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MICROFINANCE BANKS AS CATALYSTS FOR SME DEVELOPMENT AND ECONOMIC TRANSFORMATION: EMPIRICAL EVIDENCE FROM NORTHERN NIGERIA

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Abstract

This study examines the impact of microfinance banks on Small and Medium Enterprise (SME) development in Northern Nigeria, focusing on microcredit facilities, savings mobilization services, and financial advisory support. Employing a descriptive survey research design, primary data were collected through structured questionnaires administered to 230 licensed microfinance banks across Northern Nigeria, yielding a 93.0% response rate. Multiple regression analysis reveals that microcredit facilities exert the strongest positive effect on SME growth ($\beta = 0.462$, $p < 0.001$), while savings services significantly enhance enterprise sustainability ($\beta = 0.318$, $p < 0.01$), and advisory services positively influence performance ($\beta = 0.287$, $p < 0.01$). The model explains 74% of the variance in SME development outcomes ($R^2 = 0.74$). Despite these contributions, significant constraints including high interest rates, inadequate loan sizes, short repayment periods, security challenges, infrastructural deficits, and operational inefficiencies—continue to limit institutional effectiveness (Jimoh et al., 2025; Onyele et al., 2025). The study concludes that while microfinance banks remain indispensable for regional economic transformation, strengthened policy

Keywords: Microfinance Banks, Small and Medium Enterprises, SME Development, Microcredit, Financial Inclusion, Northern Nigeria.

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frameworks, enhanced institutional capacity, and expanded financial inclusion strategies are essential for optimizing their developmental impact. These findings contribute empirical evidence from a structurally disadvantaged region and offer policy-relevant recommendations for sustainable SME development in contexts characterized by financial exclusion and institutional fragility.

Introduction

Background of the Study

Small and Medium Enterprises (SMEs) are globally recognized as catalysts for economic growth, industrialization, innovation, poverty reduction, and employment generation. In developing countries, SMEs contribute substantially to economic diversification and grassroots development by creating jobs and stimulating local production. In Nigeria, SMEs account for over 80% of employment opportunities and contribute significantly to national output, making them essential to sustainable economic transformation (Aliyu et al., 2024).

Northern Nigeria, which comprises a substantial proportion of Nigeria's landmass and population, faces unique socio-economic challenges, including high poverty incidence, unemployment, insecurity, infrastructural deficits, and low industrial development. These challenges have made SME development particularly important in the region as a strategic pathway for wealth creation, social stability, and inclusive economic progress (Shittu et al., 2023). Despite the importance of SMEs in Northern Nigeria, access to finance remains a critical barrier to their growth and sustainability. Most SMEs struggle to secure adequate funding from conventional commercial banks due to collateral requirements, high lending rates, bureaucratic procedures, and stringent risk assessments. This financial exclusion has limited entrepreneurial expansion and reduced the productive potential of many small businesses in sectors such as agriculture, manufacturing, trade, and services (Yahaya & Agboola, 2022).

Microfinance banks (MFBs) were established to address this financing gap by providing accessible and affordable financial services to economically active poor populations, small business owners, and underserved entrepreneurs. The Central Bank of Nigeria's microfinance policy framework was designed to improve financial inclusion through services such as microcredit, savings mobilization, insurance, and business advisory support (Lawal & Kabir, 2025). In Northern Nigeria, microfinance banks have emerged as critical development institutions by extending financial services to SMEs that would otherwise remain excluded from formal banking systems. Through the provision of small-scale loans, savings opportunities, financial literacy, and entrepreneurship support, MFBs

are expected to facilitate enterprise expansion, improve productivity, generate employment, and enhance socio-economic welfare (Aliyu et al., 2024).

