Pak. j. life soc. Sci. (2025), 23(1): 2895-2906 E-ISSN: 2221-7630;P-ISSN: 1727-4915

Pakistan Journal of Life and Social Sciences

www.pjlss.edu.pk

https://doi.org/10.57239/PJLSS-2025-23.1.00229

RESEARCH ARTICLE

Supervision of Microfinance Institutions and its Impacts on Small and Medium Enterprises (SMEs) and Economic Growth in Nigeria

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ARTICLE INFO

Received: Oct 12, 2024

Accepted: Dec 30, 2024

Keywords

Economic Growth

Microfinance

Supervision

Small and Medium Enterprises

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ABSTRACT

This study employed a step-by-step analysis to investigate the Supervision of Microfinance Institutions and Its Impacts on Small and Medium Enterprises (SMEs) and Economic Growth in Nigeria using SPPS and SEM. The population of the study is 2540, which was sampled 356, using the Yemane (1967) method. The study employed a well-structured questionnaire as a data collection method. Stratified and random sampling techniques were both used for the distribution of questionnaires to the relevant respondents. Initially. The study analyzed the component-wise relationships between Supervision of Microfinance Institutions, financial inclusions, Small and Medium Enterprises (SMEs), and Economic Growth. The findings indicated that Supervision of Microfinance Institutions has a significant, direct, and positive impact on financial inclusions, SME growth and Economic Growth. The study, therefore, recommends that to enhance financial inclusion, SME growth, and economic growth in Nigeria, policymakers and regulators should strengthen the supervisory framework for Microfinance Institutions (MFIs). This can be achieved by establishing clear guidelines, regulations, and monitoring mechanisms to ensure that MFIs operate effectively and efficiently.

1. INTRODUCTION

Microfinance institutions (MFIs) play a vital role in providing financial services to low-income individuals and small enterprises, especially in developing countries like Nigeria, where access to conventional banking is limited. These institutions support Small and Medium Enterprises (SMEs) by offering flexible, small loans without requiring collateral, thus promoting financial inclusion and fostering economic growth. In Nigeria, the supervision of MFIs by the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) is crucial for ensuring the stability of these institutions and safeguarding depositors' funds. Effective supervision is critical for maintaining the financial health of MFIs and preventing crises like the 2009 liquidity crisis, which resulted from inadequate oversight. Proper supervision helps MFIs mobilize savings, provide capital for SMEs, and serve rural areas, which are typically underserved by traditional banks. This, in turn, supports job creation, innovation, and economic development. However, inadequate oversight has led to issues such as poor governance, non-performing loans, and insolvency in many Nigerian MFIs.

The connection between MFI supervision and SME growth is well-established, but there is a lack of empirical studies exploring this relationship in depth. Without proper oversight, MFIs cannot effectively support SMEs, especially in rural areas where financial exclusion is high. Strengthening the regulatory framework and supervision of MFIs is essential for enhancing their ability to serve SMEs, promote financial inclusion, and contribute to Nigeria's economic development

This study examines the supervision of Microfinance Institutions (MFIs) and its impact on Small and Medium Enterprises (SMEs) and economic growth in Nigeria, addressing a five-fold literature gap: it integrates the relationship between supervision, MFIs, SMEs, and economic growth within a single

framework; considers multiple supervisory bodies beyond the Central Bank of Nigeria (CBN); employs unique variables and stratified sampling for first-hand data analysis; provides the most recent data in the field; and utilizes a five-point Likert scale for its questionnaire. In addition, several studies reviewed (see Ibrahim & Ifeyinwa, 2020; Otitoju et al., 2023; Ozili, 2024) used either descriptive statistic or multiple regression analysis in their study of the relationship between MFIs supervision and SMEs growth, as well as economic growth.

The problem with using only descriptive statistics or regression analysis in previous studies is that these methods have limitations in analyzing complex relationships between multiple variables, especially when latent variables such as financial performance and SME growth are involved. Unlike these methods, Structural Equation Modeling (SEM) is better suited for capturing these complexities. SEM not only accounts for measurement errors but also evaluates model fit using indices like RMSEA, ensuring more robust validation of relationships. Moreover, SEM allows for the examination of both direct and indirect effects, integrates factor analysis, and supports theory-driven hypothesis testing, providing a more comprehensive and nuanced understanding of the interactions between MFIs, SMEs, and external factors compared to descriptive statistics and regression analysis.

