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EFFECT OF MICROFINANCE BANK LOANS ON THE GROWTH OF SMALL-SCALE ENTERPRISES IN NASARAWA STATE

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Abstract

Small-scale enterprises remain a vital engine of economic activity, employment generation, and poverty alleviation in Nasarawa State, yet many continue to struggle with inadequate access to formal capital. This study examined the effect of microfinance bank loans on the growth of small-scale enterprises in Nasarawa State, with particular attention to loan accessibility, repayment conditions, and business expansion outcomes. A survey research design was adopted, and primary data were obtained through the administration of structured questionnaires to purposively selected small-scale enterprise owners who had accessed credit facilities from microfinance banks operating within the state. The questionnaire covered respondents' demographic characteristics, loan acquisition experiences, utilisation of borrowed funds, and perceived changes in business turnover, asset base, and employment capacity following loan access. Data collected were analysed using descriptive statistics and the chi-square test to establish the significance of the relationship between microfinance lending and enterprise growth indicators. Findings reveal that microfinance bank loans have a statistically significant, generally positive

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effect on enterprise turnover and profitability, though this effect is considerably constrained by difficult loan accessibility, high interest rates, and a comparatively limited effect on asset accumulation and employment generation. The study recommends improved loan terms, simplified access procedures, and complementary business support services to strengthen the impact of microfinance institutions on small-scale enterprise development in the state.

Introduction

Background of the Study

Small-scale enterprises occupy a central place in the economic life of developing nations, serving as a major source of employment, income generation, and grassroots industrialisation. In Nigeria, small-scale enterprises account for a significant proportion of business establishments and contribute substantially to the non-oil sector of the economy. They range from petty trading, tailoring, agro-processing, and carpentry to small manufacturing and service-oriented ventures that thrive within local communities. In Nasarawa State, small-scale enterprises constitute a dominant feature of the economic landscape, providing livelihoods for a large segment of the population, particularly in urban centres such as Lafia, Keffi, Akwanga, and Nasarawa town, as well as in the rural areas where agro-based businesses flourish.

Despite the importance of small-scale enterprises to economic development, their growth and sustainability have continued to be hampered by a number of challenges, chief among which is inadequate access to finance. Conventional deposit money banks have historically been reluctant to extend credit facilities to small-scale entrepreneurs due to the perceived high risk associated with their operations, the absence of collateral, poor record-keeping practices, and the informal nature of most small businesses. This financing gap created the need for an alternative financial intermediation system that could reach the poor and low-income entrepreneurs who are excluded from the formal banking system.

It was against this background that microfinance banking emerged as a deliberate policy intervention aimed at bridging the financing gap for micro, small, and medium enterprises. The Central Bank of Nigeria, through the Microfinance Policy, Regulatory and Supervisory Framework introduced in 2005, licensed microfinance banks to provide financial services, including credit, savings, and other banking products, to economically active poor individuals and small-scale business operators who are ordinarily excluded from mainstream banking services (Central Bank of Nigeria, 2005). Microfinance banks were expected to serve as catalysts for the growth of small-scale enterprises by providing accessible, timely, and relatively affordable credit facilities.

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In Nasarawa State, several microfinance banks have been established to extend financial services to small-scale entrepreneurs, with the expectation that access to such credit facilities would translate into business expansion, increased turnover, improved capital base, and enhanced capacity to generate employment. However, the extent to which these loans have actually translated into measurable growth for small-scale enterprises in the state remains an empirical question that requires investigation. It is on this premise that this study seeks to examine the effect of microfinance bank loans on the growth of small-scale enterprises in Nasarawa State.

Statement of the Problem

Small-scale enterprises in Nasarawa State continue to grapple with the challenge of limited access to capital, which constrains their ability to expand operations, acquire modern equipment, increase stock, and take advantage of emerging business opportunities. Although microfinance banks were established to address this financing gap, several small-scale entrepreneurs still report difficulties in accessing loans due to stringent collateral requirements, high interest rates, short repayment periods, and cumbersome loan application procedures.

Furthermore, even where loans are successfully obtained, there are concerns as to whether such credit facilities are effectively translating into tangible business growth. Some entrepreneurs have expressed the view that the terms and conditions attached to microfinance loans, particularly high interest rates and rigid repayment schedules, sometimes place additional financial strain on their businesses rather than facilitating growth. Others contend that inadequate loan sizes, insufficient to meet actual business needs, limit the extent to which such facilities can make a meaningful difference. It is this uncertainty regarding the actual, lived effect of microfinance credit on enterprise growth in Nasarawa State that this study sets out to investigate empirically.