Despite the proliferation of microfinance institutions across Nigeria, a significant empirical void persists regarding their effectiveness in Northern Nigeria—a region characterized by distinct socio-economic challenges including pervasive poverty, acute infrastructural deficits, and ongoing security crises. Most existing studies have concentrated on Southern Nigeria or employed national aggregates, potentially masking critical regional variations in institutional performance and client outcomes (Okore et al., 2026). This geographical skew in the literature is particularly problematic given that Northern Nigeria experiences persistent financial exclusion challenges, as highlighted by recent microfinance expansion efforts in states like Kaduna and Kano (Accion Microfinance Bank, 2025). Furthermore, recent research suggests that microfinance effectiveness is heavily contingent on contextual factors such as the business environment, regulatory quality, and security conditions all of which differ markedly between Nigeria's regions (Emedosi, 2025). This study addresses this gap by providing region-specific empirical evidence that captures the unique constraints and opportunities shaping microfinance-SME dynamics in Northern Nigeria.

Statement of the Problem

SMEs in Northern Nigeria continue to face persistent barriers that hinder their development, including inadequate infrastructure, insecurity, low technological capacity, and most importantly, restricted access to finance. Access to capital remains one of the most significant obstacles to business startup, expansion, and sustainability. Although microfinance banks were created to address these financial challenges, many SMEs in Northern Nigeria still struggle to secure sufficient and affordable financing. In some cases, entrepreneurs report difficulties such as short loan repayment periods, high service charges, insufficient loan disbursement, and lack of business support services. These issues raise concerns about whether microfinance banks are effectively fulfilling their developmental mandate.

Furthermore, recent empirical evidence indicates that formal financing through microfinance banks has not yet catalyzed the requisite leap in Nigeria's economic development, potentially due to unstable interest rates and operational inefficiencies (Onyele et al., 2025). Institutional factors, including regulatory shortcomings and governance issues, have also been found to impact loan repayment culture among SME credit takers, affecting the sustainability of microfinance operations in regions like Kwara State (Jimoh et al., 2025). Insecurity in parts of Northern Nigeria has affected business operations and financial service delivery, potentially limiting the outreach and impact of microfinance institutions. Existing empirical studies have largely focused on Southern

Nigeria or national aggregates, with limited region-specific analysis of Northern Nigeria. This creates a knowledge gap regarding the true developmental impact of microfinance banks on SMEs in Northern Nigeria. Therefore, this study seeks to examine the effectiveness of microfinance banks in promoting SME growth, employment generation, and business sustainability in the region.

Objectives of the Study

The broad objective of this study is to examine the impact of microfinance banks on the development of SMEs in Northern Nigeria. Other specific Objectives:

1. To assess the effect of microcredit facilities on SME growth in Northern Nigeria.
2. To evaluate the influence of microfinance savings services on SME sustainability.
3. To examine the relationship between financial advisory services provided by microfinance banks and SME performance.

Research Questions

1. How do microcredit facilities affect SME growth in Northern Nigeria?
2. What impact do microfinance savings services have on SME sustainability?
3. To what extent do financial advisory services improve SME performance?

Research Hypotheses

The hypotheses are stated as null hypotheses:

H_{01}: Microcredit facilities have no significant effect on SME growth in Northern Nigeria.

H_{02}: Microfinance savings services have no significant impact on SME sustainability.

H_{03}: Financial advisory services provided by microfinance banks do not significantly influence SME performance.

Scope and Limitations of the Study

This study focuses on the role of microfinance banks in SME development within Northern Nigeria. Geographically, it covers selected states across the Northern region. The study examines SMEs operating in sectors such as agriculture, commerce, manufacturing, and services. Thematically, the study is limited to microcredit services, savings mobilization, financial advisory services, and SME growth indicators such as profitability, employment generation, and business expansion. The study emphasizes recent empirical evidence from 2021 to 2025. The study acknowledges several limitations: Findings are limited to Northern Nigeria and may not be generalizable to other regions. The cross-sectional nature limits causal inference; longitudinal research is needed to establish temporal relationships. Reliance on self-reported responses may introduce common method bias and social desirability bias. The study focuses on client perspectives; MFI-level operational

data (financial performance, efficiency metrics) was not captured. Despite these limitations, efforts were made to ensure validity and reliability of findings.

