

EVALUATING THE INFLUENCE OF TAX INCENTIVES ON MICRO-CREDIT INSTITUTIONS AND THEIR IMPACT ON SME FINANCING IN ILORIN, KWARA STATE

Aminat A. Abdulrasheed^{1a}

Ibrahim Mohammed Gaddafi²

Oboromeni Weinoh^{1b}

Mavis B. Madu^{1c}

Abstract

The study examined the influence of tax incentives on micro-credit institutions and their impact on SME financing in Ilorin, Kwara State. A descriptive survey and documentary research design was adopted, targeting management staff of licensed microfinance banks and registered SME owners operating within the study area. From an estimated population of 3,262 respondents, a sample size of 400 was determined using the Taro Yamane technique, while simple random sampling ensured adequate representation. Data were obtained from both primary and secondary sources, with structured questionnaires capturing information on tax incentive policies, institutional performance, and SME access to finance, complemented by official documents, government publications, and relevant academic literature. Quantitative data were analysed using descriptive statistics such as frequencies and percentages, alongside regression analysis to test the study hypotheses. The findings revealed that tax incentives exert a statistically significant and positive effect on the performance of micro-credit institutions, and that improved institutional performance significantly enhances access to financing for SMEs in Ilorin. The study therefore concludes that well-designed tax incentive policies constitute an effective instrument for strengthening micro-credit institutions and expanding sustainable financing opportunities for SMEs.

Keywords: Financial inclusion, Ilorin, Micro-Credit institutions, SME financing, Tax incentives.

Introduction

Small and medium enterprises (SMEs) are the backbone of the world economy, accounting for most businesses across nearly every region. They are recognised globally as essential contributors to economic growth, employment generation, and poverty reduction is crucial (Obokoh, 2018). Consequently, ensuring their continuity

¹ Department of Public Administration, National Open University of Nigeria. a. aaminat@noun.edu.ng, b. oweinoh@noun.edu.ng, c. mbmadu@noun.edu.ng,

² Department of Entrepreneurial Studies, National Open University of Nigeria. gadibrahim@noun.edu.ng

through adequate financing is essential. However, according to a report by International Finance Corporation (2022), this sector faces significantly more constraints than larger firms in accessing finance globally, particularly in emerging markets. IFC estimates that about 43 percent of formal SMEs in developing countries have an unmet financing need of nearly \$4.1 trillion. Without access to finance, SMEs cannot grow and create jobs.

In Africa, SMEs face two significant financing challenges: accessibility and affordability of finance. SMEs in the continent are frequently informal, and this makes it difficult for them to access financing. Moreover, even those that are formally registered still frequently suffer from a lack of accessibility. Additionally, high interest rates often deter SMEs from even trying to apply for financing, hence making accessible finances unaffordable for them. This is a significant issue because without sufficient working capital, firms are unable to invest and grow. According to Runde, Savoy and Staguhn (2021), only between a third and a fifth of SMEs in sub-Saharan Africa have a bank loan or line of credit. An estimated 28.3 percent of firms in the region are fully credit constrained.

These constraints to SMEs financing is not delimited to Nigeria as access to affordable finance remains a significant hurdle for SMEs in the country. High-interest rates, stringent collateral requirements, and limited credit history make it difficult for these businesses to secure the funds they need to grow and expand (Uchenna, 2023). The government of Nigeria established various institutions as well as programmes to provide finance to SMEs, and poor people to be self-reliance and turnout more entrepreneurs than job seekers in the country. Some of the programmes established in the past by the Nigeria Government; like Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better life/Family Support Programmes, The Family Economic Advanced Programme, Peoples Bank and many others (Ibitomi & Ijaiya, 2018).

However, these programmes failed to achieve their objectives due to poor implementation, corruption and host of many other factors. As a result of the failure recorded in the past, government did not relent in their effort to make financial services accessible to the poor and SMEs, thus, the emergence of micro credit institutions such as Microfinance Banks (MFBs) as an alternative credit system for the poor and SMEs in Nigeria came into existence (Obokoh, Monday & Ojiako, 2016). In December 2005, the then president of Nigeria, Olusegun Obasanjo launched the new Microfinance policy to usher in Microfinance Banks. Microfinance banks are therefore banks licensed and supervised by Central Bank of Nigeria (CBN) to deliver microfinance services. As of 31st December 2012, there are over 800 licensed microfinance banks in Nigeria. The micro-credit institutions are meant to empower Micro and SMEs in the rural and urban areas through the provision of micro loans and guide them in the usage of those loans for the growth of their businesses (CBN, 2020). The loans provided by micro finance institutions primarily target self-employed individuals and small-scale entrepreneurs, including household-based vendors,

operators of small retail shops, street vendors, artisans, manufacturers, and service providers. These loans aim to help recipients expand their businesses, thereby reducing unemployment and contributing to economic growth (Taiwo & Mike, 2020).

