approaches are adopted in the myriad of poverty alleviation strategies based on the different debates regarding its underlying cause. One of the salient arguments is that the basic cause of poverty is inadequate or low income and a lack of productive assets.

Therefore, savings and credits are deemed to be influential in improving the economic lives of people, especially poor people and thereby reducing poverty. It, therefore, becomes paramount to extend affordable and accessible formal financial services to the adult population and businesses (CBN, 2012). This is what financial inclusion borders on. As an evolving global paradigm, financial inclusion facilitates the supply of banking services to the unbanked and underbanked public at affordable terms and conditions (Iqbal & Sami, 2017). The poverty reduction basis of financial inclusion stems from the argument that with access to productive financial assets, the poor become economically active and engage in income-generating activities. This will reduce their vulnerability, integrate them into society, contributes to their self-development and gives them an income to leverage in times of economic shock (Gunarsih, Sayekti & Dewanti, 2018).

With microfinance being the extension of financial products and services to the poor, it is regarded as an effective vehicle for financial inclusion (Abdulkareem, 2019). Microfinance institutions (MFIs) are particularly positioned to extend financial services to the low-income group given that they function in a limited geographical space with a large degree of flexibility. They understand the specific financial needs of the poor and enjoy greater acceptability from them, which provides a certain degree of comfort to their customers (Verma & Aggarwal, 2014).

According to the Enhancing Financial Innovation and Access (EFInA, 2018), the report shows that 36.8 per cent of the Nigerian population is not financially included in formal financial services, which is a slight improvement from 41.6 per cent in 2016. Despite the various strategies adopted by the federal government, the resulting outcomes of financial inclusion are largely below expectations as EFInA (2016) showed that significant progress is not being made in that direction. For instance, between 2012 and 2014, the rate of financial exclusion fell by only 0.2 per cent, from 39.7 per cent to 39.5 per cent, with women and rural areas experiencing higher rates of financial exclusion (Isukul, Agbugba & Chizea, 2019). With Nigeria having the highest proportion of extremely poor people, microfinance is regarded as a critical means of alleviating poverty, due to a lack of credit accessibility (Ampah, Ambrose, Omagwa, & Frimpong, 2017).

Small and medium enterprises (SMEs) form the bulk of MFIs' clientele which serve as the major financial instrument for these businesses (Taiwo, Onasanya, Aqwu, & Benson, 2016) as their access to credit in mainstream commercial banks is limited (Nchege & Aduku, 2019). Developing nations are now taking advantage of the growth potential of SMEs (OECD, 2017), with over 95 per cent of business ventures being classified as SMEs and over 90 per cent geared towards the manufacturing sector (IFC, 2017). In Nigeria, SMEs account for 96 per cent of enterprises, 84 per cent of employment and contribute 48 per cent of the national GDP (PWC, 2017). SMEs are considered to be crucial to poverty alleviation (Maziriri & Chivandi, 2020) because businesses employ people which increases their productivity and improves their income. The earned income can be used to raise the standard of living, increase investment in human capital and increase income-earning capacity.

However, SMEs incur high costs of doing business which hinders their productivity and market competitiveness (Obodoechi & Akor, 2018), with a lack of access to finance being a major constraint. The World Bank (2018) reports that about 70 per cent of SMEs do not use the services of financial institutions in financing their business while about 15 of per cent SMEs are considered to be underfinanced (World Bank, 2018). The International Finance Corporation (IFC) estimates a financial gap of $5.2 trillion annually for 65 million SMEs in developing nations which is projected to be higher when micro and informal enterprises are accounted for (World Bank, 2020). Barriers to financial access include high maintenance costs, exorbitant interest rates, operational bottlenecks and cumbersome application processes on the part of financial institutions. On the part of SMEs, lack of collateral, financial illiteracy, forecasting risk, weak financial management system, lack of proper development plan and inadequate record keeping have been identified as major barriers to formal financing (Babandi & Barjoyai, 2021). These factors, therefore, limit the performance, productivity, growth and sustainability of SMEs which consequently inhibit them in the

performance of their roles as engines of growth, the catalyst of socio-economic development, employment and wealth creators and conduits for poverty reduction.

Given the foregoing, this study seeks to examine the impact of financial inclusion on poverty reduction through MFIs with an emphasis on SMEs. This study differs from the previous literature in several ways which makes it novel in at least three strategic areas. First, SMEs have received little attention in the empirical analysis of financial inclusion and poverty reduction despite its importance in terms of contribution to the Nigerian economy and poverty-reduction potential as highlighted in previous paragraphs. Case studies have been the community (Astuti, Sugiyanto & Kurnia, 2022), household (Eze & Alugbuo, 2021), individuals (Alimi & Okunade, 2020; Bakari et al. 2019; Hussaini & Chibuzo, 2018; Tran & Le, 2021), women (Swamy, 2014), smallholder farmers (Mhlanga et al., 2020) and rural communities (Ajide, 2015). Only Ndem, Walter, Henry, Peter and Ita (2022) are found to have focused attention on SMEs which shows the need for more studies with particular emphasis on SMEs which will provide a firm-level analysis. This firm-level analysis will provide specific policy direction geared towards SMEs which are not only vehicles of economic growth but also conduits for poverty reduction.