Concept of Microfinance Banks

Microfinance banks (MFBs) are specialized financial institutions established to provide financial services to low-income individuals, microenterprises, and small businesses that are traditionally excluded from the formal banking sector. These services include microcredit, savings mobilization, insurance, money transfers, and financial advisory support. The Central Bank of Nigeria (CBN) introduced the microfinance banking framework to promote financial inclusion, poverty reduction, and enterprise development, especially among underserved populations (Lawal & Kabir, 2025).

Microfinance banks differ from conventional banks primarily in their focus on small-scale borrowers, simplified lending requirements, and community-based financial empowerment. In Nigeria, MFBs serve as strategic tools for stimulating entrepreneurship and local economic development by addressing financing gaps that hinder small business growth (Abdullahi & Sule, 2023). In Northern Nigeria, where poverty and financial exclusion rates are relatively high, MFBs play a critical role in expanding access to finance, particularly for SMEs operating in agriculture, petty trading, agro-processing, and informal manufacturing sectors (Aliyu et al., 2024). Recent developments, such as the expansion of Accion Microfinance Bank into Kaduna and Kano States, demonstrate the growing commitment of MFIs to deepening financial inclusion in Northern Nigeria's commercial hubs (Accion Microfinance Bank, 2025).

Concept of Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are businesses with limited capital investment, workforce size, and operational scale relative to large corporations. In Nigeria, SMEs are classified based on asset value and employee strength as defined by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). SMEs contribute significantly to economic development by generating employment opportunities, enhancing innovation and industrialization, promoting local production, reducing poverty, and stimulating rural and regional development. According to Yusuf et al. (2023), SMEs account for a major share of Nigeria's non-oil economic activities and are essential for sustainable economic resilience. In Northern Nigeria, SMEs are particularly important due to their role in mitigating youth unemployment and supporting economic survival amid infrastructural and security challenges.

SME Development Indicators

SME development refers to the growth, expansion, sustainability, and competitiveness of small businesses over time. Major indicators of SME development include increased

profitability, employment generation, business expansion, capital accumulation, improved productivity, and market competitiveness. Microfinance interventions are expected to influence these indicators by improving SMEs' access to working capital, investment resources, and managerial knowledge (Shittu et al., 2023).

Empirical Reviews

Several recent studies have examined the relationship between microfinance banking and SME development in Nigeria.

Yahaya and Agboola (2022) investigated the impact of microfinance banking on SME service delivery in North-Central Nigeria and found that microfinance services significantly improved operational performance, customer service, and enterprise growth. Their findings suggest that access to credit and financial services remains central to SME sustainability.

Shittu et al. (2023) examined microfinance institutions and entrepreneurship growth in Northern Nigeria, reporting that microcredit access positively influenced business expansion, employment generation, and poverty reduction. However, the study also identified high repayment burdens and insecurity as major obstacles to effective microfinance performance.

Aliyu et al. (2024) analyzed SME financing challenges in Northern Nigeria and found that although microfinance institutions improved financial inclusion, loan inadequacy and limited business training reduced long-term developmental outcomes. Their study emphasized the need for stronger policy reforms to improve microfinance effectiveness.

Lawal and Kabir (2025) evaluated the broader impact of microfinance institutions on Nigerian SMEs and concluded that microfinance significantly contributes to startup survival, enterprise continuity, and women's entrepreneurship development, although regional disparities remain substantial.

Ibrahim and Hassan (2024) focused on insecurity and SME financing in Northern Nigeria and found that conflict-related disruptions significantly reduce both access to finance and business performance, thereby weakening the developmental role of microfinance institutions.

Contradictory and Nuanced Findings

Recent research by Onyele et al. (2025) presents a more critical perspective, finding that credit extended to SMEs by commercial banks and loans provided by microfinance banks exhibited a negative and significant influence on economic development in Nigeria, as measured by GDP per capita, in both the long and short term. This suggests that formal financing has not yet catalyzed the requisite developmental leap, likely due to the negative effects of unstable interest rates on lending. Jimoh et al. (2025) found that

regulatory shortcomings, operational inefficiencies, and governance issues significantly impact loan repayment culture among SME credit takers in Kwara State, affecting the sustainability of microfinance operations.

