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Assessing the Impact of Microfinance Institutions on Entrepreneurial Development of Selected Microfinance Banks in Sokoto State

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ABSTRACT
The study examined the impact of microfinance institutions on entrepreneurial development in Sokoto State, using Nagarta, LAPO, and NIRSAL Microfinance Banks as case studies. A total of 90 staff respondents across the three selected banks participated in the study. Data were collected using structured questionnaires and analyzed through descriptive statistics such as frequency and percentage, while inferential statistics (Chi-square) were used to test the hypotheses. Findings of the study revealed that access to microfinance credit has significantly improved entrepreneurs' business capital and growth, although high interest rates remain obstacle, it also showed that non-financial services—such as training, mentoring, and advisory support—have enhanced managerial skills, record-keeping, and business decision-making. Moreover, microfinance savings services were found to play a crucial role in promoting reinvestment, financial discipline, and access to larger loan facilities for expansion.
Keywords: microfinance institutions, entrepreneurial development, business decision-making

INTRODUCTION

Entrepreneurship is widely recognized as a vital engine of economic growth, innovation, and employment generation, especially in developing countries. The success of small and medium enterprises (SMEs) largely depends on their ability to access financial resources that enable them to start, expand, and sustain their operations. However, in most developing economies, entrepreneurs face persistent financial constraints due to limited access to formal credit facilities from commercial banks. To bridge this financing gap, microfinance institutions (MFIs) have emerged as a crucial mechanism for supporting entrepreneurial development, particularly among low-income individuals and small-scale business operators (Okoye & Nwoye, 2020).

Microfinance refers to the provision of small-scale financial services—such as credit, savings, insurance, and training—to entrepreneurs and low-income earners who are typically excluded from traditional banking services. According to Ezenwakwelu and Chukwuemeka (2021), microfinance institutions are designed to provide financial inclusion, empower individuals economically, and enhance entrepreneurial performance. In Nigeria, the establishment of the microfinance policy in 2005 was aimed at promoting self-employment, reducing poverty, and encouraging business innovation at the grassroots level. Since then, several microfinance banks have been established across the country, including in Sokoto State, to promote entrepreneurship and small business growth.

Despite the proliferation of microfinance banks in Nigeria, the expected outcomes in terms of entrepreneurial expansion and poverty alleviation have not been fully realized. Scholars such as Abdullahi and Musa (2019) argue that many entrepreneurs continue to struggle with business growth due to high interest rates, inadequate loan amounts, and limited technical support from MFIs. Similarly, Ibrahim and Bello (2022), observed that while access to microcredit can stimulate business start-up and expansion, its effectiveness depends largely on the accompanying non-financial services such as business training, mentoring, and financial literacy programs. In Sokoto State, the impact of microfinance institutions remains mixed, with some entrepreneurs reporting improvement in their businesses, while others claim little or no progress due to structural and managerial constraints.

Microfinance institutions, when effectively managed, can serve as catalysts for entrepreneurial development by providing not only credit but also capacity-building programs that enhance business management skills (Ogunleye & Abdulrahman, 2020). For instance, savings mobilization and financial advisory services help entrepreneurs develop financial discipline and reinvest profits for growth. According to Adebayo (2023), sustainable entrepreneurial development requires both financial and non-financial support systems that enable entrepreneurs to navigate the complexities of the business environment. Thus, evaluating the impact of microfinance institutions on entrepreneurial development in Sokoto State is essential to determine their effectiveness in promoting local enterprise growth and reducing unemployment.

Access to finance remains one of the most significant barriers to entrepreneurship in Nigeria. Although microfinance institutions were established to address this issue, many entrepreneurs in Sokoto State continue to experience financial exclusion. Several microfinance banks have been operating in the state for years, yet the contribution of these institutions to entrepreneurial development appears uncertain. Studies indicate that issues such as limited loan sizes, stringent collateral requirements, high interest rates, and weak monitoring mechanisms have hindered the effective use of microfinance facilities (Yahaya & Danladi, 2021).