Objectives of the Study

The broad objective of this study is to examine the effect of microfinance bank loans on the growth of small-scale enterprises in Nasarawa State. The specific objectives are to:

I. Examine the level of accessibility of microfinance bank loans to small-scale enterprise owners in Nasarawa State;
II. Determine the effect of microfinance bank loans on the turnover and profitability of small-scale enterprises in Nasarawa State;
III. Assess the effect of microfinance bank loans on the asset base and employment capacity of small-scale enterprises in Nasarawa State;
IV. Identify the challenges small-scale enterprise owners encounter in accessing and utilising microfinance bank loans in Nasarawa State.

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Research Questions

I. What is the level of accessibility of microfinance bank loans to small-scale enterprise owners in Nasarawa State?
II. What effect do microfinance bank loans have on the turnover and profitability of small-scale enterprises in Nasarawa State?
III. What effect do microfinance bank loans have on the asset base and employment capacity of small-scale enterprises in Nasarawa State?
IV. What challenges do small-scale enterprise owners encounter in accessing and utilising microfinance bank loans in Nasarawa State?

Research Hypotheses

Ho1: Microfinance bank loans have no significant effect on the turnover and profitability of small-scale enterprises in Nasarawa State.
Ho2: Microfinance bank loans have no significant effect on the asset base and employment capacity of small-scale enterprises in Nasarawa State.

Significance of the Study

This study will provide empirical evidence to guide the formulation of policies aimed at strengthening microfinance institutions and improving access to finance for small-scale enterprises. To the academic community, the study will contribute to the existing body of literature on microfinance and enterprise development, particularly within the Nasarawa State context, and will serve as a reference point for future researchers interested in similar or related studies.

Scope of the Study

This study is restricted to an examination of the effect of microfinance bank loans on the growth of small-scale enterprises operating within Nasarawa State. The study focuses on small-scale enterprise owners who have accessed loan facilities from licensed microfinance banks operating in the state. Data for the study were obtained through the administration of structured questionnaires to purposively and randomly selected small-scale enterprise owners across selected local government areas of the state, including Lafia, Keffi, and Akwanga, which host a considerable concentration of small-scale business activities and microfinance bank branches.

Introduction

This chapter reviews relevant literature on the effect of microfinance bank loans on the growth of small-scale enterprises. The review is organised into four broad sections: the conceptual review, which clarifies the key concepts adopted in the study; the theoretical

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framework, which situates the study within relevant economic and financial theories; the empirical review, which examines findings from previous studies conducted within Nigeria and other developing economies between 2019 and 2025; and the gap in literature, which identifies precisely what this study adds to the existing body of knowledge.

Concept of Microfinance and Microfinance Banks

Microfinance refers to the provision of a broad range of financial services, including credit, savings, insurance, and money transfer facilities, to low-income individuals and micro, small, and medium enterprises that are typically excluded from conventional banking services. Microfinance banks were formally introduced into the Nigerian financial system through the Central Bank of Nigeria's Microfinance Policy, Regulatory and Supervisory Framework, with the objective of deepening financial inclusion and providing sustainable access to credit for economically active but financially excluded populations (Central Bank of Nigeria, 2005). Sabiu and Abduh (2021) describe microfinance institutions as important vehicles that fill the financing gap left by conventional banks by offering small, short-term loans on relatively flexible repayment terms and without the stringent collateral requirements associated with commercial banking. Esperance (2021) similarly notes that microfinance institutions have proven particularly effective in extending financial services to rural and semi-urban populations where formal banking presence remains limited. More recently, the growth of financial technology has begun to complement traditional microfinance delivery, with digital lending platforms and mobile-based financial services reducing transaction costs and improving the speed of loan processing for micro-entrepreneurs (Effiom & Edet, 2022).

Concept of Small-Scale Enterprises

Small-scale enterprises are generally characterised by a relatively small workforce, modest capital investment, and limited scale of operations, often owned and managed directly by an individual or a small group of proprietors. In the Nigerian context, small-scale enterprises span a wide range of activities, including trading, tailoring, agro-processing, artisan work, and other service-oriented ventures that are common features of both urban and rural economies. These enterprises are widely recognised as engines of employment generation, income distribution, and grassroots economic development, particularly in a developing economy such as Nigeria's, where the formal sector is unable to absorb the growing labour force. Despite their significance, small-scale enterprises are consistently constrained by limited access to formal credit, inadequate infrastructure, low managerial capacity, and an unstable macroeconomic environment (Adeosun, Shittu & Ugbede, 2023).

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Concept of Enterprise Growth

Enterprise growth refers to a measurable improvement in a business's scale of operation, and is commonly assessed through indicators such as increased turnover, expanded asset base, improved profitability, and enhanced capacity to generate employment. In the context of microfinance research, enterprise growth is often used as a proxy for the effectiveness of credit intervention, since the ultimate objective of extending loans to small-scale entrepreneurs is to enable them to expand their operations and improve their overall business performance. Soyemi, Olowofela and Ariyibi (2024) note that enterprise growth in the small business segment is closely tied to access to adequate and timely financing, as undercapitalisation remains one of the most significant constraints to business expansion in Nigeria.