Second, is the channel of financial inclusion that this study adopts which is MFIs. Several studies in the field have studied financial inclusion through commercial banks (Alimi & Okunade, 2020; Eze & Alugbuo, 2021; Khan et al., 2022), cooperative banks (Lal, 2018), public and private sector banks (Inoue, 2018) and cooperative credit unions (Jones, 2008). For studies that employed the microfinance channel, results are not generalisable due to the scope or methodology adopted. For instance, studies such as Khan (2020) and Duru, Yusuf and Kwazu (2018) used Chi-square analysis while Ofeimun, Nwakoby and Izekor (2018) focused their analysis on only the loan aspect of MFIs' services to SMEs. This study therefore focuses on financial inclusion through MFIs which is a major source of financing for SMEs and employs ordered logistic regression which is a parametric analysis. The logit regression, which uses Maximum Likelihood Estimates (MLE) to estimate ordered outcomes as a latent variable, is considered to be suitable given that the dependent variables are ordered and categorical in nature.

The third is in the measurement of financial inclusion. The popular indicator employed for financial inclusion in mainstream literature is access to financial services (see Alimi & Okunade, 2020; Bakari et al., 2019; Eze & Alugbuo, 2021; Khan et al., 2022; Ndem, Walter, Henry, Peter & Ita 2022; Tran & Le, 2021). Other measures seen in the literature include the usage of financial services (Tran & Le, 2021) and financial deepening (Inoue, 2018). However, this study explores all four measurement indicators of financial inclusion as identified by the World Bank (2015) – access, usage, quality and effect which capture financial inclusion holistically and allows for a more comprehensive analysis, unlike the previous literature which utilizes just one or at most two of the measures. This paper, therefore, provides fresh empirical evidence on financial inclusion and poverty reduction through MFIs using both supply and demand side financial inclusion variables, thereby extending the scope of existing literature.

This paper is organized into five sections. The first section being this Introduction, is followed by a literature review in the second section. The third section explores the methodology employed for the study and the results and discussions are the focus of the fourth section. The last section is on conclusions and policy implications.

Literature Review

Theoretical review

Several theoretical bases have been postulated for poverty reduction through microfinance. One of such is Mayoux's (2000) three contrasting paradigms. These paradigms are the financial self-sustainability hypothesis, the poverty alleviation hypothesis and the feminist empowerment hypothesis. The financial self-sustainability hypothesis which lies in the neo-liberal market growth, argues that improving microfinance access will translate to automatic economic empowerment, which does not necessitate any

other complementary intervention programs or macroeconomic policy. The theory supports group lending (Edward & Olsen, 2006) with a focus on providing a framework for equal access to financial services. The strategy here is to set up financially self-sustainable microfinance programs that will broaden the reach of microfinance services for a large population of low-income groups which aids entrepreneurship (Adams & Von-Pischke, 1984; Otero & Rhyne, 1994).

Rooted in the interventionist poverty alleviation paradigm and community development, the position of the poverty alleviation paradigm is that microfinance is an integrated part of poverty and vulnerability reduction programs, as well as a welfare improvement strategy for absolutely poor households. The main tools to be employed include loan facilities, small savings, forming groups for community development, strategies for targeting poverty and functioning in remote areas. In this regard, poverty alleviation involves increased well-being, self-sufficiency, empowerment and community development (Mayoux, 2000). Participation in microfinance is deemed as an end itself, which involves forming groups for community development, skills development through decision-making as well as self-owned and self-managed development. The feminist empowerment hypothesis is based on the socialist and structuralist feminist critiques of capitalism, with the strategy of seeing microfinance as a point entry for social, economic and political empowerment. The argument, therefore, is that women need to mobilise themselves to overcome patriarchal domination (Mayoux, 2003; 2000b).

Analysing the nexus between the two concepts, the fundamental basis of financial inclusion is that people in poverty are prepared and eager to leave the poverty net if they have access to productive financial resources. According to Sanya (2017), an effective financial inclusion strategy will promote poverty reduction, pro-poor growth and sustainable development. In Voica (2017), it was observed that when the poor have access to affordable financial services, the foundation for sustained inclusive growth and national development is laid. By implication, equal opportunities in a functional financial system promote economic integration of the socially excluded for economic integration (Gunarsih *et al.* 2018). In Levine (2005), it is observed that the institutional structure of the financial system curbs information asymmetry in the financial sector and shrinks transaction costs which alleviates poverty and improves economic growth (Sanya & Olumide, 2017).

Financial inclusion is also considered a strategic vehicle for growth and poverty alleviation because access to finance is likely to increase job creation, reduce susceptibility to shocks and intensify human capital investment (Aguera, 2015). Similarly, the United Nations (2006) explains that where there is an accessible and developed financial system, then individuals especially poor people will become economically and socially empowered because they are better able to participate actively in the economy and also contribute to their self-development and guard themselves against economic instabilities. According to Gunarsih *et al.* (2018), when the connection between financial inclusion and poverty is viewed from a policy perspective, improved financial inclusion has the potential of enabling other policies to be more effective and efficient, especially in a developing country like Nigeria.