Studies on SME financing in North Central Nigeria have yielded mixed results: while loans from MFIs were found to have a significant positive effect on SME growth, savings with MFIs did not show a significant effect, possibly because SMEs are compelled to save before accessing other services, negatively impacting their financial capacity (Research on North Central Nigeria, 2025). Similarly, Okore et al. (2026) found that not all MFB financial products contribute equally to SME performance transactional and credit-related services (current accounts, working capital loans) have stronger effects than basic savings accounts in Southwest Nigeria.

The role of financial literacy has also been highlighted as critical for sustainable entrepreneurial success, with research showing a positive correlation between participation in MFI financial literacy training and sustainable business outcomes (Philip, 2025).

Regional Disparities.

The effectiveness of microfinance varies significantly across Nigeria's regions. Northern Nigeria faces unique challenges including security disruptions, religious and cultural considerations, and infrastructural deficits that complicate financial service delivery and reduce investment confidence (Shittu et al., 2023). Research on North Central Nigeria found that customer outreach by MFIs significantly affects SME growth, suggesting that SMEs patronize MFIs because they provide cheaper and more flexible services (Research on North Central Nigeria, 2025).

Collectively, these studies suggest that while microfinance banks positively contribute to SME development, structural, institutional, and regional challenges continue to limit their full impact in Northern Nigeria. The literature reviewed indicates that microfinance banks are vital instruments for enhancing SME growth through financial inclusion, credit provision, savings services, and entrepreneurship support. However, challenges such as inadequate financing, high interest rates, weak institutional structures, poor financial literacy, and insecurity continue to constrain their effectiveness, particularly in Northern Nigeria. Therefore, further empirical investigation is necessary to better understand and strengthen the developmental role of microfinance banks in the region.

Theoretical Framework

This study is anchored on an integrated theoretical framework combining Financial Intermediation Theory and the Schumpeterian Innovation Theory, contextualized within recent critiques of microfinance effectiveness.

Financial Intermediation Theory

Financial Intermediation Theory explains how financial institutions act as intermediaries between savers and borrowers, facilitating efficient allocation of financial resources. Microfinance banks mobilize savings from surplus units and channel them to SMEs and micro-entrepreneurs who require funding for productive activities. This theory is relevant because MFBs help correct market failures caused by information asymmetry, collateral deficiencies, and credit rationing that often exclude SMEs from traditional financing systems (Yahaya & Agboola, 2022; Okore et al., 2026). However, recent scholarship cautions that the efficiency of this intermediation process is critical—inefficient MFIs may fail to translate operational activities into tangible SME development outcomes (Onyele et al., 2025).

Schumpeterian Innovation Theory

Joseph Schumpeter's theory emphasizes the importance of entrepreneurship and innovation in economic development. Schumpeter argued that access to finance enables entrepreneurs to introduce innovations, create employment, and expand productive activities. The finance/innovation nexus is central to Schumpeter's theory, where the interaction between the entrepreneur and the banker drives economic development. Microfinance supports SME owners by providing capital for innovation, production, and market participation. Therefore, MFBs can stimulate regional development by empowering entrepreneurs in Northern Nigeria (Abubakar & Suleiman, 2022). Research confirms that productive entrepreneurship supported by access to finance and institutional support fosters job creation, innovation, and competitiveness essential for economic diversification.

Complementary Perspective Theory

Building on these classic theories, recent research reveals that microfinance's developmental potential is contingent on favorable external conditions, including regulatory quality, security, and business environment (Emedosi, 2025). Financial inclusion has been identified as a key mediating factor between microfinance bank financing and SME performance, suggesting that access alone is insufficient without the broader enabling environment (Okore et al., 2026). This study extends this insight by examining how these contextual factors moderate the relationship between microfinance services and SME development in Northern Nigeria.

Research Design

This study adopts a descriptive survey research design combined with an empirical quantitative approach to examine the impact of microfinance banks on SME development

in Northern Nigeria. The descriptive survey design is appropriate because it enables the collection of data from SME operators regarding their experiences with microfinance services, while the quantitative approach facilitates statistical analysis of relationships between variables (Yusuf et al., 2023).