Consequently, this study aims to fill this gap by investigating the effects of MFI supervision on SME development, financial inclusion, and economic growth in Nigeria, using the structural equation model (SEM), offering empirical evidence and policy recommendations based on primary data.

The study seeks to assess the impact of MFI supervision on their ability to finance and support SME growth in Nigeria, to investigate the impact of MFI's supervision and SME financing on economic growth in Nigeria, and to examine the impact of supervision of MFIs on financial inclusion in Nigeria.

The following hypotheses were tested in this study.

H01: The supervision of MFIs does not have a significant impact on financial inclusion in Nigeria.

H02: There is no significant relationship between MFI supervision/support and SME growth in Nigeria.

H03: there is no significant relationship between MFI supervision, SME financing, and economic growth in Nigeria.

Following the introduction, section two presents the literature review, section three consists of the study's methodology, section four presents the pre-estimation test, section five consists of the result and discussion, and section six presents the policy implications and recommendations.

2. LITERATURE REVIEW

This study investigates the supervision of Microfinance Institutions (MFIs) and their impact on Small and Medium Enterprises (SMEs) and economic growth in Nigeria, using Schumpeter's theory of economic and financial development as a foundation. Schumpeter emphasized the role of financial institutions, such as MFIs, in channeling funds from savers to productive investments, thereby driving innovation and economic transformation. Building on this framework, the study examines how MFI supervision under multiple regulatory bodies influences SME development and economic growth, focusing on enhancing financial inclusion, SME productivity, and economic advancement.

Schumpeter's theory underscores the importance of financial institutions in fostering innovation, reducing transaction and information costs, and driving economic and social change. Subsequent studies, such as those by King and Levine (1993) and Shahbaz (2013), support the idea that financial institutions, including MFIs, improve productivity and promote economic development by reducing costs and allocating resources efficiently. Recent works by Lee (2020) highlight MFIs' role in reducing costs and boosting SME profit margins, while others, like Gietzen (2017) and Zamore et al. (2019), explore risks such as liquidity and credit within MFIs.

Supervision plays a critical role in ensuring the effectiveness of MFIs. Research by Carletti et al. (2020) and Agarwal et al. (2014) highlights the collaboration between central authorities, like the Central Bank of Nigeria (CBN), and local supervisors. Central authorities focus on systemic stability, while local bodies address SME development and job creation, sometimes applying flexible enforcement during economic downturns to maintain lending and employment levels. This study

extends these insights, emphasizing the transformative role of well-supervised MFIs in fostering economic growth in Nigeria.

Several studies have explored how supervision can enhance the performance of Micro, Small, and Medium Enterprises (MSMEs) to improve financial inclusion and drive economic growth. Financial inclusion ensures individuals, households, and small businesses have affordable access to formal financial services like savings, credit, insurance, and payments. Conversely, financial exclusion limits economic opportunities, especially for rural populations dependent on small-scale enterprises. While the Nigerian government has pursued financial inclusion through initiatives like rural credit schemes, these efforts have often been unsustainable due to irregular funding. The Central Bank of Nigeria (CBN) introduced community banking in 1992 to provide financial services to rural areas based on local knowledge and creditworthiness. However, limited success with only 2% of rural communities gaining access to formal financial services after 17 years—led to the adoption of the Microfinance Banks (MFBs) Policy in 2005. MFBs were aimed at supporting small businesses and fostering economic growth, particularly in rural areas, but they have struggled to meet financial inclusion targets.

Digital financial inclusion has recently emerged as a transformative approach, providing underserved populations with access to financial services via digital platforms such as mobile phones. This innovation gained prominence during the COVID-19 pandemic and has the potential to reduce poverty, address income inequality, and spur economic growth. However, challenges persist, including access to technology, financial literacy, and risks related to digital agents. Although digital financial inclusion offers significant opportunities, Microfinance Institutions (MFIs) have been slow to adopt digital platforms due to limited financial and managerial capacities. Mobile Value-Added Services (MVAS), however, show promise in expanding MFI reach, improving customer engagement, and encouraging the use of digital financial services. Positive impacts of digital financial inclusion have been observed, especially in sub-Saharan Africa, though challenges such as trust, ease of use, and transaction speed persist.