Empirical review

Financial inclusion and poverty reduction

Astuti, Sugiyanto and Kurnia (2022) analyzed how financial inclusion contributes to poverty reduction in Indonesia using the production function approach. From the analysis, the study established that access to financial services such as loans serves as capital input for productive activities which leads to higher levels of output and subsequently, increased income. The paper concludes that an increase in income level alleviates the poverty level in Indonesian communities. This conclusion aligns with Khan, Khan, Sayal & Khan (2022) who investigated the effect of financial inclusion on poverty, income inequality and financial stability. The panel study covered 54 countries in Africa over the period 2001 to 2009. Results from the multiple regression indicate that financial inclusion had a decremental effect on poverty and income inequality but an incremental effect on financial stability. For Ngong, Thaddeus and Onwumere (2022), their attention was devoted to assessing the impact of microfinance inclusion on poverty reduction in

Nigeria from 1990 to 2018 using Autoregressive and Distributed-Lag (ARDL). Findings support the existence of a long-run relationship between microfinance inclusion and poverty reduction.

In addition, financial inclusion and poverty were examined among SMEs in Akwa Ibom, Nigeria in the work of Ndem, Walter, Henry, Peter and Ita (2022). The questionnaire was administered to 295 SMEs in Akwa Ibom selected through purposive sampling technique and analysed through correlation analysis. Results reveal mixed findings as financial inclusion through loan indicator showed a negative effect on poverty reduction while the access to Automated Teller Machines (ATMs) indicator showed the opposite effect. Eze and Alugbuo (2021) found that financial inclusion reduces household poverty in Nigeria using 2017 data from the World Bank's Global Findex Survey which conforms with Polloni-Silva, Da Costa, Morralles, and Neto (2021). The latter found similar results for their study in Latin America using Feasible Generalised Least Squares (FGLS) and the Limited Information Maximum Likelihood (LIML). Similarly, is the study of Tran and Le (2021) where a panel study on the effect of financial inclusion on poverty reduction was carried out in Europe using data from 2011 to 2017. Employing principal component analysis (PCA) to construct a financial inclusion index from financial access, usage and savings. Findings show that financial inclusion is effective in reducing poverty across three poverty thresholds of US $1.9, $3.2, and $5.5 per day.

In 2020, Alimi and Okunade (2020) explored the influence of financial inclusion and Information, Communication and Technology (ICT) on poverty reduction in 27 countries in Sub-Sahara Africa (SSA) from 2004 to 2017. The data gathered were analysed using a pool mean group, mean group and dynamic fixed effect. Financial inclusion, proxied by number of commercial banks, was discovered to be positively significant in the poverty reduction of SSA countries only in the long run. Mhlanga, Dunga and Moloi (2020) also analysed the poverty reduction impact of financial inclusion among small-holder farmers in Zimbabwe. Using simple regression, the study found financial inclusion to significantly reduce poverty among the farmers, particularly through savings, borrowing and insurance. Another study for SSA was also conducted by Bakari, Donga, Adamu, Hedima, Wilson, Babayo, and Ibrahim (2019) who examined the impact of financial inclusion on poverty from 1980 – 2017 using savings, credits to the private sector, access to ATM as financial inclusion measures. Pooled, random and fixed effect models were employed as the estimation techniques, the results of which supported the position in the literature that financial inclusion is instrumental in alleviating poverty.

Focusing on cooperative banks, Lal (2018) studied the impact of financial inclusion on alleviating poverty in India. Using one-way ANOVA, t-test and Structural Equation Modelling (SEM), results show that through cooperative banks, financial inclusion exhibits a positive and significant impact on poverty alleviation. Financial services such as credit, insurance and savings were found to be influential in the process. This is in partial concurrence with Inoue (2018) who discovered a mixed result in India as a negative relationship between financial inclusion and poverty was established for public sector banks with a positive relationship was found for private sector banks.

Furthermore, Hussaini et al. (2018) examined the role of financial inclusion in poverty reduction through microfinance in Nigeria. The data for the study were gathered through a questionnaire administered in Kebbi State and analysed using partial least squares and SEM. Findings reveal that financial inclusion through microfinance is significant in reducing poverty in Nigeria. The study of Ajide (2015) focused on financial inclusion and poverty in Nigerian rural communities using data spanning 1996 to 2013 from the Central Bank of Nigeria (CBN) and the World Bank. Results from the Autoregressive Distributed Lag Model technique established the efficacy of financial inclusion in alleviating poverty in rural communities in both long and short run. This is in line with Jones (2008) who analysed the effect of cooperative credit unions in reducing poverty and enhancing financial inclusion in Britain. The study revealed that credit unions are appropriately placed in the financial system to make impactful contribution to societies with high level of financial exclusion and reduce the prevalence of poverty.