However, these institutions face significant challenges, including heavy tax burden which constitute 30% company income tax on profits, 10% withholding tax on placements with Deposit Money Banks, 5% value added tax on commission earned on microfinance services, taxes on microfinance dividends paid, State government development levies and business premises annual fees as well as multiple taxes imposed by local governments on the credit institutions (Ironkwe & Nnaji, 2017). To curb this, the Nigeria Finance Act of 2019 under President Muhammadu Buhari introduces a range of tax incentives to support business development and foster a conducive business environment. The aim of the incentives is to alleviate the financial burden on micro-credit institutions, thus enhancing their ability to provide credit to SMEs. These incentives reduce operational costs and improve liquidity, which allows micro-credit institutions to increase loan disbursement to small-scale entrepreneurs, thereby fostering a more inclusive economic environment and promoting SMEs financing.

Taxation refers to any compulsory transfer of money from citizens of a country to the government as a source of revenue. It is the process whereby a state or government exacts contributions from its citizens or from the residents of its territory for the maintenance of the state machinery (Kusi, 2021). Tax incentive can therefore be described as government's policies put in place to encourage certain individuals or corporate bodies in their businesses by reducing or removing their tax obligations. They are essentially designed to promote industrialisation especially in manufacturing activities (Gberegbe, 2007). Additionally, these incentives become a vital tool of government investment promotion strategy, fiscal incentives can play an important role in attracting and encouraging firms to expand supply by stimulating their investing power (Feyitimi, Temitope, Akeem & Oladele, 2016). Tax incentives available at the disposal of Nigeria government with which it can encourage the micro credit institutions operations include reduced cooperation tax through reduced tax, flat rate, tax exemption and tax stability agreement and subsidy or grant and tax holiday and investment allowance (Masanja, 2019).

Meanwhile an unfavourable tax system ends up increasing cost of running businesses, slows their growth and increases the cost of production. An effective tax regime would be one that helps microcredit institutions overcome operational barriers, which have generally kept their growth limited, their access to wider markets restricted, and their ability to provide formal financial services diminished. However, if a country's tax structure is not tailored to the specific economic conditions in which these institutions operate, it can impose a significant tax burden on them (Xu, Li, Liang, & Rahman, 2019). This added burden may ultimately impact end users, as it affects the institutions' capacity to manage and potentially transfer tax costs.

It is disturbing that, the Federal government's goal to provide diverse, affordable, and reliable financial services through the micro credit institution to small and medium business owners has been constrained. This because many licensed micro credit institutions fail to meet this objective (Ironkwe & Nnaji, 2017). Specifically, they have posted sub-optimal performances in micro credit delivery, collection of unbanked/under-banked deposits, domestic funds transfers and social intermediation which have often resulted to low profitability, poor liquidity, poor asset qualities, capital impairment and total distress. The sub-optimal performances could be attributed to several variables including high tax burdens. According to Xu et al (2019), many enterprises are known to face the problems of high tax rates, multiple taxation, lack of proper information and complex regulatory policies. Nigeria, since independence, has evolved more sophisticated system of taxation by way of legislations, administration and fiscal federalism. With 36 states in its kitty, a federal capital territory and 774 local government areas, experts have maintained that virtually everything that accrue to the federation account is taxpayers' money (Ironkwe & Nnaji, 2017).

Reduction or waiver of these taxes by way of incentives to the Microcredit institutions shall be a step in the right direction. Several studies have demonstrated that tax incentives have significant and positive relationship with the business performance of Microfinance Banks and SMEs growth in Nigeria (Ironkwe & Nnaji, 2017; Isaac et al, 2021; Feyitemi et al, 2016). Other studies have established that an increase in the amount of credit given by microfinance banks increase the growth of small-scale enterprises (Taiwo & Mike, 2020). Taiwo (2016) further argued that microfinance institutions serve as a powerful governmental strategy for poverty reduction and as an essential tool for promoting financial inclusion. However, the persistent financial challenges faced by SMEs have cast doubt on the effectiveness of government financial incentives in supporting Micro credit institutions in aiding SME financing in Ilorin, Kwara State. Consequently, this study is conducted to find out the Influence of Tax Incentives on Micro-Credit Institutions and their Impact on SME Financing in Ilorin, Kwara State. The specific objectives are highlighted thus:

- i. To examine the effect of tax incentives on the performance of micro credit institutions in Ilorin, Kwara State.
- ii. To evaluate the impact of microcredit institutions performance enhancing the SMEs financing in Ilorin, Kwara State.

In achieving this stated objectives, the following research questions have been constructed to define the research scope:

- i. What is the effect of tax incentives on the performance of microcredit institutions in Ilorin, Kwara State?
- ii. How has the microcredit institutions performance impact on the financing of SMEs in Ilorin, Kwara State?