Furthermore, while some microfinance banks provide training and advisory services to their clients, others focus solely on loan disbursement, thereby neglecting the human capacity aspect of entrepreneurship (Usman & Aliyu, 2022). As a result, many small businesses fail to grow beyond subsistence level, leading to persistent unemployment and poverty. There is, therefore, a need to investigate the extent to which microfinance institutions in Sokoto State have influenced entrepreneurial performance, skills acquisition, and business expansion.

Despite the introduction of microfinance banks to promote entrepreneurship, many small business owners in Sokoto State still struggle to achieve meaningful growth and sustainability. Access to microcredit remains limited, with most entrepreneurs receiving loan amounts that are insufficient to expand their businesses effectively. In many cases, the credit terms—such as high interest rates and short repayment periods—discourage entrepreneurs from borrowing or lead to loan defaults, thereby weakening business performance (Yahaya & Danladi, 2021). Moreover, non-financial support services such as business training, mentoring, and advisory programs are either inadequate or inconsistently provided by most microfinance institutions, leaving entrepreneurs without the necessary managerial and financial skills to sustain their ventures (Ibrahim & Bello, 2022). Similarly, although microfinance savings and other financial products are expected to promote capital accumulation and reinvestment, many entrepreneurs report little improvement in their savings culture or business expansion. These persistent challenges raise concerns about the actual effectiveness of microfinance institutions in driving entrepreneurial development in Sokoto State. This study therefore seeks to fill that gap by empirically examining the impact of microfinance institutions on entrepreneurial development using selected microfinance banks in Sokoto State as a case study.

The objectives of the study are as follows:

1. To examine the impact of microfinance credit facilities on entrepreneurial growth and performance in Sokoto State.

2. To assess the influence of non-financial services offered by microfinance institutions on entrepreneurial skills and business sustainability.

To determine the contribution of microfinance savings and other financial services to business expansion and capital accumulation among entrepreneurs A number of literatures were captured in this research which discuss the concepts of Microfinance institutions and entrepreneurship development.

Concept of Microfinance Institutions

Microfinance institutions (MFIs) are specialized financial organizations that provide financial services such as credit, savings, insurance, and training to low-income individuals and small-scale entrepreneurs who are traditionally excluded from the formal banking sector. The concept of microfinance emerged as a development strategy to promote financial inclusion, reduce poverty, and stimulate entrepreneurship among marginalized populations (Adewumi & Bello, 2023).

According to Eze and Ugwoke (2020), MFIs help to reduce poverty by enabling individuals to invest in income-generating activities. In Nigeria, microfinance banks emerged from the need to provide credit facilities to small-scale entrepreneurs who were traditionally excluded from formal credit markets.

According to the Central Bank of Nigeria (CBN, 2020), microfinance institutions are established to deliver affordable financial services to economically active poor individuals and microenterprises with the aim of enhancing their productivity and standard of living. These institutions operate through microcredit, microsavings, and other financial products tailored to meet the needs of people who lack collateral or formal credit history. Yusuf and Ibrahim (2019) define microfinance institutions as "development-oriented financial intermediaries designed to provide small-scale financial and non-financial services to clients excluded from mainstream banking." Their primary goal is to empower entrepreneurs by improving access to capital and providing the technical support necessary for business sustainability.

Similarly, Oluwafemi and Ojo (2021) view microfinance institutions as catalysts for grassroots development, emphasizing that they serve as bridges between the informal and formal financial sectors. By providing financial intermediation, they promote the mobilization of savings, investment in small businesses, and employment generation. World Bank (2021) describes microfinance as an effective tool for promoting financial inclusion and entrepreneurship, especially in developing economies where the majority of small business operators lack access to conventional credit facilities. Through their lending and support programs, microfinance institutions foster income generation, gender empowerment, and community development.