SMEs and poverty reduction

Orji, Olaniyi and Adeyemo (2022) assessed the influence of Micro, Small and Medium Scale Enterprises (MSMEs) on human capital development and poverty reduction in the Bwari Area of the Federal Capital Territory of Nigeria. The paper adopted a survey approach and collected data from 184 entrepreneurs which were analysed using a descriptive and Kendal coefficient of concordance method. Results reveal a positive relationship between MSMEs and human capital development and poverty reduction through job creation, increased income and increased standard of living. This aligns with the findings of Bello (2022) where the effect of MSME financing on poverty reduction was investigated in the North-Central geo-political zone of Nigeria. Bello (2022) adopted a descriptive survey approach and discovered MSMEs are influential in the poverty reduction of the region. A similar study was conducted in Rivers State, Nigeria by Ewubare and Osuji (2021) with 317 SMEs sampled using a questionnaire to collect data. The data were analysed through the use of descriptive statistics which indicated that SMEs contribute to poverty reduction in the State.

Away from Nigeria, Jauhari and Periansya (2021) examined the impact SMEs have on economic growth and poverty reduction in Indonesia using time series data from 2000 to 2019. Employing cointegration and Vector Error Correction Model (VECM), the results of which reveal, among other findings, the existence of a one-way causality between SMEs and poverty reduction and an incremental impact of the former on the latter with a one-year lag. The study by Nursini (2020) analysed how MSMEs affect poverty using three measures of poverty, headcount index, poverty gap index and poverty severity index in Indonesia. Estimations from the regression analysis indicate that MSMEs contribute significantly to poverty reduction in all three forms of measurement, headcount, gap and severity. This is similar to the findings of Banerjee and Rahman (2019) who found SMEs to be significant in reducing poverty in Bangladesh between 1980 and 2015 using ARDL bounds testing and VECM.

Furthermore, Abisuga-Oyekunle, Patra and Muchie (2019) examined the role SMEs play in poverty reduction and employment creation in SSA. The study adopted an exploratory and descriptive analysis to conclude that SMEs need to be integrated into country-wide development programmes for them to be able to fulfil their potential in alleviating poverty and creating jobs. With a more definitive result, Manzoor, Wei, Nurunnabi, and Subhan (2019) found SME growth to be effective in reducing poverty in the South Asian Association for Regional Cooperation (SAARC). The study gathered data from 1990 to 2015 which were analysed using the fixed-effect method. The effect of SMEs on poverty alleviation in Pakistan from 2001 to 2017 was investigated by Zafar, Waqas and Butt (2018). The data for the study were obtained from the World Bank database and analysed using linear regression. The study found that SMEs contribute to poverty reduction in Pakistan during the period under study. This agrees with Anderson and Komba (2017) who discovered entrepreneurship wields a positive impact on poverty reduction among female entrepreneurs in Tanzania.

Microfinance and SMEs

In Kakembo, Abduh, Hasnol and Salleh (2021), the role of Islamic microfinance in solving the financing challenges of SMEs in Uganda was assessed. Adopting a desk review and conceptual approach, the study concluded that existing MFIs wield no positive effect on SMEs' access to finance. This is in line with the findings of Khan (2020) who investigated the impact of microfinance banks' lending on SME development in Yobe State, Nigeria. The questionnaire was used to gather data from 41 SMEs while Chi-square was employed as the analytical tool. Results reveal that although microfinance banks were in a position to enhance SMEs' development, strict lending conditions and high-interest rates had a negative influence on SMEs. However, the work of Worokinasih and Potipiroon (2019) deviates from the previous two studies reviewed. The paper examined the effect of microfinance repayment performance on SMEs in Indonesia using 215 SMEs in East Java. Findings indicate that loan repayment conditions positively influence SMEs' development through improved business performance.

Bako, Oyegoke, Idowu and Aderemi (2021) examined the impact of microfinance credit on SMEs during the COVID-19 pandemic. The paper gathered data from 100 SMEs in Ogun State, Nigeria. Descriptive

analysis revealed that microfinance credit was instrumental to SMEs during the pandemic which also led to an increase in SMEs' stock of goods and consequently, profit. Also in Ogun State, Nigeria, the impact of microfinance on SMEs was assessed by Akingunola, Olowofela and Yunusa (2018). The study utilized purposive and stratified sampling techniques to gather data from a sample of 408 SMEs which were estimated through simple regression analysis. The authors discovered that microcredit exerts a positive effect on business expansion. In a study context of Kogi State in Nigeria, a similar study was carried out by Duru, Yusuf and Kwazu (2018) using descriptive statistics and Chi-square as the estimation techniques. Findings show that microfinance banks' credits and savings have greatly influenced SMEs' expansion and development in the State.

The above aligns with the work of Omondi and Jagongo (2018) conducted in Kenya which investigated how the services of microfinance, particularly credit, savings, role modelling and financial literacy affect the financial performance of SMEs in Kisumu County. Employing a descriptive analysis of the data gathered from 448 SME operators, the study concluded that all four services of microfinance under investigation had incremental impacts on SMEs' financial performance with credit playing the most influential role. Ofeimun, Nwakoby and Izekor (2018) analysed the effect of finance from microfinance banks on the growth of small businesses in Nigeria. The study obtained data from the annual report of CBN over the period 1990 to 2015 with regression analysis as the estimation method. The result confirms previous findings of a positive relationship between microfinance and the growth of small businesses.