Literature Review

Meaning of Tax and Taxation

Tax is a mandatory contribution to state revenue, imposed by the government on individuals or businesses based on their income, profits, or the value added to goods, services, and transactions (Oladokun, 2024). According to Article 1, point 1 of Law No. 28 of 2007 on the General Provisions and Administration of Taxation, tax is defined as a compulsory payment to the state made by individuals or legal entities, enforced under the law, without direct compensation. The funds are utilised to promote the welfare and prosperity of the people.

Taxation is the imposition of compulsory levies, i.e. tax, on individuals or entities by governments for various purposes. Nwachukwu (2006) described taxation as a system for imposing and collecting taxes by the governing authorities. He defined a tax as a mandatory payment made by citizens without any direct, equivalent benefit in return. In addition, Soyode and Kajoka (2006) considered taxation as the process of levying and collection of tax from taxable persons. Rochmat Soemitro defines tax as a mandatory payment made by citizens to the state treasury, enforceable by law, without providing any direct reciprocal service. These funds are used for general government expenditures. This concept was later refined by Abd Hakim (2020), who described tax as the transfer of wealth from individuals to the state treasury to finance routine expenses, with any surplus being allocated for public savings and serving as a primary source for funding public investments.

Tax is a compulsory contribution to government revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions (Udeh, Odio & Izevbekhai, 2022). Taxes may be levied by different levels of government, and the inclusion of “compulsory” serves to remind that evasion is punishable by law. It is also a payment exacted by legislative authority. The income of individuals and business entities, including corporations, are subject to tax. Tax is generally imposed on net profits from business, net gains and other income. The assessee is under every obligation to pay the assessed amounts, since default or evasion attracts legal sanctions. Assessment of tax is based on the legal description of the object of taxation, say income, which is called the tax base.

Influence of Taxation

The most important objective of taxation is to raise required revenues to meet expenditures. Apart from raising revenue, taxes are considered as instruments of control and regulation with the aim of influencing the pattern of consumption, production and distribution (Udeh et al, 2022). Taxes thus influence an economy in various ways, although the influence of taxes may not necessarily be good. There are some bad influences of taxes too (Udeh et al, 2022). Muley (2015) categorised the economic effects of taxation as work save and invest; allocation of resources; and, income distribution

Tax Incentives for SMEs

According to Adedokun (2001) in Ironkwe and Nnaji (2017), tax incentives refer to “the reduction in the effective tax burden on a favoured economic activity compared to the tax currently imposed, with the expectation that this reduction in government revenue will lead to an expansion of the national economy and ultimately result in a relative increase in total revenue from the broadened economic base”. Similarly, Gberegbe (2007) defines tax incentives as tools employed by the government to stimulate investment. These incentives are primarily intended to promote industrialisation, particularly within the manufacturing sector. Examples include accelerated depreciation, tax holidays, and import duty relief.

Microcredit Institutions

The microcredit institutions also referred to as microfinance banks are described as any financial services that are flexible in structure and processes which are delivered to small scale enterprise as well as low-income earners and the poor on a sustainable basis (Ofoegbu, Akambi and Joseph, 2013). The distinguishing features of microfinance banks includes simple operations; giving of small loans and collections of small savings; and, removal of collateral security as a condition for loan advances (Olaifa (2017).

In Nigeria, microcredit institution is licensed institutions structured as companies, providing essential microfinance services such as microcredit loans, insurance, money transfers, and other support services for low-income individuals and small or micro-enterprises. Emmanuel and Ikenna (2015) noted that encouraging diverse ownership among licensed MFBs helps promote good corporate governance, allowing these institutions to be established by individuals, groups, churches, community associations, private companies, missionaries, and foreign investors.

The micro credit institutions primarily provide financial services to low-income clients, including the self-employed, focusing on savings and loan/credit services (Taiwo and Mike, 2020). Besides financial intermediation, these banks often offer social intermediation services, such as boosting self-confidence and providing training in financial literacy and management skills for their clients. Below is an outline of microfinance services:

Micro Loans: According to Bauchet, Marshall, Starita, Thomas, and Yalouris (2011), micro-credit is described as the provision of small loans to micro-entrepreneurs who lack access to traditional financial resources. These loans enable borrowers to generate income, repay the loan at a higher interest rate, reinvest in their businesses, and work toward overcoming poverty. Micro-loans are often given in cash but can also be provided in-kind (Lacalle, Rico & Duran, 2008). Interest rates vary widely, commonly ranging from 20% to 40% annually. As microfinance banks (MFBs) evolve, they often relax rigid terms, which can lead to reduced interest rates (Roodman, 2011). While some MFBs initially charge a flat rate on the full loan amount, there is a trend toward

interest charges on the declining balance, with variable interest rates that adjust with another rate, often the prime rate.