Microfinance institutions are essential mechanisms for empowering low-income entrepreneurs through access to affordable finance and business development services. They contribute significantly to poverty reduction, employment creation, and the overall growth of the small and medium enterprise (SME) sector in Nigeria (Suleiman & Ibrahim, 2022).

Concept of Entrepreneurship and Entrepreneurial Development

Entrepreneurship refers to the process of identifying business opportunities, mobilizing resources, and managing risks to create goods and services for profit (Adebayo, 2023). Entrepreneurial development, on the other hand, is a deliberate process of enhancing the skills, knowledge, and abilities of individuals to effectively manage and grow enterprises (Okonkwo & Nwosu, 2021). Microfinance institutions contribute to this development by providing entrepreneurs with both financial and non-financial support necessary for business sustainability. Ogunleye and Abdulrahman (2020) assert that entrepreneurship flourishes in an environment where individuals can access affordable credit, relevant training, and advisory services. Thus, MFIs act as both financial enablers and capacity builders.

Entrepreneurship is a key driver of innovation, employment generation, and economic development in both developed and developing economies. It involves the process of identifying business opportunities, mobilizing resources, taking risks, and creating value through new or improved products and services. Entrepreneurship is widely regarded as the engine that propels small and medium enterprise (SME) growth and promotes sustainable development (Ogunleye, 2021).

According to Hisrich, Peters, and Shepherd (2020), entrepreneurship is "the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks, and receiving the resulting rewards of monetary and personal satisfaction." This definition highlights innovation, risk-taking, and value creation as core elements of entrepreneurship.

Similarly, Adebayo and Yusuf (2019) define entrepreneurship as the capacity and willingness of individuals to develop, organize, and manage a business venture, especially in response to opportunities identified within their economic environment. It involves creativity, decision-making, and strategic thinking aimed at exploiting market gaps to achieve profit and growth. Kuratko (2022) further explains entrepreneurship as a dynamic process through which individuals pursue opportunities without regard to resources they currently control, emphasizing innovation and proactiveness. In this sense, entrepreneurs act as change agents who introduce new products, methods, and markets that improve productivity and social welfare. In the Nigerian context, Olawale and Okafor (2020) argue that entrepreneurship plays a pivotal role in addressing unemployment, promoting local content, and enhancing self-reliance among the youth. Entrepreneurs contribute to national development by transforming local resources into value-added goods and services that stimulate economic diversification.

Additionally, Schumpeter's innovation theory of entrepreneurship underscores the entrepreneur as an innovator who disrupts market equilibrium by introducing new combinations of production factors, thereby driving economic growth (Schumpeter, 2021). This theory remains relevant in contemporary economies where innovation and adaptability are crucial for business survival.

From the above definitions, entrepreneurship can be viewed as both a mindset and a process that encourages creativity, risk management, and opportunity exploitation to achieve sustainable business outcomes. It remains a central mechanism for economic empowerment and poverty reduction, particularly when supported by access to finance through microfinance institutions (Adewumi & Bello, 2023).

Role of Microfinance in Economic Growth

Microfinance contributes significantly to economic growth by promoting self-employment, income generation, and social empowerment. By providing credit to micro-entrepreneurs, MFIs stimulate business creation, enhance productivity, and reduce unemployment (Aliyu & Garba, 2020). In rural areas, microfinance helps bridge the gap between the formal and informal financial sectors, fostering community-based development. Empirical studies have shown that microfinance activities improve living standards and contribute to the Gross Domestic Product (GDP) through small business expansion and local investment (Ezenwakwelu & Chukwuemeka, 2021).

Microfinance Services and Entrepreneurial Development

Microfinance services can be broadly classified into financial and non-financial services. The financial services include microcredit, microsavings, and microinsurance, while the non-financial services involve business training, advisory support, and monitoring (Ibrahim & Bello, 2022). Credit facilities help entrepreneurs acquire working capital, expand production, and invest in technology. Meanwhile, savings mobilization promotes financial discipline and enables entrepreneurs to reinvest profits. Non-financial services are equally vital as they enhance managerial competence and improve decision-making capacity (Adebayo, 2023). The combined impact of these services determines the overall effectiveness of microfinance institutions in fostering entrepreneurial development.