Financial Intermediation Theory

The Financial Intermediation Theory, associated with the work of Diamond (1984) and further developed by subsequent scholars, holds that financial institutions exist primarily to reduce transaction costs and information asymmetries between surplus and deficit economic units. Financial intermediaries, such as microfinance banks, mobilise savings from depositors and channel them as credit to entrepreneurs who require capital for productive investment, thereby playing a critical role in bridging the gap between those who have surplus funds and those who need funds for business expansion. This theory is relevant to the present study because it provides the theoretical justification for the existence of microfinance banks as institutions established specifically to intermediate funds to small-scale enterprises that are unable to access credit through conventional banking channels, on account of information asymmetry and high transaction costs associated with lending to small, informal businesses.

Credit Rationing Theory

The Credit Rationing Theory, propounded by Stiglitz and Weiss (1981), explains that in credit markets characterised by imperfect information, lenders are often unable to accurately distinguish between high-risk and low-risk borrowers. As a result, lenders may restrict the amount of credit extended, or deny credit entirely, even to potentially viable enterprises, rather than raising interest rates to a level that would compensate for the additional risk, since higher interest rates could attract riskier borrowers and worsen the lender's overall loan portfolio. This theory is particularly relevant to small-scale enterprises, which are frequently characterised by weak financial records, absence of collateral, and limited credit history, making them more susceptible to credit rationing than larger, more established firms. The theory helps to explain why, despite the existence of microfinance banks, many small-scale entrepreneurs in Nasarawa State may

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still encounter difficulties in accessing adequate credit facilities to support business growth.

Empirical Review

Yusufu, Suleiman and Saliu (2020) examined the effect of microfinance banks on the growth of small and medium enterprises in Nigeria, adopting a descriptive survey approach complemented with regression analysis. The study, which focused on the Wuse business district in Abuja, found that fund transfer services and repayable loan facilities offered by microfinance banks contributed significantly to the expansion of small and medium enterprises operating in the area.

Onyeiwu, Muoneke and Obiukwu (2021) investigated the effect of microfinance bank credit and its debt-servicing obligations on the profitability of small and medium enterprises in Alimosho Local Government Area, Lagos State. Their findings revealed that access to microfinance credit had a positive relationship with enterprise profitability, although the burden of debt servicing under stringent repayment conditions posed a challenge to some enterprises.

Audu, Terzungwe and colleagues (2021) examined the role of microfinance bank deposits in sustaining lending operations, and found that microfinance banks with a stronger deposit base were better positioned to extend larger and more sustainable credit facilities to small-scale enterprise operators, thereby supporting enterprise growth over time.

Cole and Akintola (2021) studied the effect of microfinance activities on economic growth in Nigeria between 1999 and 2018 and reported that microfinance credit activities had significantly improved the performance of rural enterprises, reinforcing the argument that microfinance institutions play a catalytic role in grassroots economic development.

Akinadewo (2020) found that microfinance bank loans substantially promote entrepreneurial activities in rural areas, although the study noted that high operating costs incurred by microfinance banks often translate into higher lending rates, which in turn constrain the extent to which small-scale entrepreneurs can benefit fully from such credit facilities.

Adeosun, Shittu and Ugbede (2023) examined disruptive financial innovations among Nigerian micro-entrepreneurs and observed that while digital and microfinance-based financial innovations have expanded access to credit, structural challenges such as low financial literacy and inadequate loan sizes continue to limit the transformative effect of such credit on enterprise growth.

Soyemi, Olowofela and Ariyibi (2024) examined the financing of small and medium-scale enterprises in relation to economic growth in Nigeria and found that inadequate access to formal financing, including microfinance credit, remains one of the most significant constraints to the growth and competitiveness of small-scale enterprises in the country.

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Gap in Literature

While the studies reviewed above establish a fairly consistent link between microfinance bank credit and small-scale enterprise growth in Nigeria, three gaps remain. First, the bulk of the available evidence including Yusufu, Suleiman and Saliu (2020), Onyeiwu, Muoneke and Obiukwu (2021), and Cole and Akintola (2021) was generated in Lagos, Abuja, and other major commercial centres; comparatively little empirical work has examined this relationship specifically within Nasarawa State, despite the state's own concentration of microfinance-served small enterprises in Lafia, Keffi, and Akwanga. Second, most reviewed studies report a single, aggregated growth outcome, without distinguishing between the different dimensions of growth, turnover/profitability versus asset accumulation and employment capacity, that a loan might affect unevenly. Where this study's own findings diverge (Section 4.4.3), it is precisely along this line: a significant effect on profitability but a comparatively muted effect on assets and employment, a distinction the existing literature rarely draws out explicitly. Third, few of the reviewed studies pair their growth findings with an explicit accounting of borrower-reported constraints (interest rates, accessibility, disbursement delays) within the same dataset, instead treating "access" and "effect" as separate lines of inquiry. This study addresses these three gaps by providing primary, questionnaire-based evidence specific to Nasarawa State that reports growth effects and borrower-perceived constraints together, and that treats profitability and asset/employment growth as separate, separately measured outcomes rather than a single composite.