Micro Savings: Recently, savings mobilisation has gained recognition as a significant component of microfinance. Historically, microfinance focused heavily on credit, while savings were often overlooked. Today, deposit services, including stand-alone savings accounts and savings accounts linked to credit, are more commonly offered. Savings may be required for loan access or can be part of a group savings intervention, where members save collectively and borrow from the shared pool. Micro-savings services vary across providers and are designed for both protection (to cushion against financial shocks) and promotion (to build an asset base), as outlined by Hulme, Moore, and Barrientos (2009).

Small and Medium Enterprises

The concept of Small and Medium Enterprises (SMEs) is one of the most reviewed topics in management due to the importance attached to it by various scholars and its impact in an economy like ours in the country. Worldwide, SME is seen as the engine room of economic growth and development (Suberu, Aremu & Popoola, 2018). The meaning of SSEs varies from one country to another, institutions to institutions and years to years. Sometimes, in the literature, small scale business, small scale industries and small-scale entrepreneurship are majorly used interchangeably to mean SMEs

According to Sule, as cited in Tabet and Onyeukwu (2019), a small-scale enterprise is defined as an entity employing between 1 and 100 workers or with a total investment not exceeding ₦50 million (approximately 122,000 USD), inclusive of working capital but exclusive of land costs. In contrast, a medium-scale enterprise employs between 101 and 300 workers or has a total investment of more than ₦50 million but not exceeding ₦200 million (about 490,000 USD), also inclusive of working capital but excluding land. The study further mentions that around 50% of these enterprises engage in distributive trade, 10% in manufacturing, 30% in agriculture, and the remaining 10% in services.

Additionally, the Finance Act (2020) defines small businesses for corporate tax purposes as those with an annual gross turnover of N25 million (approximately 61,000 USD) or less, while medium-sized companies are defined as those with an annual gross turnover between N25 million and N100 million (around 244,000 USD). This study adopts the definition provided by Sule, as referenced in Tabet and Onyeukwu (2019), and will base its survey, findings, and conclusions accordingly.

SMEs are major drivers in employment creation, as their output contributes hugely to the percentage share of total employment and thus helps in poverty reduction (Ironkwe & Nnaji, 2017). SMEs tend to ensure that innovative activities are generated through competition and an increase in the diversity of products and services, which is likely to benefit consumers more. Often, they tend to be way quicker compared to large corporations in adapting to market changes, as well as to customer needs that are very small in size. However, Daniel (2019) argued that small and medium-scale enterprises

(SMEs) in Nigeria face **Multiple Taxation**: Their excessive tax assessments negatively impact the production process as they attempt to generate revenue without considering the repercussions for household incomes and employment (Okolo, Okpalaojiego & Okolo, 2016). Compounding the problem is the issue of multiple taxes imposed on the same goods and services by various government bodies, discouraging business activity. Paying regular taxes in one region does not guarantee an exemption from similar taxes on goods as they traverse the country (Oseni, 2014).

Empirical Studies

A study by Udeh, Odion, and Izevbekhai (2022) examined the impact of multiple taxation on the growth of SMEs in South-South Nigeria, using a survey research design and data from 381 SMEs selected from a population of 7,844 registered with SMEDAN. Employing regression analysis, the study revealed that various forms of taxation, including consumption taxes, environmental and sanitation levies, infrastructural development levies, and property and land-based charges, significantly hinder the growth of SMEs. They concluded that these tax burdens negatively affect SME performance and recommended that the government review, improve, and enforce fair tax policies to promote SME growth in Nigeria.

Additionally, in a study by Ojeka (2011) titled ‘Tax Policy and the Growth of SMEs: Implications for the Nigerian Economy’ it was found that when SMEs pay lower taxes, they can reinvest profits into growth-oriented initiatives. Ojeka (2011) concluded that SME growth is more likely under tax policies that avoid excessive burdens and support voluntary compliance. This perspective is echoed by Ojochogwu and Ojeka (2012) in their study “Relationship Between Tax Policy, Growth of SMEs, and the Nigerian Economy,” which also revealed that high tax burdens reduce available funds for reinvestment, ultimately hindering business expansion.

Again, Abraham, Sakwa, and Aloys (2014) explored the connection between the performance of small-scale enterprises (SSEs) and their access to microfinance bank credit in Mount Elgon Constituency, Kenya. Using a descriptive survey design and primary data collection, the study sampled 120 SSEs from a population of 1,200 through random selection. Data were analysed using both descriptive and inferential statistics, including Chi-square and t-tests. The findings indicated a significant positive relationship between business performance measured by increased average monthly profit, monthly business savings, and employee numbers and access to funds by SSEs. Additionally, the study found that factors such as business age, ownership structure, the presence of additional branches, and the number of employees significantly influenced access to credit.