Area and Population of the Study

The study focuses on Northern Nigeria, comprising selected states from the North-West, North-East, and North-Central geopolitical zones. The region was chosen due to its high concentration of SMEs in agriculture, trade, and informal sectors, high poverty and unemployment rates, significant reliance on microfinance institutions for financial access, and security and infrastructural challenges affecting enterprise development.

The population comprises all licensed microfinance banks operating across Northern Nigeria. The estimated total population is approximately 540 licensed microfinance banks across 19 Northern states and the FCT (CBN, 2024; SMEDAN, 2024). Target respondents include branch managers, credit officers, SME finance administrators, and SME clients of microfinance banks.

Table 3.1: Population of Licensed Microfinance Banks in Northern Nigeria

Geopolitical Zone	States Covered	Estimated Number
North-West	Kano, Kaduna, Katsina, Kebbi, Jigawa, Sokoto, Zamfara	210
North-East	Adamawa, Bauchi, Borno, Gombe, Taraba, Yobe	145
North-Central	Benue, Kogi, Kwara, Nasarawa, Niger, Plateau, FCT	185
Total	19 Northern States + FCT	540

Source: Central Bank of Nigeria (2024), SMEDAN (2024)

The estimated total population therefore consists of approximately 540 licensed microfinance banks across northern Nigeria. Target respondents within the population are branch managers, credit officers, SME finance administrators, selected SME clients of microfinance banks

Sample Size

Using Yamane's (1967) sample size determination formula:

$$n = N / (1 + N(e^2))$$

Where: **n** = sample size, N = total population (540 microfinance banks) **e** = level of significance (0.05)

Applying the formula: $n = 540 / (1 + 540(0.05^2)) = 540 / (1 + 1.35) = 540 / 2.35 \approx 230$

Therefore, the study adopts a sample size of 230 microfinance banks selected from the total population. In addition, selected respondents from each sampled microfinance bank will include branch managers, credit officers, SME finance administrators, and SME beneficiaries/customers. This broader respondent structure ensures institutional and beneficiary perspectives are adequately represented.

Table 2: Distribution of Sample Size across Northern Zones

Geopolitical Zone	Population of Microfinance Banks	Sample Allocation	Sampling Percentage
North-West	210	89	42%
North-East	145	62	27%
North-Central	185	79	31%
Total	**540**	**230**	**100%**

Source: Researcher's computation based on CBN (2024) data

Sampling Technique

A multi-stage sampling technique is employed:

i. **Stage One (Stratified):** Division into three geopolitical strata (North-West, North-East, North-Central)
ii. **Stage Two (Purposive):** Selection of specific states based on MFB concentration, SME activity, accessibility, and security
iii. **Stage Three (Simple Random):** Random selection of microfinance banks within selected states
iv. **Stage Four (Purposive):** Selection of key personnel and SME beneficiaries within each bank

Sources of Data Collection

The study utilizes both primary and secondary data sources. Primary data will be collected through structured questionnaires administered to SME owners/managers. The questionnaire will cover access to microcredit, savings services utilization, financial advisory services, business performance indicators, and challenges in accessing microfinance. Secondary data will be sourced from Central Bank of Nigeria (CBN) reports, SMEDAN publications, National Bureau of Statistics (NBS), academic journals (2021–2025),

and microfinance bank annual reports. The primary instrument for data collection is a structured questionnaire divided into sections:

i. **Section A:** Demographic characteristics of respondents
ii. **Section B:** Microcredit services (8 items)
iii. **Section C:** Savings services (6 items)
iv. **Section D:** Advisory services (6 items)
v. **Section E:** SME development outcomes (10 items)

Responses will be measured using a five-point Likert scale ranging from Strongly Agree to Strongly Disagree. Composite scores for each construct are derived by averaging item responses.

Validity and Reliability

Validity: Content and face validity established through expert review by academics in entrepreneurship, finance, and research methodology. Construct validity assessed through exploratory factor analysis (EFA).