Similarly, the study of Herlinawati, Riyandi and Machmud (2017) investigated the impact of finance received from Sharia-compliant MFIs on SMEs' development using 30 SMEs in Indonesia. Results from the study indicate that Islamic MFIs influence 67.5 per cent of business development in Indonesia. In their attempt to establish the effects of microfinance on SMEs in Ghana, a case study approach involving 152 customers of MFIs who own SMEs was adopted by Awuah and Addaney (2016). Results from the descriptive and graphical analysis reveal microfinance wields a positive effect on SMEs' revenue, profit and assets. The study of Obokoh, Monday and Ojiako (2016) was more tailored towards the impact of microfinance lending on SMEs' access to finance. The data collected from 300 indigenous SMEs, which were analysed using descriptive statistics, show that lending from microfinance banks facilitates SMEs' development.

Methodology

This study is a cross-sectional study adopting primary data, which was conducted in Lagos State, Nigeria is the hub of SMEs (Vanguard, 2017). Micro-level data using a questionnaire were obtained to gather quantitative data suited to the purpose of the study using the stratified sampling technique. This technique is favoured as it enables the Researcher to capture the entire population by dividing it into homogenous groups with each sample having an equal chance. SMEs, which form the population of the study, were divided into two strata of small enterprises and medium enterprises after which enterprises were randomly selected from each stratum for sampling. The research instrument is a structured questionnaire and is designed in such a way as to adequately capture each of the variables of measurement. The structured, close-ended and pre-coded questionnaire, is designed to have two sections. The first section contains personal questions that will enable the researcher to gather respondents' background and demographic information, some of which form the conditional variables.

The second section of the questionnaire contains questions on financial inclusion and SMEs from which data for the main variables of interest will be obtained. These include questions regarding financial inclusion in terms of access, usage, quality and impact of financial services. The first section comprised multiple-choice questions while the questions in the second section were based on a 5-point Likert Scale. The last question that has to do with the challenges of using financial services from MFIs is open-ended. This is to enable the researcher to elicit detailed information about the issue in question as is peculiar to each SME-respondent. The questionnaire was pilot-tested (pre-tested) with 10 per cent of the selected sample size (approximately 40 samples) as recommended by Connelly (2008) and Treece and Treece

(1982). The pilot study resulted in the removal of some questions, which were tautological as well as the recasting of some others for ease of interpretation and understanding.

Survey questionnaires were, therefore, administered to SME operators in the five geographical divisions namely, Badagry, Epe, Ikeja, Ikorodu and Lagos Island. According to the Ministry of Industry, Trade and Investment, there are 68,168 small businesses and 4,670 medium firms in total, which makes a total of 72, 838 SMEs. This shows that the bulk of SMEs in Lagos State are small enterprises as they make up 94 per cent with medium enterprises making up only 6 per cent. SMEs were classified by the number of employees in line with the Bank of Industry's definition. Enterprises with 11-50 staff are classified as small enterprises while those with 51-200 staff are classified as medium enterprises (PWC, 2020). With an error margin of 0.05 and a confidence interval of 95 per cent, a sample size of 398 was obtained using the Taro Yamane sample size determination formula given below.

$n = \frac{\mathrm{N}}{\{1+\mathrm{N}(\mathrm{e})^2\}}$, Where, n = sample size, N = population size (72, 838), e = error margin (0.05)

$n = \frac{72838}{1+72838\ (0.05)\ ^2}$, $n = \frac{72838}{183.09}$, $n = 397.80$

This yields an approximate value of 398 sample SMEs which was rounded up to 400 questionnaires which were distributed equally across the five geographical divisions. The questionnaire was administered to 24 medium enterprises, which is 6 per cent of the sample size in line with their proportion in the population of SMEs in Lagos. For small enterprises, a total of 376 were sampled which makes up 94 per cent.

The theoretical framework of this research lies in Mayoux's (2000) Poverty Alleviation Paradigm, which is rooted in the interventionist poverty alleviation and community development theory. The paradigm postulates that microfinance forms part of a cohesive poverty reduction strategy for low-income groups and emphasises the significance of savings and loan facilities in such strategies. The model to achieve the stated objective of the study is hereby specified as

POVR = f (FIN, CON)

$$POVR = \alpha_0 + \alpha_1 \sum FIN_i + \alpha_2 \sum CON_i + \varepsilon_i \quad (1)$$

POVR denotes poverty reduction which is proxied by earnings. Earnings are defined by SMEs' weekly income and measured on an ordinal scale of 5. The rankings are (a) ₦100,000 – ₦199,999 (b) ₦200,000 - ₦299,999 (c) ₦300,000 - ₦399,999 (d) ₦400,000 - ₦499,999 (e) ₦500,000 and above.

FIN is a vector of financial inclusion variables, which comprises access,

ACC (proxied by the use of point of sale devices), usage,

USE (proxied by receipt of payment through microfinance account), quality,

QUA (proxied by the appropriateness of products and services), cost,

COST (proxied by transaction costs/charges) and effect,

EFF (proxied by business performance) of financial services (World Bank, 2015).