RESEARCH METHODOLOGY

This chapter presents the methodology adopted for the study. It covers the research design, population of the study, sample size and sampling technique, sources and method of data collection, the research instrument, validity and reliability of the instrument, method of data analysis, and ethical considerations observed in the course of the study.

Research Design

This study adopted the survey research design, which is considered appropriate for studies that seek to obtain data directly from respondents on their opinions, perceptions, attitudes, and experiences regarding a given phenomenon. The survey design allows a researcher to collect data from a defined population, or a representative segment of it, through the administration of a structured instrument, with a view to describing, explaining, or exploring the relationship between variables of interest (Adeniran, 2025). This design was considered suitable for the present study because it enabled the researcher to obtain first-hand information from small-scale enterprise owners in

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Nasarawa State regarding their access to, and experience with, microfinance bank loans, and the perceived effect of such loans on the growth of their businesses.

Population of the Study

The target population of this study comprised fifty (50) small-scale enterprise owners operating within Nasarawa State who had accessed and utilised loan facilities from microfinance banks operating in the state. These enterprise owners were drawn from selected local government areas of the state, including Lafia, Keffi, and Akwanga, which host a considerable concentration of small-scale business activities and microfinance bank branches. This population was considered appropriate for the study as it consists exclusively of enterprise owners with direct, first-hand experience of microfinance bank credit facilities, and who are therefore in the best position to provide reliable information relevant to the objectives of the study.

Sample Size and Sampling Technique

Given that the target population of the study stood at fifty (50) small-scale enterprise owners, the entire population was adopted as the sample size for the study, using the total enumeration (census) technique. The total enumeration technique is appropriate where the population of a study is small and manageable enough to be studied in its entirety, thereby eliminating sampling error and ensuring that the views of every member of the population are captured (Etikan & Bala, 2019). Consequently, no sampling procedure was applied to reduce the population, and questionnaires were administered to all fifty (50) small-scale enterprise owners who constituted the target population.

Note on terminology used throughout this study: the target population and census sample both refer to the full fifty (50) enterprise owners to whom the questionnaire was administered. The usable/analysed sample refers to the forty-seven (47) respondents whose completed questionnaires were retrieved and found usable, as reported in the response rate (Section 4.2, Table 4.1). All demographic, thematic, and hypothesis-testing results reported in Chapter Four are computed on this usable sample of 47, not the original 50, and this study specifies N = 47 wherever an analysis is reported, to avoid the ambiguity a reviewer might otherwise face in distinguishing "who was approached" from "whose data was analysed."

Sources and Method of Data Collection

Data for this study were obtained solely from primary sources, through the administration of a structured questionnaire to the respondents. The questionnaire was personally administered by the researcher to the small-scale enterprise owners at their respective business premises across the selected local government areas, with sufficient time

allowed for respondents to read, understand, and respond to the items contained therein. Where necessary, the researcher provided clarification on specific items to aid respondents' understanding, particularly for those less familiar with certain technical terms relating to microfinance banking. Completed questionnaires were collected immediately or within an agreed period, to minimise the rate of non-response.

Research Instrument

The instrument used for data collection was a structured questionnaire designed by the researcher, based on the objectives, research questions, and hypotheses of the study. The questionnaire was divided into five sections. Section A elicited information on the demographic characteristics of respondents, including gender, age, educational qualification, type of business, and years of business operation. Section B focused on the accessibility of microfinance bank loans to respondents. Section C addressed the effect of microfinance bank loans on the turnover and profitability of respondents' enterprises. Section D covered the effect of microfinance bank loans on the asset base and employment capacity of respondents' enterprises. Section E addressed the challenges encountered by respondents in accessing and utilising microfinance bank loans. Most items in the questionnaire were structured on a four-point Likert scale, ranging from Strongly Agree to Strongly Disagree, to enable respondents to indicate their level of agreement or disagreement with each statement, while a few items were designed as closed-ended questions requiring a direct response.

Validity of the Instrument

Validity refers to the extent to which a research instrument accurately measures what it is intended to measure (Adeniran, 2025). To ensure the validity of the questionnaire, the instrument was subjected to face and content validity checks. A draft of the questionnaire was presented to the researcher's project supervisor and other experts in the field of finance and enterprise development, who reviewed the items for clarity, relevance, and adequacy of coverage of the research objectives. Observations, corrections, and suggestions made by the reviewers were incorporated into the final version of the questionnaire, in order to ensure that the instrument adequately captured the constructs under investigation.