Recent research underscores the role of financial technology in promoting digital financial inclusion. Positive experiences with fintech increase MVAS usage, enhancing inclusion, as noted by Nnko and Haule (2023). In Nigeria, tailored financial products have been recommended to address the unmet needs of smallholder farmers (Otitoju et al., 2023). Globally, the uneven progress of digital financial inclusion highlights regional disparities in challenges and benefits (Ozili, 2024). Effective supervision of MFIs is critical for supporting Small and Medium Enterprises (SMEs) and economic growth. Research shows that proper supervision can enhance liquidity creation, financial stability, and SME development. Established MFIs tend to perform better socially and financially, suggesting that supervisory efforts should focus on optimizing the performance of experienced MFIs.

Collaboration among different types of Microfinance Institutions (MFIs) has been found to improve financial service delivery to SMEs, creating significant value (Armstrong et al., 2018). Additionally, factors like social capital, particularly in Europe (Chmelíkováa et al., 2019), and gender diversity have been linked to the technical efficiency of MFIs globally (Adusei, 2019). In China, regulatory frameworks have proven effective in mitigating risks associated with MFIs, bolstering their role in economic development (Zhanga et al., 2020). However, a critical research gap persists regarding the impact of MFI supervision on SME growth and economic development in Nigeria, which this study seeks to address through primary data collection.

This study provides empirical evidence on the positive impact of MFI supervision on SME performance and economic growth in Nigeria. Findings underscore the importance of effective supervision in fostering SME growth and contributing to sustainable economic development. These insights are particularly valuable for policymakers, regulatory bodies, and governments, offering actionable recommendations for strengthening MFI frameworks. Additionally, the study raises awareness among MFI customers, promoting trust in regulatory measures designed to safeguard deposits, premiums, and shares. It also enriches existing literature and serves as a reference for future research on financial inclusion and economic development.

The study highlights the critical role of strong regulatory frameworks in enabling MFIs to achieve their goals. Effective supervision promotes transparency, expands financial inclusion, and enhances the economic contributions of SMEs. Research by Carletti et al. (2020) emphasizes collaboration

between central and local supervisory bodies, noting that federal supervisors often prioritize systemic stability, while local supervisors may adopt a more lenient approach during economic downturns to sustain financial stability. Similarly, Agarwal et al. (2014) stress that the capacity of supervising institutions is more crucial than written regulations in ensuring effective oversight.

MFIs face dual missions of promoting social outreach and maintaining financial sustainability (Zamore et al., 2019). While providing credit to SMEs and low-income households drives financial inclusion, economic crises like the COVID-19 pandemic pose challenges by increasing non-performing loans and eroding trust. Nonetheless, group lending models have demonstrated resilience, enabling MFIs to support SMEs during downturns. Conversely, Ahlin et al. (2011) suggest that during economic hardships, MFIs may prioritize social objectives, providing additional credit to SMEs to expand production and enhance social outreach.

Beck (2020) highlights how external shocks, such as the COVID-19 pandemic, exacerbate financial instability and increase non-performing loans for Microfinance Institutions (MFIs). However, MFIs in countries with robust financial systems demonstrate greater resilience during crises. Research applying Resource Dependence Theory (RDT) by Hillman et al. (2009) and Galvao et al. (2019) underscores the significance of external networks and collaborations among Small and Medium Enterprises (SMEs). These relationships help reduce risks, lower operational costs, and foster resilience, particularly in uncertain economic environments. Similarly, earlier studies by Pfeffer and Salancik (1978) and others emphasize the role of trust and inter-firm cooperation in building long-term success for resource-constrained SMEs.

