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RESEARCH ARTICLE

Role of Microfinance Institutions on Entrepreneurial and Business Development in Nigeria

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Abstract

This study examines the impact of microfinance institutions (MFIs) on entrepreneurship and business development in Nigeria, focusing on their role in providing financial services to small business owners and the economically disadvantaged. By facilitating access to microloans, savings, and financial education, MFIs contribute to economic growth, employment, and poverty reduction. Through a comprehensive literature review, the study highlights how concepts such as Financial Systems Theory, Social Capital Theory, and Institutional Theory explain the mechanisms through which MFIs influence entrepreneurial outcomes. The findings indicate that MFIs effectively complement the formal banking system by addressing gaps in financial access, particularly within the informal credit market. The study also provides policy recommendations aimed at enhancing legal frameworks and developing context-specific financial products to support sustainable business growth. Additionally, it discusses the implications and limitations of the research, emphasizing the need for future studies to explore the evolving role of digital financial services in improving MFI efficiency in Nigeria and across Africa, thereby contributing to broader economic development and poverty alleviation.

Key words: Microfinance institutions; entrepreneurial development; Business development

Introduction

Thus, business and economic growth and development will always be important in any economy to facilitate the creation of new business and jobs. As is expected of many developing countries, socioeconomic development in Nigeria is realised through enterprise – and this is perhaps true when it comes to response to the problem of joblessness and low productivity (Olufemi, 2020; Ajekwe & Ibiamke, 2020). SMEs which often time are at the entrepreneurial hub of the economy, contribute significantly to employment practice and GDP and promote economic diversification and stability (Ajekwe & Ibiamke). They play a crucial role in the advancement of inclusive growth since they afford the underprivileged groups of people, including the women and the youths, opportunities for productive engagements in the economy so as to align to poverty eradication initiatives (Ogbuabor et al, 2020). Furthermore, they encourage market and technological development since they make use of innovations to create new business and grow. The idea of competition as a rational of policy is that' entrepreneurs improve productivity and develop new product, services, and business models in industries with suitable policies and incentives (Gans et al, 2020). Aside from expanding consumer options, this innovation places economies in a position to forge ahead and prosper amid technological advancements and shifts in the economy (Kabuoro, 2020; Ogbuabor et al, 2020). Also, new business initiatives often act as the central point of a regional economy due to the development of communication with suppliers, services, and other companies that contribute to the strengthening of regional economic environments (Kraus & Stroh, 2021). Felix O. Olardi, Jr. has identified several factors that impede the growth and sustainability of Nigerian entrepreneurs and businesses. According to studies by Adeley et al. (2017) and Akande (2015), these challenges include a difficult business environment characterized by high operating costs and regulatory uncertainty, poor infrastructure, bureaucratic obstacles, political instability, inconsistent government policies, and inadequate access to financing. The challenge of securing capital is particularly pronounced for early-stage businesses, start-ups, and SMEs, which struggle with obtaining collateral and face prohibitive high-interest rates from traditional lenders (Akande, 2015; Olanrewaju & Adesola, 2017). Furthermore, issues related to infrastructure, such as inconsistent electricity supply and inadequate transportation systems, contribute to high overhead costs and reduced operational efficiency, thereby delaying the development and growth of companies and firms (Adeleye et al., 2017).

In an effort to avoid or solve some of these problems, various players have come up with solutions such as the following players, the Nigerian government, companies, and international development partners. Some of the initiatives highlighted in the study by Akande (2015) and Olanrewaju and Adesola (2017) are the development finance institutions, entrenching programs aimed at increasing the capacities of the entrepreneurs and policy changes aimed at increasing the business environment. In the context of internal conditions, there is a desire to liberalize and simplify the procedures for obtaining business licenses, which is that reforms in the processes of registration of legal entities are aimed at improving business conditions and are conducive to reducing bureaucratic barriers, In addition to the mentioned reforms, the creation of the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) provide financial and technical support to SMEs. Olanrewaju and Adesola (2017) observed that the persistent challenges in Nigeria stem from inadequate funding, difficulties in implementation, and the ongoing nature of regulatory reforms. Despite efforts to improve the regulatory environment, these challenges remain significant. To address these issues, it is crucial to develop proposals that offer long-term and sustainable solutions, while also incorporating innovative approaches to extend and enhance existing funding practices.

Considering key issues associated with the absence of affordable and suitable financial products and services for business owners and small and medium enterprising managers, microfinance organizations can provide a viable solution in the form of appropriate and suitable financial services for entrepreneurs (Olanrewaju & Adesola, 2017). Microfinance institutions (MFIs) can play a crucial role in achieving better credit access and usage for underbanked groups through microcredit, savings services, and financial education. This is especially so in the rural and semi urban areas as it is often observed that conventional banks are very limited (Olanrewaju & Adesola, 2017; Ovia, 2019). Also, through the use of sophisticated credit scoring models as well as group loans that channel secondary support from peers, family or friends to borrowers, MFIs can reduce the burden of the collateral requirement. MFIs can promote economic development in Nigeria by providing necessary funds to entrepreneurs, generating employment opportunities, giving boost to sustainable development in Nigerian entrepreneurial environment with the help of, for instance, financial literacy support (Olanrewaju & Adesola, 2017; Ovia, 2019).