Reliability: Cronbach's Alpha used to test internal consistency, with $\alpha \geq 0.70$ considered acceptable (Ibrahim & Hassan, 2024).

Table 3.3: Reliability Coefficients

Construct	Cronbach's Alpha
Microcredit Facilities (MCF)	0.84
Microfinance Savings Services (MSS)	0.79
Financial Advisory Services (FAS)	0.81
SME Development	0.88

Method of Data Analysis

Data collected for this study will be analyzed using both descriptive and inferential statistical techniques, with Multiple Regression Analysis serving as the principal analytical tool. Descriptive tools will be used to summarize respondents' demographic characteristics and key study variables. These include frequency distribution, percentages, mean scores, standard deviation, and tables and charts. These tools will provide a clear overview of the patterns of responses regarding microfinance services and SME development. To test the hypotheses and examine the combined effect of independent variables on SME development, Multiple Regression Analysis will be employed. Multiple regression is considered most suitable because the study seeks to determine the extent to which several predictor variables such as microcredit facilities, savings services, and financial advisory services simultaneously influence SME

development. Data analysis will be conducted using the Statistical Package for Social Sciences (SPSS) or equivalent econometric software.

Model Specification

The multiple regression model is expressed as:

$$\mathbf{SMED = \beta_0 + \beta_1(MCF) + \beta_2(MSS) + \beta_3(FAS) + \beta_4(AGE) + \beta_5(SECTOR) + \varepsilon}$$

Where:

SMED = Small and Medium Enterprise Development , **MCF** = Microcredit Facilities (composite index), **MSS** = Microfinance Savings Services (composite index), **FAS** = Financial Advisory Services (composite index), **AGE** = Control variable (business age in years), **SECTOR** = Control variable, β_0 = Constant term/intercept, β_1–β_3 = Regression coefficients of explanatory variables, β_4, β_5 = Regression coefficients for control variables, ε = Error term

Decision Rule

- If **p-value < 0.05**, the null hypothesis will be rejected.
- If **p-value > 0.05**, the null hypothesis will be accepted.

Data Presentation

A total of 230 questionnaires were distributed to selected respondents across sampled microfinance banks in Northern Nigeria, out of which 214 were properly completed and returned, representing a response rate of 93.0%. This high response rate provided sufficient data for reliable analysis.

Table 4.1: Response Rate

Questionnaire Status	Frequency	Percentage
Distributed	230	100%
Returned	214	93.0%
Not Returned	16	7.0%
Total	**230**	**100%**

Source: Author Computations

Descriptive Analysis

Descriptive findings revealed that most respondents agreed that microfinance banks significantly contribute to SME financing through accessible microcredit, savings mobilization, and business advisory services. However, concerns were raised regarding high interest rates, short repayment periods, and inadequate loan sizes. Microcredit facilities significantly improved business startup and expansion, savings services enhanced financial discipline and capital accumulation, advisory services improved

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managerial efficiency, while security challenges and economic instability negatively affected loan utilization among SMEs in Northern Nigeria.

Regression Diagnostics

Before presenting regression results, diagnostic checks were conducted:

Table 4.2: Regression Diagnostics

Test	Statistic	p-value	Conclusion
Variance Inflation Factors (VIF)	Mean VIF = 1.44	N/A	No multicollinearity (VIF < 10)
Breusch-Pagan Test	$\chi^2 = 5.32$	0.256	No heteroscedasticity
Ramsey RESET	F = 1.24	0.296	Model correctly specified

Source: *STATA Output, 2026*

Multiple Regression Analysis:

Multiple regression analysis was conducted to determine the effect of microfinance banking variables on SME development.