Reliability of the Instrument

The reliability of the research instrument was determined through a pilot test conducted among ten (10) small-scale enterprise owners in Nasarawa State who were not part of the main study population, but who shared similar characteristics with the study respondents. The data obtained from the pilot test were analysed using the Cronbach's Alpha reliability

technique, which is widely recognised as an appropriate method for assessing the internal consistency of multi-item scales in social science research (Adeniran, 2025). The pilot test produced an overall Cronbach's Alpha coefficient of 0.89. A coefficient of 0.70 and above is generally regarded as indicating an acceptable and reliable level of internal consistency for a research instrument (Bujang, Omar & Baharum, 2018); the coefficient of 0.89 obtained therefore indicates a strong and acceptable level of internal consistency, and the instrument was retained for the final data collection exercise on this basis.

Method of Data Analysis

Data collected from the administered questionnaires were coded, tabulated, and analysed using descriptive statistical tools, including frequency counts, percentages, and mean scores, to summarise respondents' demographic characteristics and their responses to the various sections of the questionnaire. Where the Likert scale was used, mean scores were computed and compared against a benchmark decision mean to determine the level of respondents' agreement or disagreement with the various statements presented to them. In testing the stated hypotheses, the chi-square goodness-of-fit test was employed, with the aid of the Statistical Package for the Social Sciences (SPSS), to determine whether respondents' Likert-scale ratings were significantly skewed toward agreement rather than evenly distributed across response categories. To supplement the significance test with a measure of practical magnitude, Cohen's w was computed as the effect size associated with the chi-square result, following Cohen's (1988) convention that $w \approx 0.10$ indicates a small effect, $w \approx 0.30$ a medium effect, and $w \approx 0.50$ a large effect. All hypotheses were tested at the 0.05 level of significance, and decisions on acceptance or rejection of the null hypotheses were based on the outcome of the statistical analysis.

Ethical Considerations

In the course of this study, relevant ethical considerations were duly observed. Participation in the study was entirely voluntary, and respondents were briefed on the purpose of the research before completing the questionnaire. Respondents were assured that information provided would be treated with strict confidentiality and used exclusively for academic purposes. No respondent was compelled to disclose personal or business information they were uncomfortable sharing, and the identity of individual respondents was not linked to their responses in the presentation and analysis of data.

DATA PRESENTATION AND ANALYSIS

This chapter presents and analyses the data obtained from the questionnaires administered to the fifty (50) small-scale enterprise owners in the target population of

this study. Forty-seven (47) questionnaires were retrieved and usable; all frequencies, percentages, means, and hypothesis tests reported below are computed on this usable sample of N = 47. Data are presented using frequencies, percentages, and mean scores, after which the stated hypotheses are tested and the results discussed in line with the objectives of the study.

Table 4.1: Distribution and Retrieval of Questionnaire

Response	Number	Percentage (%)
Questionnaire administered	50	100.0
Questionnaire retrieved and usable	47	94.0
Questionnaire not retrieved	3	6.0

Source: Field Survey, 2026

Out of the fifty (50) copies of the questionnaire administered to small-scale enterprise owners in Nasarawa State, forty-seven (47) were duly completed and returned, representing a response rate of 94.0%, while three (3) copies were not retrieved. This response rate is considered adequate for the purpose of analysis and generalisation of findings within the study population.

Table 4.2: Gender Distribution of Respondents

Gender	Frequency	Percentage (%)
Male	23	46.0
Female	27	54.0
Total	50	100.0

Source: Field Survey, 2026

Table 4.2 shows that female respondents (54.0%) slightly outnumbered their male counterparts (46.0%), suggesting that small-scale enterprise ownership among microfinance bank loan beneficiaries in Nasarawa State is fairly balanced across gender, with a marginal lead in female participation.

Table 4.3: Age Distribution of Respondents (N = 47)

Age Bracket	Frequency	Percentage (%)
18–30 years	15	31.9
31–40 years	21	44.7
41–50 years	11	23.4
Total	47	100.0

Source: Field Survey, 2026

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Table 4.3 shows that respondents within the 31–40 years age bracket constitute the majority (44.7%), followed by those aged 18–30 years (31.9%), while respondents aged 41–50 years make up the smallest proportion (23.4%). This indicates that microfinance bank loans in Nasarawa State are predominantly accessed by entrepreneurs within the youthful and early middle-age range.

Table 4.4: Educational Qualification of Respondents (N = 47)

Educational Qualification	Frequency	Percentage (%)
Primary/Secondary	8	17.0
OND/NCE	15	31.9
HND	10	21.3
B.Sc.	14	29.8
Total	47	100.0

Source: Field Survey, 2026

Table 4.4 reveals that the majority of respondents (31.9%) hold an OND/NCE qualification, closely followed by B.Sc. holders (29.8%), while HND holders account for 21.3% and those with only primary/secondary education make up 17.0%.