Growth theories by Solow (1956), Lucas (1988), and Romer (1990) emphasize internal drivers like human capital development and technological progress in fostering economic growth. These insights are critical for MFIs and SMEs, as their success hinges on education, skills development, and innovation. Empirical studies provide mixed evidence on MFIs' impact. For example, Ahlin et al. (2011) note that economic growth improves microenterprise performance, while Gonzalez (2007) finds no consistent link between macroeconomic trends and MFI loan quality. Strong supervision, as emphasized by Schulte and Winkler (2019), and group lending models, per Zamore et al. (2019), enhance MFI resilience and promote economic growth. In Nigeria, Ibrahim and Ifeyinwa (2020) and Akinadewo (2020) identify positive effects of MFI lending on SME growth, stressing the importance of effective monitoring and supervision in ensuring sustainable economic contributions.

3. DATA AND METHOD

This study adopts a quantitative research methodology, employing an empirical research design to achieve its objectives and answer the research questions. Data collection was conducted using structured questionnaires, while Structural Equation Modeling (SEM) was utilized for data analysis. Quantitative research is appropriate for this study as it aims to derive objective insights from external sources, enabling correlational analysis at the organizational level (Vidich & Lyman, 1994; Sekaran & Bougie, 2010). The study population comprises Microfinance Institutions (MFIs) and Small and Medium Enterprises (SMEs), including retail and wholesale firms in the service sector located in Bauchi State, Nigeria. The population data was sourced from the Central Bank of Nigeria (CBN) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), amounting to 2,540 entities. Using established guidelines (Krejcie & Morgan, 1970; Sekaran, 2003), a minimum sample size of 356 was determined, with adjustments made based on the statistical techniques employed.

A stratified random sampling technique was applied, dividing the population into subgroups (strata) based on specific characteristics, followed by proportional random sampling within each stratum. This approach ensures adequate representation and improves the precision of population estimates. The study's respondents include staff from MFIs and SMEs in the retail and wholesale sectors of Bauchi State. Factor analysis was conducted as a preliminary step before applying SEM to ensure data stability. Exploratory Factor Analysis (EFA) identified underlying latent variables using Principal Component Analysis (PCA), Varimax rotation, Eigenvalues, and variance measures. Factorability tests confirmed the dataset's suitability, with the Kaiser-Meyer-Olkin (KMO) measure exceeding the threshold (0.974 and 0.708) and Bartlett's Test of Sphericity significant at 0.000. These results validate the use of factor analysis, paving the way for robust SEM application (Hair et al., 2010).

The choice of Structural Equation Modeling (SEM) is justified because it analyzes complex relationships between multiple variables, including latent ones, which are crucial for studying constructs like financial performance and SME growth. Unlike descriptive statistics or regression, SEM incorporates measurement error and evaluates model fit using indices like RMSEA, ensuring robust validation of hypothesized relationships.

Additionally, SEM examines both direct and indirect effects, integrates factor analysis seamlessly, and supports theory-driven hypothesis testing. It provides a holistic analysis of systemic interactions among MFIs, SMEs, and external factors, offering deeper insights into the study's objectives compared to the limited capabilities of descriptive or regression methods.

4. PRE-ESTIMATION TEST

The research commenced with preliminary data analysis utilizing SPSS version 23.0. Structural Equation Modeling (SEM) was applied to validate the measurement scales and analyze the structural relationships. To ensure data accuracy, the entry process was meticulously checked. A total of 48 variables were entered into SPSS, followed by thorough data cleaning, which involved examining frequency distributions to detect and address any outliers, extreme values, or missing data in the dataset.

4.1. Normality test

This section examines the normality of the data and detects outliers. Since Structural Equation Modeling (SEM) is employed, the normality assumption is crucial. A common rule of thumb is to accept variables with skewness and kurtosis z-values within ±4.5 for extreme outliers or within ±2.00 for moderate outliers (Tabachnick & Fidell, 2007; Stevens, 2009). Table 1 and 2 presents the skewness and kurtosis values for the study variables, indicating that the z-values fall within the acceptable range, confirming normality.