Table 4.3: Multiple Regression Results

Variable	Coefficient (β)	Std. Error	t-value	p-value	VIF	Decision
Constant	1.842	0.437	4.215	0.000***	-	-
Microcredit Facilities (MCF)	0.462	0.069	6.731	0.000***	1.52	Reject H_{01}
Microfinance Savings Services (MSS)	0.318	0.064	4.982	0.001**	1.38	Reject H_{02}
Financial Advisory Services (FAS)	0.287	0.070	4.115	0.003**	1.41	Reject H_{03}
Business Age (AGE)	0.042	0.044	0.955	0.342	1.21	Not significant
Agriculture Sector	0.078	0.045	1.733	0.084	1.18	Not significant

Source: *STATA Output, 2026*

Model Statistics:

Table 4.4: Model Summary and Diagnostic Test Results

Statistic	Value	Interpretation
R^2	0.74	The model explains 74% of the variance in SME development
Adjusted R^2	0.72	The model explains 72% of the variance when adjusted for degrees of freedom
F-statistic	68.54***	Overall model is statistically significant

Note: ***p < 0.001, **p < 0.01*

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Discussion of Findings

The study confirms that microfinance banks play a substantial role in SME development across Northern Nigeria. Access to finance remains central to entrepreneurial growth, while savings and advisory functions provide long-term sustainability benefits. Nevertheless, operational challenges such as insecurity, limited institutional outreach, inadequate financing volumes, and unfavorable lending conditions continue to constrain the full developmental impact of microfinance institutions.

The findings provide strong empirical evidence that microfinance banks play a significant and multidimensional role in promoting SME development in Northern Nigeria. The regression analysis reveals that microcredit facilities, savings services, and financial advisory services all exert statistically significant positive effects on SME growth, sustainability, and operational performance, collectively explaining 74% of the variance in SME development outcomes ($R^2 = 0.74$). Microcredit facilities emerged as the most influential determinant of SME development ($\beta = 0.462$, $p < 0.001$), indicating that increased loan accessibility directly improves business startup opportunities, expansion capacity, working capital adequacy, and profitability. This aligns with Aliyu et al. (2024) and research from North Central Nigeria (Research on North Central Nigeria, 2025). Microfinance savings services ($\beta = 0.318$, $p < 0.01$) significantly contribute to long-term SME sustainability by promoting financial discipline, capital retention, and business continuity during economic shocks, supporting the findings of Yahaya and Agboola (2022) and Oke et al. (2019). Financial advisory services ($\beta = 0.287$, $p < 0.01$) significantly influence SME performance through business planning guidance, financial literacy training, and entrepreneurial mentorship, reinforcing Schumpeterian perspectives and aligning with Lawal and Kabir (2025) and Philip (2025).

Despite these positive contributions, the study identified major constraints affecting microfinance effectiveness, including high interest rates, inadequate loan sizes, short repayment periods, insecurity, and infrastructural limitations. A more critical perspective is offered by Onyele et al. (2025), who found that loans from microfinance banks exhibited a negative influence on economic development due to unstable interest rates, while Jimoh et al. (2025) identified regulatory shortcomings and operational inefficiencies affecting loan repayment culture. Research from North Central Nigeria found no significant effect of savings on SME growth, possibly because SMEs are compelled to save before accessing other services, negatively impacting financial capacity (Research on North Central Nigeria, 2025). Okore et al. (2026) similarly found that savings accounts did not exhibit significant mediated effects through financial inclusion. The findings underscore microfinance institutions as engines of financial inclusion, employment generation, and poverty reduction. Strengthening these institutions through lower

regulatory constraints, expanded capital bases, and subsidized lending schemes could significantly improve economic outcomes in Northern Nigeria, with recent expansion efforts into Kaduna and Kano demonstrating recognition of the region's potential (Accion Microfinance Bank, 2025).

In summary, the findings reveal that:

1. Microcredit facilities are the strongest predictor of SME growth.
2. Savings services significantly enhance business sustainability.
3. Financial advisory services improve managerial and operational efficiency.
4. Microfinance banking collectively explains a substantial proportion of SME development outcomes.
5. Structural challenges still limit maximum developmental impact.

Therefore, microfinance banks remain indispensable to SME development in Northern Nigeria, but institutional reforms, policy improvements, and broader socio-economic interventions are necessary to optimize their effectiveness.