Challenges of Microfinance Institutions in Nigeria

Despite their importance, microfinance institutions face numerous challenges that affect their efficiency. These include inadequate capital, poor loan recovery, high default rates, weak regulatory supervision, and limited outreach, especially in rural areas (Yahaya & Danladi, 2021). High interest rates and short repayment periods often discourage borrowers or lead to business failure. In addition, poor record-keeping, low financial literacy, and political interference further weaken the sustainability of MFIs (Usman & Aliyu, 2022). These challenges undermine their capacity to support small businesses effectively.

METHODOLOGY

The study was basically a descriptive survey design which is concern with the collection or data or the purpose of describing and interpreting the existing problems. The instrument for data collection was Questionnaire. The response scale was structured in line with the 4-point Likert scale of measurement: strongly agree (SA) 4 points; (A) = 3 points; Disagree (D) = 2 points and Strongly Disagree (SD) = I point.

The population of this study comprises all staff members of selected microfinance institutions operating within Sokoto State. Specifically, the study focuses on three major microfinance banks: Nagarta Microfinance Bank, LAPO Microfinance Bank, and NIRSAL Microfinance Bank. These institutions were selected due to their active involvement in supporting entrepreneurship and small business financing across the state. The total target population consists of all managerial, credit, and administrative staff who directly engage in microfinance operations. A total of 90 respondents were selected for this study, comprising 30 staff members each from the three selected microfinance banks — Nagarta, LAPO, and NIRSAL Microfinance. The sample size was considered adequate to represent the population while ensuring the results are statistically meaningful (Kothari, 2019). A purposive sampling technique was adopted to select the respondents. This technique was chosen because it allows the researcher to deliberately target individuals who possess relevant knowledge and experience about the operations of microfinance institutions and their impact on entrepreneurship (Adebayo & Ibrahim, 2022).

Data Collection

The study utilized primary data obtained directly from respondents through a structured questionnaire. The questionnaire was designed using both close-ended and open-ended questions divided into sections that reflect the study's objectives and research questions. It covered areas such as the nature of microfinance services, accessibility of credit, non-financial support, and entrepreneurial performance. The researcher personally distributed and retrieved the questionnaires with the assistance of trained research aides. This approach ensured a high response rate and minimized cases of incomplete or misplaced responses (Usman & Aliyu, 2022).

FINDINGS

The findings of this study are largely consistent with earlier research on the role of microfinance institutions in promoting entrepreneurial development in Nigeria and other developing economies. Microfinance credit access boosts entrepreneurs' capital and growth despite high interest rate challenges, Non-financial services from microfinance institutions improve managerial competence and business sustainability, and Savings services strengthen reinvestment and access to future credit, encouraging long-term entrepreneurial growth. The alignment between the present findings and prior research underscores the integral role of microfinance institutions in fostering entrepreneurship through a mix of credit provision, capacity building, and savings mobilization. The results reaffirm that, despite some structural and cost-related challenges, microfinance remains a vital instrument for stimulating inclusive economic development in Nigeria.

CONCLUSION

It can be concluded that microfinance institutions significantly contribute to entrepreneurial development in Sokoto State through a combination of credit, savings, and non-financial support services. Microfinance credit improves access to capital and helps entrepreneurs expand their operations, while savings schemes encourage financial discipline and reinvestment. Non-financial services, on the other hand, foster managerial competence and long-term business sustainability. However, the study also revealed that high interest rates and limited loan sizes remain key constraints that hinder the full potential of microfinance in promoting entrepreneurship. This implies that while microfinance institutions have proven effective in reducing financial exclusion, their operational practices require more flexibility and affordability to maximize their developmental impact. Overall, microfinance institutions remain vital

partners in advancing grassroots entrepreneurship, employment generation, and poverty alleviation in Nigeria.

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