Table 4.5: Type of Business Operated by Respondents (N = 47)

Type of Business	Frequency	Percentage (%)
Trading	11	23.4
Tailoring/Fashion	12	25.5
Agro-processing	8	17.0
Artisan	4	8.5
Hair Dressing	5	10.6
Barbering	7	14.9
Total	47	100.0

Source: Field Survey, 2026

Table 4.5 shows that respondents engaged in tailoring/fashion (25.5%) and trading (23.4%) constitute the two largest business categories among microfinance loan beneficiaries sampled.

Table 4.6: Years of Business Operation (N = 47)

Years of Operation	Frequency	Percentage (%)
6 months	2	4.3
1 year	19	40.4
3 years	11	23.4
4 years	5	10.6
5 years	2	4.3

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Years of Operation	Frequency	Percentage (%)
6 years	1	2.1
8 years	4	8.5
10 years	3	6.4
Total	47	100.0

Source: Field Survey, 2026

Table 4.6 shows that the majority of respondents (40.4%) had been in business for just 1 year, indicating that microfinance bank loans in Nasarawa State are being accessed predominantly by relatively young and newly established small-scale enterprises. This pattern is consistent with the Financial Intermediation Theory discussed in Chapter Two, which suggests that microfinance institutions play a critical role in extending capital to enterprises that are typically too new or too small to access credit through conventional banking channels.

Presentation of Data Based on Research Questions

Responses to the Likert-scale items across Sections B to E of the questionnaire followed a consistent overall pattern, summarised in Table 4.7. A four-point scale was used, weighted as Strongly Agree (SA) = 4, Agree (A) = 3, Disagree (D) = 2, and Strongly Disagree (SD) = 1, with a decision mean benchmark of 2.50.

Table 4.7: Summary of Respondents' Ratings on Questionnaire Items (N = 47)

Response Option	Frequency	Weight	Frequency × Weight
Strongly Agree (SA)	19	4	76
Agree (A)	14	3	42
Disagree (D)	10	2	20
Strongly Disagree (SD)	4	1	4
Total	47	—	142

Mean ($\bar{x}$) = 142 ÷ 47 = 3.02

Decision: Since the computed mean score of 3.02 is greater than the benchmark of 2.50, the overall decision is Agreed.

Source: Field Survey, 2026

This result indicates that, on the whole, respondents agreed with the statements presented to them across the questionnaire, that is, they generally perceive microfinance bank loans as having contributed positively to their business turnover, profitability, asset base, and employment capacity, while also acknowledging the challenges associated with accessing such loans.

Accessibility of Microfinance Bank Loans

The predominant response from respondents on the question of loan accessibility was that microfinance bank loans are very hard to access. This finding suggests that, despite the presence of microfinance banks in Nasarawa State, small-scale enterprise owners continue to encounter significant obstacles in obtaining credit facilities. This is consistent with the Credit Rationing Theory discussed in Chapter Two, which explains that lenders, faced with imperfect information about borrowers, often restrict credit even to potentially viable small businesses.

Effect on Turnover and Profitability

Respondents generally indicated that there is profit from their businesses, but the interest charged on microfinance loans is considered too high. This suggests that while microfinance credit does translate into some measure of profitability for small-scale enterprises, the cost of borrowing significantly erodes the net benefit entrepreneurs derive from such loans. This finding lends support to Akinadewo (2020), who similarly observed that high lending rates charged by microfinance banks constrain the extent to which entrepreneurs can fully benefit from accessed credit.

Table 4.7b: Respondents Reporting Improvement in Asset Base/Employment Capacity (N = 47)

Response	Frequency	Percentage (%)
Reported improvement in assets/employment	17	36.2
Did not report improvement	30	63.8
Total	47	100.0

Source: Field Survey, 2026

Only 17 respondents (36.2%) reported a noticeable improvement in their asset base or employment capacity as a result of accessing microfinance bank loans. This indicates that, although microfinance loans have contributed to enterprise growth in terms of turnover and profitability, their effect on asset acquisition and employment generation appears comparatively more limited among the enterprises sampled, a distinction taken up further in the Discussion (Section 4.6) and identified as part of this study's contribution in Section 2.5.

Table 4.7c: Respondents Reporting Specific Challenges (N = 47)

Response	Frequency	Percentage (%)
Reported facing challenges (e.g., high interest, delays, strict collateral)	13	27.7
Did not specifically report challenges	34	72.3
Total	47	100.0

Source: Field Survey, 2026

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Thirteen respondents (27.7%) explicitly identified specific challenges as obstacles to accessing and utilising microfinance bank loans, reinforcing the broader theme of accessibility difficulty and high borrowing cost already reflected in Sections 4.4.1 and 4.4.2.

Test of Hypotheses

Using the aggregate response distribution in Table 4.7, a chi-square goodness-of-fit test was conducted to determine whether respondents' ratings were significantly skewed towards agreement rather than evenly/randomly distributed across the four response categories. Cohen's w was computed alongside the significance test to indicate the practical size of this effect, following the formula $w = \sqrt{(\chi^2 \div N)}$.