Table 1: Normality test

Construct	N Statistic	Mean Statistic	Skewness Statistic	Skewness Std Error	Kurtosis Statistic	Kurtosis Std Error
MFIF	356	9.545	-1.256	.122	.038	.243
SMFI	356	9.025	-1.152	.122	-.339	.243
FINI	356	9.547	-1.160	.122	-.074	.243
ECOG	356	9.857	-1.574	.122	1.535	.243

Table 2: Normality test

Construct	N Statistic	Mean Statistic	Skewness Statistic	Skewness Std Error	Kurtosis Statistic	Kurtosis Std Error
MFIFS	356	9.545	-1.256	.122	.038	.243
SMFIFSMEF	356	9.025	-1.152	.122	-.339	.243
SSMEG	356	9.547	-1.160	.122	-.074	.243
ECONG	356	9.857	-1.574	.122	1.535	.243

4.2. Homoscedasticity test

This study also examined the assumption of homoscedasticity, which requires that the variance of errors remains constant across all levels of the independent variable (IV). Violations of this assumption, known as heteroscedasticity, can lead to distorted findings and increased Type I error rates (Berry & Feldman, 1985; Tabachnick & Fidell, 1996). The normal probability indicates that the assumption of homoscedasticity is met, as the residuals appear to be randomly scattered. This suggests that there is no systematic relationship between the errors in the model and the predicted values (Field, 2013).

4.3. Multi-collinearity analysis

Multicollinearity occurs when two or more variables are highly correlated, making it challenging to isolate the impact of individual variables. To address this concern, a multicollinearity analysis was conducted. The results, presented in Tables 3, indicate that multicollinearity is not a problem among the exogenous latent constructs. The Variance Inflation Factor (VIF) values were less than 5, tolerance values exceeded 0.20, and condition indices were below 30, as recommended by Hair et al. (2011).

Table 3: Multicollinearity

Model 1	**Tolerance**	**VIF**
Supervision of Microfinance Institutions 1	.593	1.686
Supervision of Microfinance Institutions 2	.842	2.188
Supervision of Microfinance Institutions 3	.631	1.584
Model 2	**Tolerance**	**VIF**
Microfinance Institutions Supervision 1	.485	2.062
Microfinance Institutions Supervision 2	.693	1.443
Microfinance Institutions Supervision 3	.874	1.144
Microfinance Institutions Supervision 4	.544	1.838
Model 3	**Tolerance**	**VIF**
Microfinance Institutions Support 1	.991	1.009
Microfinance Institutions Support 2	.991	1.009
Model 4	**Tolerance**	**VIF**
Supervision of Micro Finance Institutions and Small and Medium Enterprises Financing 1	.223	4.485
Supervision of Micro Finance Institutions and Small and Medium Enterprises Financing 2	.223	4.485

4.4. KMO and Bartlett's test

Before conducting exploratory factor analysis (EFA), this study assessed the factorability of the data dimensions. The Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test of sphericity were used to determine the factorability of the data.

The results, presented in Tables 4 and 5, indicate that the KMO value is satisfactory, and the Bartlett's test is significant, confirming the sampling adequacy of the factors. Additionally, the high KMO measure, in conjunction with the diagonals of the anti-image correlation matrix, which exceeded 0.50, further supports the suitability of the data for factor analysis.

Table 4: KMO and Bartlett test construct-wise

Constructs	**KMO**	**Bartlett's Test**
SMFIF	.713	.000
FINI	.745	.000
MFIFS	.794	.000
ECOG	.720	.000

Table 5: KMO and Bartlett test construct-wise

Constructs	**KMO**	**Bartlett's Test**
MFIFS	.700	.000
SSMEG	.753	.000
SMFIFSMEF	.706	.000
ECONG	.766	.000

4.5. Correlation analysis

The correlation analysis was conducted to identify whether these variables were significantly correlated with the dependent variable. However, the findings revealed that none of the control variables exhibited significant correlations (Tables 6 and 7).