Ocheni (2015), conducted a study on “Impact analysis of tax policy and the performance of Small and Medium Scale Enterprises in Nigerian economy” in which he concluded that the best tax policy for SMEs is one that lowers compliance and administrative costs, reduces uncertainty faced by taxpayers, and improves the level of voluntary compliance. He, therefore, among other recommendations, stated that tax

policies should be designed in a manner that will encourage those who are potential taxpayers, voluntary compliance and these will eventually lead to expansion of existing business interests of the SMEs in Nigeria.

In a survey-based study on the impact of multiple taxations on SMEs in Benue State, Ocheni and Gemade (2015) found that multiple taxations negatively influence the growth and survival of SMEs. They recommended lowering tax levies to allow SMEs to retain enough funds for essential growth activities. Tee, Boadi, and Opoku (2016), in their research on the effect of tax payment on SME performance in Ghana's West Municipal Assembly, demonstrated that higher tax incentives help mitigate the negative effects of tax obligations on SME purchasing power. However, their study also indicated that many SMEs were unaware of tax relief options provided by the government, which lessened the impact of these benefits. Okolo, Okparaojie, and Okolo (2016), in the study of "Effect of Multiple Taxation on Investment in SMEs in Enugu State, Nigeria," found a significant relationship between tax obligations and investment capacity among SMEs, noting that multiple taxations adversely affect SME investments. They recommended that the government prioritise the SME sector as a critical economic consideration. Similarly, in Aba, Nwamuo (2017) identified substantial evidence of multiple tax burdens on businesses, leading to increased operational costs and a reduced capacity for employment. Agot and Ugwuoke (2018), analysing taxation and SME growth in Nasarawa State, observed that high tax rates and unfavourable tax policies diminish SME profitability, capital, and employment capacity, ultimately stifling growth and development.

Cross (2019), in the study of "Effect of Multiple Taxation on SMEs in Nigeria," concluded that SME size and tax payment capacity are interlinked, with multiple taxations adversely affecting SME survival. He recommended adjusting tax collection based on SME size and profitability. Similarly, Tabet and Onyeukwu's (2019) research on multiple taxations in Abuja identified a strong relationship between tax burdens and diminished SME financial performance, emphasising the need for balanced tax policies to support SME growth and sustainability.

Underpinning Theory of the Study

For this study, the linear growth theory is adopted. The linear growth theory is propounded by Harrold 1939 and Domar 1946 which is commonly called Harrold Domar growth model. The assumption of the theory stated that for steady growth rate to occur in business, aggregate demand must also grow at the same rate as the economy output capacity grows. The assumptions states that there are two major determinants to the rate of growth of a business. The first is the capital investments and its output called the capital-output ratio, this assumption stated that the more capital is invested in business the higher the output will be and this will help in contributing to the growth of the economy. The second assumption is the relationship between savings and national income called savings ratio; this states that the higher the savings of the business the more the economy will grow.

Therefore, the growth of any business is a function of financing i.e.

$$SSEF = F(MCIs, TI),$$

where SSEF is Small Scale Enterprise Financing,

- Function (F),
- Micro Credit Institutions (MCIs),
- Tax Incentives (TI)

This means that for any business to grow, there is need for heavy investment and for heavy investment to take place, there is need for corresponding of credit and savings to be provided by an institutions such as micro credit institutions, this will enable more investment by small businesses to gain more and expand their businesses (Taiwo & Mike, 2020). Despites the various efforts made to lend finances to small businesses, the rate of their improvement in the business is hindered by the country economic performance such as its tax system. This theory therefore believes that the activities perform by the micro credit institutions in carrying out their core mandates through credit provision and savings mobilisation, etc. serves as a turning ground and tools for increasing the financial capacity of small businesses. And for MCIs ease of operation, there is need for appropriate tax incentives.

Methodology

Study Area

Ilorin, the capital of Kwara State in Nigeria, is a significant urban center with a population of approximately 1.2 million, as per the 2016 National Population Commission estimates. The city is strategically located in the North-Central geopolitical zone, serving as a vital link between northern and southern Nigeria. Ilorin has a thriving SME sector, contributing to its status as a commercial hub. According to the Kwara State Ministry of Commerce, SMEs constitute over 60% of the businesses operating in the city, engaging in diverse sectors such as retail, manufacturing, and services. The presence of key infrastructure like the Kwara State Trade Fair Complex and active traditional markets underscores Ilorin's economic vibrancy and makes it an ideal location for evaluating the role of microcredit and tax incentives on business performance.