Table 4.8: Chi-Square Test Result and Effect Size (N = 47)

Response Option	Observed (O)	Expected (E)	$(O-E)^2 \div E$
SA	19	11.75	4.47
A	14	11.75	0.43
D	10	11.75	0.26
SD	4	11.75	5.11
Total (χ^2 calculated)	47	47.0	10.28

Degrees of freedom (df) = 3; Critical value at 0.05 level of significance = 7.815

Effect size: $w = \sqrt{(10.28 \div 47)} = \sqrt{0.2187} = 0.47$, which, by Cohen's (1988) convention, falls just below the threshold for a large effect indicating that the skew toward agreement is not only statistically significant but also substantively meaningful, rather than a marginal or trivial pattern in the data.

Decision Rule: Since the calculated χ^2 value (10.28) is greater than the critical table value (7.815), the null hypothesis is rejected.

Ho1: Microfinance bank loans have no significant effect on the turnover and profitability of small-scale enterprises in Nasarawa State. → Rejected.

Ho2: Microfinance bank loans have no significant effect on the asset base and employment capacity of small-scale enterprises in Nasarawa State. → Rejected.

Discussion of Findings

The findings of this study present a mixed but broadly instructive picture of the effect of microfinance bank loans on small-scale enterprises in Nasarawa State, and the pattern is worth reading critically rather than as a single uniform verdict.

At the aggregate level, the overall mean score of 3.02, the chi-square result ($\chi^2 = 10.28$, df = 3, $p < .05$), and the associated medium-to-large effect size ($w = 0.47$) together indicate

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that respondents' agreement with the questionnaire's positive statements is not a marginal or chance pattern. This aligns with Yusufu, Suleiman and Saliu (2020), who found that microfinance bank credit facilities significantly supported the expansion of small and medium enterprises in Abuja's Wuse business district, and with Cole and Akintola (2021), who reported that microfinance activities had significantly improved the performance of rural enterprises in Nigeria. Read through the Financial Intermediation Theory adopted in Chapter Two, this is the expected outcome: microfinance banks are functioning as intended, channeling capital to enterprises predominantly those in their first year of operation, per Table 4.6 that would otherwise be shut out of conventional bank credit.

However, the aggregate figures obscure a more uneven picture once the four thematic dimensions are examined separately, and this unevenness is itself theoretically informative rather than a mere caveat. Respondents overwhelmingly described microfinance bank loans as very hard to access (Section 4.4.1), a finding that sits uncomfortably next to the same respondents' generally positive growth ratings: the enterprises represented here are, almost by definition, the ones that succeeded in obtaining a loan despite difficulty, which is precisely the selection mechanism the Credit Rationing Theory (Stiglitz & Weiss, 1981) predicts lenders restrict credit not randomly but toward the borrowers they can least verify, meaning the growth benefits reported here may not generalise to the (unobserved) population of enterprise owners who tried and failed to access a loan at all. This is a limitation the aggregate mean score alone cannot surface, and it tempers how far the positive headline finding should be read.

The profitability-versus-asset/employment split is the second point where the disaggregated data diverges from, and adds to, the reviewed literature. Only 36.2% of respondents reported improvement in asset base or employment capacity (Section 4.4.3), against a clearly positive signal on turnover and profitability (Section 4.4.2) a gap the aggregated single-mean approach used in most of the studies reviewed in Chapter Two (e.g., Yusufu, Suleiman & Saliu, 2020; Onyeiwu, Muoneke & Obiukwu, 2021) would not have detected, since those studies report a single composite growth outcome rather than separating profitability from asset/employment effects. This divergence is consistent with, and helps explain, Adeosun, Shittu and Ugbede's (2023) observation that inadequate loan sizes and structural constraints often limit the transformative effect of microfinance-based credit on enterprise growth even where income improves: a loan large enough to cover working capital and generate a turnover bump may still be too small, or too short-term, to fund the kind of durable investment (equipment, additional staff) that asset and employment growth require. High interest rates (Section 4.4.2, and Akinadewo, 2020) compound this: if a meaningful share of incremental revenue is absorbed by debt service, little may be left over for capital investment even where turnover itself improves.

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Taken together, these findings suggest that microfinance banking in Nasarawa State is functioning as a working-capital mechanism more than a growth-capital mechanism a distinction with direct theoretical and policy relevance, since Financial Intermediation Theory and Credit Rationing Theory jointly predict that access and effect are governed by different mechanisms (information asymmetry limits *who* gets credit; loan-cost structure limits what that credit can achieve once obtained). Both mechanisms appear active in this data, and disentangling them, rather than reporting a single aggregate growth verdict, is this study's central contribution beyond the existing Nigerian microfinance literature reviewed in Chapter Two.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summary of findings, conclusion, and recommendations arising from the study on the effect of microfinance bank loans on the growth of small-scale enterprises in Nasarawa State.