Table 6: Correlation analysis dependent variable

	SMFIF	FINI	MFIFS	ECOG
SMFIF	1			
FINI	. .674**	1		
MFIFS	.747**	.951**	1	
ECOG	.854**	.828**	.794**	1

**. Correlation is significant at the 0.05 level (2-tailed).

Table 7: Correlation analysis dependent variable

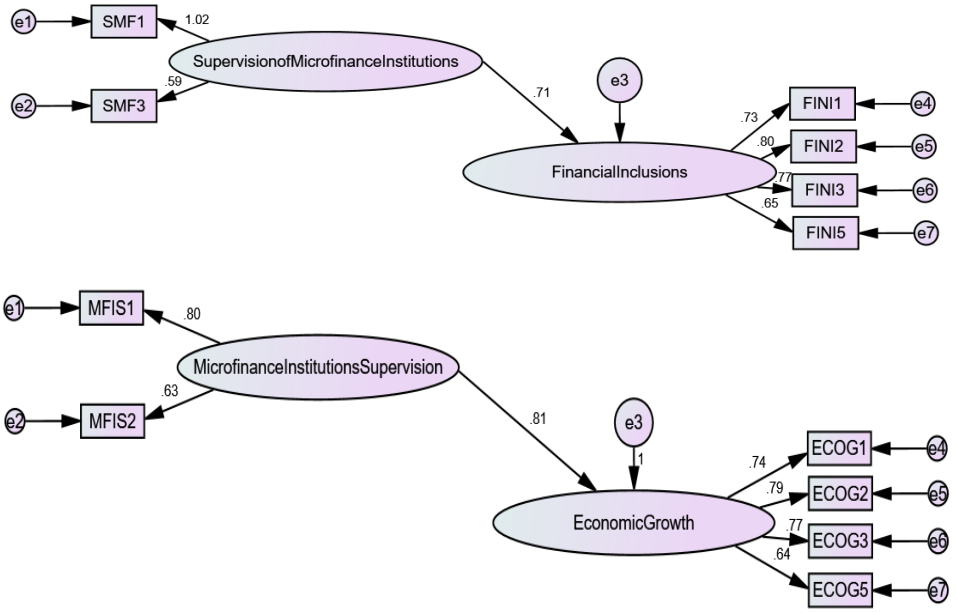
	SMFIF	FINI	MFIFS	ECOG
MFIFS	1			
SSMEG	. .674**	1		
SMFIFSMEF	.747**	.951**	1	
ECONG	.854**	.828**	.794**	1

**. Correlation is significant at the 0.05 level (2-tailed).

In contrast, the overall results showed that all study variables were significant at a maximum p-value of < 0.05. Notably, most variables were significant and correlated with each other at $p < 0.01$. This enabled an understanding of the relationships between MFI supervision and SME financing on economic growth, MFI supervision and financial inclusion, and MFI supervision and SME growth. The data indicated that all constructs substantially supported the research objectives and questions, providing a solid foundation for further analysis.

5. RESULT AND DISCUSSIONS

SEM is particularly useful for tackling business research problems, as it can incorporate unobserved, hard-to-measure latent variables. The structural model in SEM can be examined to determine the statistical significance of all path coefficients between exogenous and endogenous constructs.



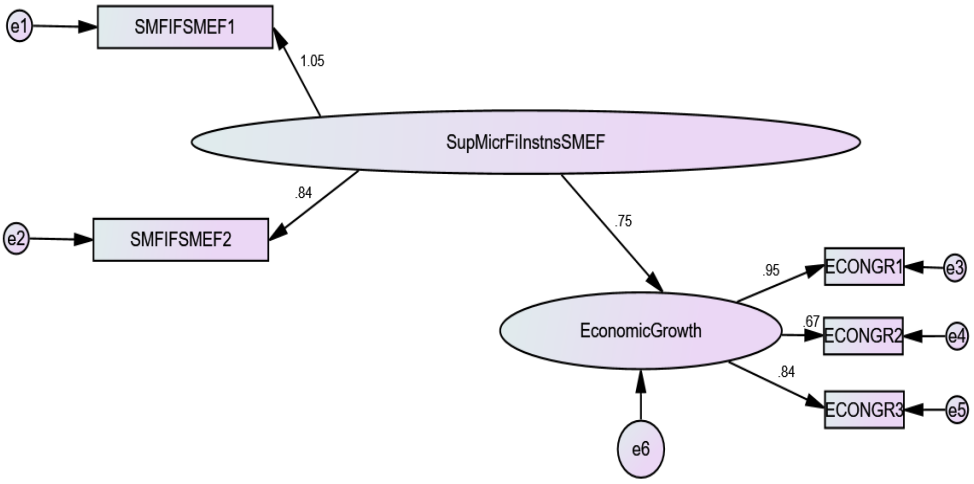


Figure 1: Hypothetical relationships of the model

Table 8: Model 1

Hypothetical Relationship	Path Coefficient	C.R	Chi-Sq Value	p-value
Financial Inclusions<--S. Micro Finance Institutions	.707	.057		***
SMEs Growth<--Micro Finance Institutions S.	.81	.060		***
Economic Growth<--- S. Micro Finance Institutions	.75	.031		***