CON is a vector of other control variables that also affect poverty namely, age (AGE), gender (GEN), educational qualification (EDU), business location (LOCA) and days of the week worked (DOW).

Data gathered are analysed using two methods. Descriptive statistics are used to analyse questionnaire responses, and logit regression is used to test the hypotheses of the study using STATA. Ordered Logit regression is the preferred analytical technique because of the categorical nature of the dependent variable

which is ordered on a 5-point Likert Scale. The outcome in this regression is ordered as a latent variable in which the dependent variable increasingly crosses higher thresholds. Hence, the model is specified as in equation (2):

$$LogPOVR = \alpha_0 + \alpha_1 \sum FIN_i + \alpha_2 \sum CON_i + \varepsilon_I \quad (2)$$

Diagnostic tests include a specification test using a *link test* given its suitability to logit models, a multicollinearity test using the variance-inflation factor (VIF) and a heteroscedasticity test using the White's Heteroscedasticity-Corrected Variances and Standard Errors.

Results and Discussion

Demographic characteristics of respondents

The demographic information of SMEs is presented in Table 1 showing the factor level, the frequency and the resultant percentage. From Table 1, the age of the respondents shows that 183 of the respondents representing 45.7 per cent are from the age bracket of 25-35 years, 131 respondents representing 32.8 per cent are from the age bracket of 36- 46 years and the last age bracket is 47 years and above are 86 with a percentage of 21.5 per cent. This depicts that the highest age bracket for SME operators is 25-35 years of age. Furthermore, the distribution shows that 211 of the respondents representing 52.7 per cent practice Islam. 162 respondents representing 40.5 per cent practice Christianity while 27 respondents amounting to 6.8 per cent practice other religions.

Table 1: Demographic Characteristics

S/N	Factor	Factor Level	Frequency	Percentage %
1.	Age in Years	25-35 years	183	45.7
		36-46	131	32.8
		47 and above	86	21.0
		Total	400	100.0
2.	Religion	Islam	211	52.7
		Christianity	162	40.5
		Others	27	6.8
		Total	400	100.0
3.	Gender	Male	187	46.8
		Female	213	53.2
		Total	400	100.0
4.	Years of Schooling	Below 12 years	187	46.8
		Above 12 years	213	53.2
		Total	400	100.0
5.	Working Experience in managing a business	None	10	2.5
		1-3years	148	37.0
		4-6years	100	25.0
		7years and above	142	35.5
		Total	400	100.0
6.	Business Location	Rural	61	15.2
		Semi-Urban	192	48.0
		Urban	147	36.8
		Total	400	100.0
7.	On average, how many days of the week does the business open?	3days	87	21.8
		5days	225	56.2
		Others	88	22.0
		Total	400	100.0
8.	Marital Status	Not Married	93	23.2
		Married	307	76.8
		Total	400	100.0
9.	On average, how much does the business earn in a week?	₦100,000 – ₦199,000	220	55.0
		₦200,000 – ₦299,000	96	24.0
		₦300,000 – ₦399,000	18	4.5
		₦400,000 – ₦499,000	66	16.5
		₦500,000 and above	0	0
		Total	400	100.0

Source: Author's extraction from SPSS, 2020

Also, the gender column indicates 187 males amounting to 46.8 per cent with the frequency of female respondents being 213 amounting to 53.2 per cent. This implies that most of the SME operators sampled are female. Additionally, Table 1 shows that 187 of the respondents representing 46.8 per cent have less than 12 years of schooling while 213 of the respondents amounting to 53.2 per cent have more than 12 years of schooling. This means that most of the SME respondents sampled have at least secondary education. 10 of the respondents representing 2.5 per cent have no prior working experience in managing a business, 148 of the respondents amounting to 37 per cent have a working experience of 1-3 years, 100 of the respondents have working experience of 4-6 years amounting to 25.0 per cent and 142 of the respondents, have a working experience of 7 years and above amounting to 35.5 per cent.

Furthermore, Table 1 reveals that when it comes to the number of days in a week the business operates, 87 (21.8%) of the respondents indicate operating for 3 days in a week, 225 (56.2%) work for 5 days in a week while 88 (22%) work for other days (6-7 days) in a week. In terms of marital status, 93 (23.2%) of the respondents are not married while 307 (76.8%) are married. Lastly, the item on the average weekly earnings of SMEs indicated that 220 (55%) of the respondents earn between ₦100,000 and ₦199,000, 96 (24%) earn

between ₦200,000 and ₦299,000, 18 (4.5%) earn between ₦300,000 and ₦399,000, and 66 (16.5%) earn between ₦400,000 and ₦499,000. No SME reported having a weekly earning of ₦500,000 and above.

Descriptive analysis of financial inclusion among SMEs

The current level of financial inclusion among SMEs can be deduced from the descriptive analysis and this is analysed in terms of access, usage, quality and effect indicators of financial inclusion through MFIs. Starting with access to financial services, which is measured by the use of a Point of Sale (POS) terminal for business transactions, its analysis is presented in Table 2.