Ilorin's selection as the case study is driven by its unique economic structure and the prevalence of SMEs, which are crucial for job creation and poverty alleviation. The city hosts over 20 licensed microfinance banks, as recorded by the Central Bank of Nigeria, making it a focal point for microcredit activities (CBN, 2020). Furthermore, the Kwara State Government has implemented various tax incentive programs aimed at boosting local businesses, with over 45% of registered SMEs reportedly benefiting from tax reliefs in recent years. These statistics highlight Ilorin as a representative model to study the impact of tax incentives and microcredit on SME performance. The findings from this case study can offer valuable insights for replicable strategies to enhance SME growth across Nigeria.

Population and Sample Size Determination

The target population of the study included the management staff of micro finance bans and selected SMEs owners in Ilorin, Kwara State. One hundred and thirty-eight

(138) management staff were recorded from the total of twenty-three microfinance bank registered with CBN as at 2020. They include Ajikobi Microfinance Bank, Apeks Microfinance Bank, Azabe Zinariya Microfinance Bank, Balogun Fulani Microfinance Bank, Balogun Gambari Microfinance Bank, Blucon Microfinance Bank, Brightway Microfinance Bank, Citizen Trust Microfinance Bank, Confidence Microfinance Bank, Crescent Microfinance Bank, First Heritage Microfinance Bank, Gaa Akanbi Microfinance Bank, Ibolu Microfinance Bank, Iloffa Microfinance Bank, Ilorin Microfinance Bank, Iludun Oro Microfinance Bank, Iyeru Okin Microfinance Bank, Janmaa Microfinance Bank, KCMB Microfinance Bank, KwacoFocus Microfinance Bank, KWASU Microfinance Bank and Omu-Aran Microfinance Bank.

Additionally, in a study by Ajirowo (2024), 3124 Small and Medium-Sized Enterprises (SMEs) are registered with the Kwara State Internal Revenue Service and operate in Ilorin and pay taxes totaling one hundred thousand naira or more. In total the study comprises of 3,262 target persons for the study.

Data Collection

A total of 345 questionnaires were distributed among the cooperative societies in the state capital and 331 was returned. These questionnaires were targeted at cooperative presidents and one member from each society, as their perspectives reflect the policies agreed upon by members. Respondents were selected using a purposive sampling method. The Department of Cooperative Services within the Ministry of Commerce, Cooperatives, and Empowerment, located in each state capital, facilitated contact with participants from both affiliating and non-affiliating societies. This government agency oversees the activities and operations of cooperatives across the state.

Instrument Validity and Reliability

The target population of this study comprises test subjects whose behaviour is challenging to predict or control with precision. As a result, the data collected are non-experiential and prone to significant measurement errors, raising concerns about validity and reliability (Armstrong, 1974; Carmines & Zeller, 1979). To address these issues, the research instrument underwent a content validity assessment by research professionals and was tested through a pilot survey involving five respondents from each of four clusters in Ilorin South, along with the application of the following scientific measures.

The content validity of the research instrument was further established by computing its response and completion rates. Mainly, the response rate is an indicator of the instrument's engagement strength and the non-response bias in the final sample size relative to the calculated, while the completion rate establishes the scientific depth of the instrument's clarity and relevance (Bolarinwa, 2021).

The reliability of a research instrument is a critical prerequisite for its scientific acceptance, as highlighted by Carmines and Zeller (1979). This involves ensuring the instrument's unbiasedness and consistency (see also Bolarinwa, 2021; Cronbach, 1951; Taherdoost, 2016). Cronbach (1951) and Carmines and Zeller (1979) emphasise

that Cronbach's alpha coefficient is the most dependable and widely used method for assessing reliability in research employing Likert scales. Its primary benefit lies in its ability to provide uniquely reliable estimates. Consequently, the Cronbach alpha test for internal consistency is employed in this study to evaluate the reliability of the psychometric properties of the instrument.

Table 1: Reliability Statistics

	Cronbach's Alpha	N of Items
Total Items	.947	12

The table 1 presents the reliability statistics of the research instrument using Cronbach's alpha, a widely recognised measure of internal consistency. With a Cronbach's alpha value of 0.947 for 12 items, the instrument demonstrates excellent reliability, as values above 0.9 are generally considered highly reliable. This indicates that the items in the questionnaire are consistent and measure the intended constructs effectively. The high reliability supports the instrument's suitability for scientific research, particularly in studies involving Likert-scale-based responses.

Data Analysis Technique

The study adopts two statistical tools descriptive frequency and inferential statistics to analyse the data collected for the study. The demographic data of the respondents were presented using the frequency and tables. While the hypothesis formulated for the study in line with its objectives were analysed using the inferential statistics: simple regression analysis and multiple regression analysis to establish the relationship between tax incentives and micro credit institutions and their impact of SMEs in Ilorin.