Table 8 presents the results of the structural path analysis for models 1-3, which assess the hypotheses of the study. The analysis explores the direct impact of Microfinance Institution (MFI) supervision/support on financial inclusion, Small and Medium-sized Enterprise (SME) growth, and economic growth. The findings show a positive and statistically significant relationship between MFI supervision and financial inclusion at the 5% significance level. Specifically, a 1% increase in MFI supervision leads to a 71% rise in financial inclusion (see Figure 4.1). These results strongly support Hypothesis 1, indicating that MFI supervision is a key driver of financial inclusion. This suggests that improving MFI supervision can significantly enhance financial inclusion, with potential positive implications for economic accessibility and poverty reduction.

The results related to Hypothesis 2 also show a positive and significant relationship between MFI supervision/support and SME growth, with a 5% significance level. A 1% increase in MFI supervision and support results in a 54% increase in SME growth. These findings underscore the importance of MFI supervision in fostering the growth of SMEs, which are crucial to economic development, job creation, and poverty alleviation. The overall validity of the model suggests that MFI supervision is a critical factor in supporting SME development. Finally, the results for Hypothesis 3 indicate a significant positive relationship between MFI supervision, SME financing, and economic growth at the 1% significance level. The model shows that a 1% increase in MFI supervision and SME financing leads to a 75% rise in economic growth. These results emphasize the pivotal role of MFI supervision and SME financing in driving broader economic growth. Strengthening these aspects could have substantial economic implications, fostering a more resilient and dynamic economy, particularly in developing regions where SMEs form the backbone of economic activity.

The theoretical outcome of the study provides empirical evidence for the direct relationship between the supervision of MFIs and financial inclusion. The higher the supervision of MFIs, the higher the performance of financial inclusions. Several past studies have verified the support for this relationship Murshid and Ball (2018), Alkhan and Hassan (2020). However, the result of this study contradicts the findings of the studies of G. Ezeala, U. C. Nzewi, H.N. Nzewi, and J.O. Obi (2023). Their findings show that the Microfinance Banks Policy did not achieve the desired financial inclusion target set by the policy. Their argument was supported by Brickell et al (2020), and Sarker (2020), that the non-performance of MFIs needs to be supervised. Ashta et al (2016) also provides the justification that MFIs perform services like savings, credits, payments, and micro-insurance to low-

income households, even though the MFIs have grown significantly in developing countries in recent years, MFIs hardly reach and financially include the poor rural households due lack of supervision. According to Malakar (2018), to experience more performance and opportunities for financial inclusion, MFIs must supervise and employ the use of mobile value-added services (MVAS) to reach more customers and expand their coverage area. MVAS comprises of services beyond voice calls and short messages services (SMS) such as transfer, payment, information services, account balance inquiries, entertainment, mobile communication, and other services to attract and retain customers who are showing growing interest. This implies that the influence of MFIs on financial inclusion can only be significant if there is proper supervision of MFIs. The findings of this study provide evidence of significant performance of financial inclusions due to an increase in the supervision of MFIs. This hypothesis was one of the major assumption analyses in this research.

However, concerning the impact of MFI supervision on their ability to finance and support SME growth in Nigeria. The assessment has brought confirmation that there is a significant direct and positive relationship between MFI supervision/support and SME growth. This means that the more MFIs increase their supervision and support the more improvement in SMEs activities leading to their growth and development. It has been theoretically stated clearly that MFIs are said to be socially motivated institutions that provide credit facilities to SMEs and low-income households who are unable to access credit facilities from conventional banks due to a lack of collateral to back their borrowings (Zamore et al., 2019). Because MFIs give financial intermediary services to millions of vulnerable people, they play an important role in financial inclusion and economic growth. Besides their social contribution, MFIs also pursue the objective of at least breaking even in their business, as such, financially viable undertakings are also an important concern in the MFIs industry (Zamore et al., 2019).