Table 2: Access to Financial Services

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	29	7.0	7.0	7
	Agree	249	62.0	62.0	69
	Undecided	28	7.0	7.0	76
	Disagreed	63	16.0	16.0	92
	Strongly Disagreed	31	8.0	8.0	100.0
	Total	400	100	100	

Source: Author's extraction from SPSS, 2020

Examining the response on access to financial services shows that 62.3 per cent (249 respondents) agree and 7.3 per cent (29 respondents) strongly agree with using POS for business transactions. This is an indication that the penetration of outreach of financial services among SMEs through MFIs is about 70 per cent (69.6%) of the sampled SMEs.

Table 3: Usage of Financial Services

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Strongly Agreed	38	9.5	9.5	9.5
	Agreed	170	42.5	42.5	52.0
	Undecided	36	9.0	9.0	61.0
	Disagreed	135	33.8	33.8	94.8
	Strongly Disagreed	21	5.3	5.3	100
	Total	400	100	100	

Source: Author's extraction from SPSS, 2020

The usage indicator of financial services is proxied by the regularity of receiving payments from clients through microfinance accounts. This is presented in Table 3, which reveals that 208 respondents (52%) of the sampled SMEs actively use financial services through microfinance institutions weekly.

Table 4: Quality of Financial Services

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Strongly Agreed	15	3.8	3.8	3.8
	Agreed	182	45.5	45.5	49.3
	Undecided	127	31.8	31.8	81.0
	Decided	60	15.0	15.0	96.0
	Strongly Disagreed	16	4.0	4.0	100
	Total	400	100	100	

Source: Author's extraction from SPSS, 2020

From Table 4, which presents the analysis of the quality of financial services indicator, it can be depicted that 182 (45.5%) of the respondents agreed that the financial products and services of microfinance institutions were appropriate for their needs, while 15 (3.8%) strongly agreed. Therefore, about half of the

sampled SMEs (49.3%) consider financial products and services provided by MFIs to match their financial needs.

Table 5: Effect of Financial Services

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Strongly Agreed	16	4.0	4.0	4.0
	Agreed	194	48.5	48.5	52.5
	Undecided	97	24.3	24.3	76.8
	Disagreed	57	14.2	14.2	91.0
	Strongly Disagreed	36	9.0	9.0	100
	Total	400	100	100	

Source: Author's extraction from SPSS, 2020

The effect of financial inclusion on SMEs' performance is presented in Table 5. The Table indicates that while 194 (48.5%) of the respondents agreed that access to microfinance has boosted the performance of their business, 16 (4.0%) strongly agreed. Thus, a little over half (52.5%) of the SMEs in the sample affirmed that financial inclusion through microfinance institutions has a positive influence on the performance of their business.

Table 6: Challenges in accessing and using financial services from MFIs

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Location	66	16.5	16.5	16.5
	High Transaction cost	27	6.8	6.8	23.3
	Geographical Factor	2	0.5	.5	23.8
	Problem of information asymmetry	14	3.5	3.5	27.3
	Collateral	102	25.5	25.5	52.8
	Limited Budget	45	11.3	11.3	64.1
	Others	144	36.0	36.0	100
	Total	400	100	100	

Source: Author's extraction from SPSS, 2020

Table 6 shows that 102 (25.5%) of the respondents are facing the challenge of collateral in accessing and using financial services from MFIs while 2 (0.5%) indicate that the challenges faced by them in accessing finance from the MFIs are the geographical factor.

Reliability Test

Table 7: Result of Reliability Test

Alpha AGE GEN EDU EXP LOCA DOW MAS POV ACC USE QUA USE EFF	
Test scale = mean (unstandardised items)	
Reversed items: AGE AGE^2 REL OCC EXP MAS LOB SAV1 LOF1 LOF2 LOF3 WBC INSU TRAF LOF	
Average interim covariance	0.111
Number of items in a scale	13
Scale reliability coefficient	0.712

Source: Author's Computation (2020)

The result of the reliability test carried out using Cronbach Alpha on STATA 12 is given in Table 7. The Table reveals an Alpha coefficient of 0.71, which is considered a good result that shows the research instrument is reliable and internally consistent. The implication is that the questionnaire measures what it

is designed to measure and will produce consistent results when administered to a different sample from the population.

Analysis and discussion

In Table 8, the summary of the result of the regression analysis to determine the overall impact of financial inclusion on poverty reduction is presented. The Table reports a log-likelihood (Log Lik.) of -174.18, which is the point where the log-likelihood is maximised and the model 'converges'. All 400 observations (OBS) are also shown to be used in the analysis. The likelihood ratio chi-square (LR chi^2) is 94.9, which indicates that at least one of the regression coefficients is not equal to zero. The Pseudo R-square is also reported to be 0.21 with a probability value (Prob>chi^2) of 0.00, which shows that the model as a whole is statistically significant and a good fit.