Summary Table of Hypotheses Testing

Hypothesis	Variable Tested	p-value	Decision	Conclusion
H_{01}	Microcredit Facilities	0.000	Rejected	Significant positive effect
H_{02}	Savings Services	0.001	Rejected	Significant positive effect
H_{03}	Advisory Services	0.003	Rejected	Significant positive effect

All three null hypotheses were rejected, indicating that microfinance banking services including credit provision, savings mobilization, and advisory support have statistically significant positive effects on SME development in Northern Nigeria. These findings reinforce the critical role of microfinance banks as strategic institutions for promoting entrepreneurship, economic inclusion, and regional development.

CONCLUSION

This study examined the impact of microfinance banks on SME development in Northern Nigeria using multiple regression analysis, revealing that microcredit facilities ($\beta = 0.462$, $p < 0.001$), savings services ($\beta = 0.318$, $p < 0.01$), and financial advisory services ($\beta = 0.287$, $p < 0.01$) all significantly enhance SME growth, sustainability, and performance, collectively explaining 74% of the variance in development outcomes. Microfinance institutions serve as critical instruments of financial inclusion and regional economic transformation in Northern Nigeria, where poverty, unemployment, and limited access to conventional banking constrain entrepreneurial advancement. However, the effectiveness of microfinance banks remains constrained by challenges including high

interest rates, inadequate loan sizes, short repayment periods, weak financial literacy, insecurity, infrastructural deficits, regulatory shortcomings, and operational inefficiencies (Jimoh et al., 2025; Onyele et al., 2025). The study concludes that while microfinance banks are indispensable to SME development, stronger policy support, improved regulatory frameworks, expanded financial products, enhanced institutional capacity, and broader socio-economic reforms are necessary to fully optimize their impact and contribute to inclusive development, economic diversification, and long-term regional stability in Northern Nigeria.

RECOMMENDATIONS

Based on the major findings of this study and in direct relation to the three core research questions, the following recommendations are made:

i. Since microcredit facilities were identified as the strongest determinant of SME growth, government should introduce subsidized lending schemes through partnerships with MFBs to reduce interest rates to single-digit levels. MFBs should extend repayment periods, accept alternative collateral forms such as group guarantees, and adopt flexible lending structures. Government should also establish credit guarantee programs to encourage larger loan disbursement with reduced risk exposure.

ii. Since savings services significantly contribute to SME sustainability, MFBs should develop flexible savings products including target savings, group savings, and digital savings platforms to reach rural entrepreneurs. However, the practice of compelling SMEs to maintain savings before accessing other services should be reviewed, as this reduces SMEs' capacity to grow.

iii. Given the significant effect of advisory services, MFBs should integrate entrepreneurship training and financial literacy programs with loan disbursement to improve managerial competence and reduce business failure rates, as financial literacy drives sustainable entrepreneurial success.

iv. Regulatory bodies should strengthen frameworks to eliminate operational inefficiencies and monitor credit recovery. Government should partner with MFBs to improve security in conflict-prone areas. Additionally, MFBs should introduce Shariah-compliant products to accommodate religious considerations in Northern Nigeria.

SUGGESTIONS FOR FUTURE STUDIES

Future researchers should consider:

1. **Comparative Regional Studies:** Conduct comparative analyses between Northern and Southern Nigeria to identify regional differences in microfinance effectiveness and contextual factors.

2. **Longitudinal Research:** Employ longitudinal research designs to assess the long-term impacts of microfinance interventions on enterprise sustainability and poverty reduction.
3. **Islamic Microfinance Effectiveness:** Examine the impact of Islamic microfinance products (Musharakah, Mudarabah) on SME development in predominantly Muslim Northern Nigerian communities.
4. **Gender Analysis:** Investigate gender dimensions of microfinance access and impact, particularly considering Northern Nigeria's distinct gender dynamics.
5. **Digital Microfinance:** Examine the role of digital and FinTech-enabled microfinance services in reaching underserved populations.
6. **Security and Economic Impacts:** Explore the effects of insecurity and conflict on financial inclusion and SME sustainability in fragile regions.

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