On the other hand, the effective support of MFIs for the growth of SMEs can only be achieved as justified by the result of this study if the activities of MFIs are under supervision. If supervisory bodies like CBN, NDIC, and other local supervisors work together, the efficiency of the supervisory system will be improved. To facilitate the flow of information, several institutional arrangements for supervising MFIs such as onsite inspection are carried out by more than one supervisory institution but under the control of CBN. Thus, according to the theory central supervisory authorities like CBN will be more effective than its intermediaries (NDIC and other local supervisors) due to the lower level of supervision risk encountered by CBN compared to the other supervisory bodies. The study of Gupta and Kashiramka (2020) is in support of the present study. The findings of the study pointed out that the supervision of MFIs that enables them to set up the appropriate liquidity ratio will go a long way in ensuring that SMEs get the required financial support to play their part in the course of economic growth and development. This implies therefore the performance of the MFIs towards SMEs can be measured in terms of social performance, credit risk, financial performance, and effectiveness. Previous studies like Zhanga, Wanga, Liua, and Fu (2020), Akinadewo (2020), and Chmelíkováa, Kraussb, and Dvouletý (2019) support the findings of this present study.

Finally, based on the impact of MFI's supervision and SME financing on economic growth in Nigeria. The result of the study revealed that there is a significant direct MFI's supervision and SME financing has positively and significantly contributed to economic growth in Nigeria. This is a result of the fact that, as there is proper supervision of MFIs resulting in proper support and finance to SMEs, there must be an increase in investment, increase in employment opportunities, thereby reflecting positively on the economic growth of Nigeria. MFIs are socially oriented firms that give non-collateralized small credit to low-income people and micro-entrepreneurs who cannot get means of getting formal financial facilities (Zamore et al., 2019). Since MFIs offer service to millions of poor neglected and vulnerable credit seekers through the SMEs, they play an important part in improving the standard of living in developing countries, thereby leading to the achievement of economic growth. MFI capacity is anticipated to grow if well supervised (Ahlin et al., 2011). The findings of the present study are in line with the study conducted by Kijkasiwat et al. (2021) who pointed out that, MFIs support to SMEs bring about cooperation among SMEs reduce risk, improve profit, and lead to long-run economic growth and development. Blommerde-Winters (2020), Equally, Han and Chen (2021), and Again, Khurana et al. (2021). The above discussion clearly points out the role of Supervision of Microfinance Institutions and its impacts on Small and Medium Enterprises (SMEs) and Economic growth in Nigeria.

6. CONCLUSION AND POLICY RECOMMENDATIONS

This research successfully identifies the impact of Microfinance Institution (MFI) supervision on Small and Medium Enterprises (SMEs) and economic growth in Nigeria. The study tested the direct relationships between MFI supervision, SME growth, and economic development, highlighting the significant role of MFI oversight in promoting financial inclusion and fostering growth within the SME sector.

The findings emphasize that effective MFI supervision is essential for ensuring that microfinance institutions provide adequate financial services to SMEs and low-income households, ultimately contributing to economic growth. The positive relationships found between MFI supervision and financial inclusion, as well as between MFI support and SME growth, underline the need for stronger regulatory frameworks. These results suggest that policymakers and regulators should prioritize enhancing MFI supervision to strengthen financial inclusion and promote sustainable economic growth in Nigeria.

The study recommends the need for enhanced supervision of Microfinance Institutions (MFIs) by the Central Bank of Nigeria (CBN) and other regulatory bodies through regular monitoring and evaluations. Policymakers should strengthen the supervisory framework with clear guidelines and monitoring mechanisms to promote financial inclusion, SME growth, and economic development. MFIs should provide a wide range of financial services to SMEs while adopting effective risk management practices. Collaboration between MFIs, SMEs, and other stakeholders should be encouraged to support SME growth. The Nigerian government should implement policies to foster the development of MFIs, SMEs, and the financial sector, including offering incentives and tax breaks to stimulate economic growth.

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