Table 8: Summary Result of the Impact of Financial Inclusion on Poverty Reduction

Variables	Dependent Variable: POV	
	Coef.	Prob.
ACC	0.460	0.007
USE	0.852	0.000
QUA	0.253	0.268
COST	0.237	0.254
EFF	0.575	0.006
AGE	0.372	0.087
GEN	0.215	0.500
EDU	0.395	0.026
LOCA	0.807	0.004
DOW	0.292	0.252
OBS	400	
Log Lik.	-174.178	
LR chi^2	94.91	
Pseudo R^2	0.214	
Prob > chi^2	0.000	

Source: Author's Computation (2020)

From the results in Table 8, the parameter estimate for access to financial services (ACC) is reported as 0.46 with a statistically significant p-value of 0.00. This implies that access to financial services through MFIs has a positive effect on poverty reduction and this is highly significant at the 1 per cent level of significance. The latent poverty reduction variable is, therefore, seen to be increasing with access to financial services as a unit increase in the latter will improve the probability of the former by 0.46 units in Lagos State. This means that MFIs improve financial access of SMEs which boosts poverty reduction. This could be through increased income/earnings resulting in access to savings and credit facilities which promotes SMEs' growth and cushions against economic shocks. This follows a priori expectations and is in line with other studies such as Ageme, Anisiuba, Alio, Ezeaku and Onwumere (2018) and Danquah, Quartey and Iddrisu (2017). Ageme *et al.* (2018) found that improving access to financial services through ATMs and credit facilities significantly influenced poverty reduction positively.

In terms of usage of financial services (USE), its coefficient is given as 0.85 with a p-value of 0.00, which shows usage of financial services has a statistically positive effect on poverty reduction. The probability of poverty reducing is hereby expected to increase by 0.85 units if the usage of financial services through MFIs improves in Lagos State. This conforms to the findings of Aurell (2003) as the use of financial services through MFIs is revealed to lead to higher incomes and business development.

Furthermore, the quality and cost of financial services are indicated to have a positive effect on poverty reduction with a coefficient of 0.25 and 0.23, respectively. The p-values of 0.26 and 0.25 show that these two variables do not have a significant influence on poverty reduction in the presence of other variables. The reported coefficient for the effect of financial services (EFF) is observed to be 0.56 with a p-value of 0.00. Therefore, the effect of financial services has a positive impact on poverty reduction in Lagos State and this is significant at the 1 per cent level of significance. The latent poverty reduction variable, thus, increases with this variable as a unit increase in the effect of financial services will improve the probability of reducing poverty by 0.57 units. This finding is in line with a priori expectations as the impact of financial inclusion through MFIs on business performance is expected to translate into increased profit and business development, which will lead to poverty reduction. This result could not be compared with the result of other empirical studies as the author did not find any previous study in mainstream literature that has focused on the 'effect' indicator of financial inclusion.

Diagnostic statistics

Starting with the link test, which was employed to check if the model is correctly specified, the result indicated a significant "hat" and an insignificant "hatsq". This shows the model has no specification error and is, therefore, correctly specified. The multicollinearity test using the VIF test also reported no evidence of high multicollinearity in the model as the VIF of most of the variables was 1, which is less than 5. However, the model exhibited a heteroscedasticity problem as the reported p-value is 0.00, which is less than the 5 per cent chosen level of significance. *White's Heteroscedasticity-Corrected Variances and Standard Errors* are employed to correct for heteroscedasticity.

Conclusion and policy implications

This paper examined the impact of financial inclusion through MFIs on poverty reduction with a focus on SMEs. Findings reveal that not only does having access to financial products and services have an overwhelming influence on poverty reduction, but also usage of financial services: regularity, frequency and duration of use per period, important. The impact of financial inclusion on how it affects business outcomes in terms of SMEs' performance is also empirically proven to be vital. Therefore, boosting SMEs' development through financial inclusion will reduce poverty among SME owners, enabling them to reach their potential, provide gainful employment for the Nigerian populace and promote entrepreneurship. This will strategically position SMEs to fulfil their developmental role in the nation, given that SMEs are drivers and enablers of sustainable growth. Thus, it can be concluded that financial inclusion is a veritable tool for accelerated poverty reduction, particularly through the channel of SMEs which has spillover effects on other areas of the economy such as employment generation, wealth creation, private sector development and technological advancement. All of these will create additional avenues for poverty reduction, inclusive growth and sustainable development.

Consequently, the Ministry of Industry, Trade and Investment and other stakeholders should invest in credit facilities that will improve SMEs' access to the required finance to improve their productivity and harness their potential for national development. Also, CBN through microfinance and other financial institutions should design special credit programs and policies for SMEs, which will be flexible, have fewer stringent requirements and ease the process of financial access to encourage SMEs to take advantage of available financial resources. Lastly, MFIs need to collaborate with SMEs to incorporate the financial needs of SMEs into product design, targeting and development with a wide variety of options that will be appropriate to the needs of SMEs. As a result, these products would not only be available and affordable but also of the desired quality, thereby contributing to the development of SMEs.

This study is, however, limited in scope as only Lagos State was captured in Nigeria due to time and resources. Future research can expand the scope of the study to other states to compare results and improve the generalisability of results. A longitudinal and time series analysis can also be conducted to investigate how microfinance institutions impact SMEs' development over time.

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