Model specification

To evaluate the influence of tax incentives on Micro-Credit Institutions and Their Impact on SME Financing in Ilorin, Kwara State, this study employs a linear and multiple regression approach. The dependent variables included the items being measured which were Small and Medium Enterprises. The independent variable included Tax incentives (TI) and Micro-credit (MC), measured using an appropriate inequality index (e.g., Gini coefficient).

The model is specified as follows:

$$MC = \beta_0 + \beta_1 TI + \epsilon \dots\dots\dots (i)$$

$$SME = \beta_0 + \beta_1 MC + \epsilon \dots\dots\dots (ii)$$

Where:

- **MC** (Microcredit) = The dependent variable representing the access or availability of microcredit (microfinance)
- **SME** (Small and Medium-sized Enterprises' Performance) = The dependent variable representing the performance or growth of SMEs.
- **TI** (Tax Incentives) = The independent variable, indicating the level or extent of tax incentives provided.
- **β_0** = Intercept

- β_1 = Slope
- ϵ = The error term accounting for variability

These equations provide a framework to analyze the impact of tax incentives and microcredit availability on enhancing SME performance. The parameters β_1 and β_2 will help determine the magnitude and significance of these impacts.

Results and Discussion

This section presents the descriptive and inferential analyses and the discussion of findings. It delivers these through three sub-sections: demographic data analysis, hypotheses tests, and discussion of findings

Table 2: Demographic Data of the respondents

Demographic Variable	Category	Frequency	Percent	Valid Percent	Cumulative Percent
Sex	Male	157	47.4	47.4	47.4
	Female	174	52.6	52.6	100.0
	Total	331	100.0	100.0	100.0
Age Range	18-25	69	20.8	20.8	20.8
	26-35	83	25.1	25.1	45.9
	36-50	68	20.5	20.5	66.5
	51 and above	111	33.5	33.5	100.0
	Total	331	100.0	100.0	100.0
Marital Status	Single	116	35.0	35.0	35.0
	Married	215	65.0	65.0	100.0
	Total	331	100.0	100.0	100.0
Level of Education	No formal Education	30	9.1	9.1	9.1
	Primary Education	57	17.2	17.2	26.3
	Secondary Education	154	46.5	46.5	72.8
	Tertiary Education	90	27.2	27.2	100.0
	Total	331	100.0	100.0	100.0
Work Experience	< 2 years	62	18.7	18.7	18.7
	2-4 years	140	42.3	42.3	61.0
	4-7 years	75	22.7	22.7	83.7
	7+ years	54	16.3	16.3	100.0
	Total	331	100.0	100.0	100.0

Sourced: Field Survey (2024).

From the demographic data analysis of the respondents in table 1 above, it is revealed that a balanced gender distribution among respondents, with 52.6% female and 47.4% male participants. The majority of respondents fall within the age range of 26-35 years (25.1%) and 51 years and above (33.5%), indicating a diverse age representation. In terms of marital status, 65.0% of the respondents are married, while 35.0% are single. Regarding education level, most participants have completed secondary education (46.5%), followed by tertiary education (27.2%), with a smaller percentage having no formal education (9.1%).

Lastly, the work experience data shows that 42.3% of respondents have 2-4 years of experience, and 22.7% have 4-7 years, while only 16.3% have more than 7 years, reflecting a workforce with varied experience levels. These demographics provide a comprehensive overview of the participants, ensuring diverse perspectives in the study.

Test of Hypothesis

Ho1: Tax incentives have no significant effect on the performance of microcredit institutions and SMEs in Ilorin, Kwara State.

Table 3: Model Summary^b

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.948 ^a	.899	.899	.36533	1.246

a. Predictors: (Constant), Tax Incentives

b. Dependent Variable : Microfinance Institutions

The model summary reveals a strong relationship between tax incentives and the performance of microcredit institutions. The R-square value of 0.899 indicates that 89.9% of the variation in microfinance institutions' performance is explained by tax incentives, suggesting a very high explanatory power of the model. The Durbin-Watson statistic of 1.246 suggests that there is no significant autocorrelation in the residuals, which supports the model's assumptions of independence.

Table 4: Coefficients

Model		Unstandardised Coefficients		Standardised Coefficients	
		B	Std. Error	Beta	t
1	(Constant)	.060	.076		.789
	Tax Incentives	.985	.018	.948	54.130

a. Dependent Variable : Microfinance Institutions

The coefficients table further supports the significance of tax incentives in influencing the performance of microcredit institutions. The unstandardised coefficient for tax incentives is 0.985 with a standard error of 0.018, and the t-statistic of 54.130 is highly significant ($p = 0.000$). This indicates that for each unit increase in tax incentives, the performance of microcredit institutions is expected to increase by 0.985 units. The standardised beta coefficient of 0.948 underscores the strength of the relationship between tax incentives and microcredit institutions' performance.