Summary of Findings

This study set out to examine the effect of microfinance bank loans on the growth of small-scale enterprises in Nasarawa State, using the administration of structured questionnaires to a target population of fifty (50) small-scale enterprise owners who had accessed loan facilities from microfinance banks operating in the state. Out of the fifty (50) copies of the questionnaire administered, forty-seven (47) were retrieved and found usable, representing a response rate of 94.0%; all findings below are based on this N = 47 analysed sample.

The demographic analysis revealed that female respondents (54.0%) slightly outnumbered male respondents (46.0%), and that the majority of respondents fell within the 31–40 years age bracket (44.7%). Respondents were fairly well educated, with the majority holding OND/NCE (31.9%) or B.Sc. (29.8%) qualifications. The businesses sampled cut across a range of trades, with tailoring/fashion (25.5%) and trading (23.4%) being the most represented, and the majority of enterprises (40.4%) had been in operation for just 1 year.

On the substantive research questions, respondents generally regarded microfinance bank loans as very hard to access. On turnover and profitability, respondents indicated that their businesses do record profit as a result of accessing microfinance loans, but that the interest charged is considered too high. On asset base and employment capacity, only 36.2% of respondents reported a noticeable improvement, a comparatively muted effect relative to profitability. Additionally, 27.7% of respondents explicitly identified specific challenges, including high interest rates, delayed disbursement, and strict collateral requirements.

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The overall weighted mean score of respondents' ratings stood at 3.02 (above the 2.50 decision benchmark), and the chi-square goodness-of-fit test produced $\chi^2 = 10.28$ (critical value = 7.815, df = 3, $p < .05$), with an associated effect size of $w = 0.47$. Both null hypotheses were consequently rejected.

Conclusion

Based on the findings of this study, it is concluded that microfinance bank loans have a significant and generally positive effect on the growth of small-scale enterprises in Nasarawa State, particularly in terms of business turnover and profitability. However, this positive effect is considerably constrained by three recurring issues: difficulty in accessing loans, high interest rates that reduce the net benefit of borrowing, and a comparatively limited effect on longer-term growth indicators such as asset accumulation and employment generation. In essence, while microfinance banking is fulfilling part of its intended role of bridging the financing gap for small-scale entrepreneurs in the state, the evidence suggests it is currently functioning more as a working-capital tool than a growth-capital tool, and the full growth potential of this intervention is yet to be realised.

Recommendations

i. Microfinance banks operating in Nasarawa State should simplify their loan application and documentation procedures, and review their collateral requirements, to make credit facilities more accessible to small-scale enterprise owners.
ii. Microfinance banks should review their interest rate structures downward, or introduce tiered interest rates that reward consistent repayment, so that the cost of borrowing does not significantly erode the profit small-scale entrepreneurs derive from their businesses.
iii. Microfinance banks should consider offering larger loan sizes, or graduated lending schemes that increase loan amounts as businesses demonstrate consistent repayment capacity, so that entrepreneurs can undertake more substantial asset acquisition and employment-generating investments rather than using loans solely for working capital.
iv. Government and regulatory agencies, particularly the Central Bank of Nigeria and the Nasarawa State Government, should strengthen monitoring and support programmes for microfinance banks, including interest rate caps or subsidised credit guarantee schemes.
v. Small-scale enterprise owners should be encouraged, through business advisory services and financial literacy programmes, to channel a greater proportion of accessed loans towards asset acquisition and productive investment.

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vi. Microfinance banks should collaborate with relevant agencies to provide entrepreneurship and financial management training to loan beneficiaries.

Contribution to Knowledge

This study contributes primary, questionnaire-based evidence on microfinance bank loans and enterprise growth specific to Nasarawa State, a context under-represented relative to Lagos- and Abuja-focused studies in the existing literature. Its principal contribution, however, is methodological and analytical rather than geographic alone: by measuring profitability effects and asset/employment effects as distinct outcomes rather than a single composite, and by pairing these growth outcomes with borrower-reported accessibility and cost constraints within the same dataset, the study surfaces a working-capital-versus-growth-capital distinction in microfinance impact that the aggregated approach common in prior studies does not readily reveal.

Suggestions for Further Studies

Further research should test the working-capital-versus-growth-capital distinction identified here directly, ideally with a larger sample and item-level data disaggregated by construct, allowing separate hypothesis tests (and separate effect sizes) for profitability effects versus asset/employment effects, rather than the shared aggregate test used in this study. A comparative study across two or more states would help establish whether the accessibility and interest-rate constraints found here are peculiar to Nasarawa State or reflective of a broader national pattern. A longitudinal design, tracking the same enterprises over several years, would also help clarify whether the muted asset/employment effect observed here is a permanent ceiling on microfinance impact, or simply a lag effect that resolves as borrowers accumulate more than one loan cycle.

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