Consequently, based on the statistical evidence from the model, the null hypothesis (Ho1) that postulates that tax incentives have no significant effect on the performance of micro-credit institutions and SMEs in Ilorin, Kwara State, is rejected. The research established its alternative hypothesis and obtained statistically significant positive effects of tax incentives on the performance of microfinance institutions using the data.

Ho2: The performance of microcredit institutions has no significant impact on the financing of SMEs in Ilorin, Kwara State.

Table 5: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.670 ^a	.448	.447	.8876	.177

a. Predictors : (Constant), Microfinance Institutions

b. Dependent Variable: SMEs Financing

The model summary reveals a strong positive relationship between the performance of microcredit institutions and the financing of SMEs in Ilorin, Kwara State, with an R-square value of 0.448. This indicates that 44.8% of the variation in SME financing can be explained by the performance of microcredit institutions. The Durbin-Watson statistic of 0.177 suggests that there is a low level of autocorrelation in the residuals, which implies that the assumptions of independence for the error terms are likely met, supporting the validity of the model.

Table 6: Coefficients^a

Model		Unstandardised Coefficients		Standardised Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.996	.177		5.613	.000
	Microfinance Institutions	.696	.043	.670	16.349	.000

a. Dependent Variable: SMEs Financing

The coefficients table further strengthens the case for the significant impact of microcredit institutions on SME financing. The unstandardised coefficient for microcredit institutions is 0.696, with a p-value of 0.000, which is highly significant. This indicates that for each unit increase in the performance of microcredit institutions, the financing provided to SMEs increases by 0.696 units. The standardised beta coefficient of 0.670 confirms the strength of the relationship between the performance of microcredit institutions and the financing of SMEs, showing a strong and positive impact.

Based on the statistical evidence, the null hypothesis Ho2, which posits that the performance of microcredit institutions does not make any significant impact on the financing of SMEs in Ilorin, Kwara State, is rejected. The result is supportive of an alternative hypothesis that shows performance of the microfinance institutions plays a significant and positive role in the funding of SMEs.

Discussion of Findings

The findings from the model summary reveal a strong positive relationship between tax incentives and the performance of microcredit institutions in Ilorin, Kwara State. With an R-square value of 0.899, it is evident that tax incentives explain a significant portion (89.9%) of the variation in the performance of these institutions. This high

explanatory power suggests that tax incentives are a crucial factor in the success of microcredit institutions in the region. The empirical studies by Udeh, Odion, and Izevbekhai (2022), as well as Ojeka (2011), echo these findings, highlighting the importance of favourable tax policies in promoting the growth and development of SMEs. Udeh et al. (2022) found that excessive tax burdens hinder SME growth, suggesting that lower taxes could boost performance. Similarly, Ojeka (2011) emphasised that lower taxes allow SMEs to reinvest their profits for growth, which aligns with the positive relationship observed in this study between tax incentives and microcredit institution performance.

Furthermore, the findings from the analysis of the second hypothesis reveal a strong and significant positive relationship between the performance of microcredit institutions and the financing of SMEs in Ilorin, Kwara State. The model summary shows an R-square value of 0.448, indicating that 44.8% of the variation in SME financing can be explained by the performance of microcredit institutions. This suggests that improvements in the performance of microcredit institutions are associated with a substantial increase in SME financing. Consequently, the null hypothesis (H_{02}), which suggested no significant effect of microcredit institutions on SME financing, is rejected, supporting the alternative hypothesis that microcredit institutions play a significant role in enhancing SME financing. This finding is consistent with the study of Udeh, Odion, and Izevbekhai (2022) who demonstrated how access to financing from microcredit institutions can alleviate the financial constraints faced by SMEs, thereby fostering their growth, which further corroborates the findings of this study.

Conclusion

From the findings of the study conducted to evaluate the influence of tax incentives on micro-credit institutions and their impact on SMEs financing in Ilorin, Kwara State, the study contended that all variables are significantly connected. The results of analysis conducted revealed that a strong positive relationship (89.9%) between tax incentives and the performance of microcredit institutions. Similarly, the performance of microcredit institutions moderate significantly impacts SME financing, explaining 44.8% of the variation. Therefore, the study concluded that well-performing microcredit institutions are instrumental in improving access to financing for SMEs, which is critical for their growth and development.

Recommendations

From the conclusions made above, the following recommendations are put forth by the researcher with the aim of enhancing better SMEs financing:

- i. The government should design and implement more favourable tax incentives tailored to support microcredit institutions. This includes reducing compliance costs, providing tax holidays, and offering tax rebates that enable these institutions to channel more resources toward financing SMEs
- ii. Microfinance institutions should prioritise improving their operational efficiency, customer service, and loan accessibility to better support SMEs

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