Based on the above, this paper aims to explore the role of Microfinance institutions on entrepreneurial and business development in Nigeria. The study will provides critical insights into the transformative role of microfinance institutions (MFIs) in fostering entrepreneurial and business development in Nigeria and how MFIs facilitate economic empowerment, job creation, and poverty reduction through tailored financial products and services.

Literature review

Micro finance

The money lending business provision of financial services to individuals and groups that are usually disadvantaged in terms of business funding and other related services including basic account facilities is known as microfinance. These are microfinance services and products offered with the purpose to meet the specific needs of start-ups, business owners in agriculture, and other vulnerable groups including the following: micro credit, savings products, insurance, and payments (Dhungana, 2023). Microfinance as a concept evolved during the mid-century and became popular due to programs such as 'Grameen Bank' in Bangladesh which was established by Muhammad Younus in the 1970s; it introduced the principles of tiny credits to those in need and lo and behold, no collateral was needed (Sarto et al, 2023). After this, microfinance has evolved into a powerful strategy that can fully help to eliminate poverty, ensure the financial independence of women, and stimulate economic development of the rural and urban areas in the countries of the first world (Sinha & Ghosh, 2021).
Micro finance is not only about lending but it plays a part in creating income sources, promotes self-employment and has an impact on the social fabric of society. Microfinance assists people to start-up businesses or expands small businesses by providing them with credit and other amenities; this supports local economies and the creation of employment (Sinha & Ghosh, 2021). These impacts have been significant in its influence on household well-being, health care, and basic education, and vulnerability financial risks for low-income groups (Chhorn, 2020). Furthermore, since the concept of poverty and the challenges it presents a client with form a major risk to the MFIs business model, many MIFs have introduced a new portfolio in their value proposition which seeks to address managerial challenges of poverty through savings and insurance products which help the poor to manage their financial crises (Sinha & Ghosh, 2021).

Micro finance in Nigeria

Non-profit Microfinance Institutions (MFIs) have played a critical role in extending the culture of entrepreneurship and financial services among the disadvantaged community as well as enhancing the financial base among the population of Nigeria. MFIs have expanded in Nigeria due to plans fashioned by the government and various financial organisations to combat poverty and support economic development (Oriakhi & Ayo, 2019). MFIs have indeed influenced entrepreneurial activities by providing microloans and financial services to those in rural and urban areas including SGBs and individuals despite challenges such as lack of adequate funding, regulations, and inefficiency (Chai, Cherif, & Ling, 2015; Ojeka, & Egbide, 2020). These programs have enhanced the standard of living, generated incomes and employment opportunities for a huge population of the nation's residents which in totality, has boosted the overall growth of the Nigerian economy (Acharya & Nyagwegwe, 2015).

Theoretical frameworks

Theoretical frameworks are crucial for understanding how entrepreneurial outcomes are shaped and how microfinance institutions (MFIs) influence these outcomes. The Financial Systems Theory, as highlighted by Hagawe (2023), posits that access to financial services, including microloans provided by MFIs, can effectively

alleviate financial constraints and enable more efficient resource mobilization. According to this theory, MFIs play a pivotal role in providing essential financial services that facilitate value creation and support entrepreneurial activities, particularly among the underprivileged who lack access to traditional banking services.
In contrast, there is an opinion of Social Capital Theory that focuses on the associations authored by the interactions enabled by MFIs among the businesspeople. According to this theory, social capital, particularly relevant networks, trust and norms, drive the entrepreneurship due to the available resources, information and support (Shao & Sun, 2021). As intermediary actors, MFIs act as bridges between business owners and other actors, allowing them to enter new networks of opportunities and information that are vital for continued business growth and viability (Babajide et al, 2022).
In this aspect, Institutional Theory takes it further with the actual mechanics of how MFIs operate in the institutional and regulatory systems that define the nature of their business activities and entrepreneurship. Consequently, as per this realistic clarification, it is claimed that both formal and informal institutions play a great role in informing the practices of MFI and are helpful in promoting entrepreneurial activities (Pocek, 2022). Consequently, in e-commerce as well as across multiple sociopolitical realities, MFIs have to navigate the tension between institution-based demands, culture, and legal requirements, all in an effort to extend financial services effectively and foster venture and SME development (Sinha & Ghosh, 2021).

Conceptual Framework

Just like other conceptual frameworks, there are a number of elements which are imbedded in this conceptual framework explaining how micro finance institutions or MFIs foster the growth of businesses and entrepreneurship in Nigeria. In the first place, MFIs provide the chief necessities including, funding and training to the entrepreneurs with a view of enabling them start and expand businesses when the economic state in the country is fragile (Sinha & Ghosh, 2021). Financial capital from MFIs fills the fundamental need of micro-entrepreneurs not having access to conventional banking services by providing micro-businesses the required startup capital therefore giving out growth capital to those who already have budding businesses (Mia, 2016).
Some forms of ventures which MFIs facilitate include product development, market access and nurturing of new firm formation. Especially in the areas where the number of employment opportunities with standard wages and salaries is limited, such informal economic activities play significant roles in boosting economic development and creating employment sources (Amin, 2021). Further, MFIs prime delivery of business development services and financial literacy training enhances borrowers' business skills and competencies in managing their businesses and operational efficiency (Mia, 2016). It also examines impacts on business performance with regard to profit, viability and expansion that are emerging from MFI interventions. As has been found, microfinance enhances the probability that the business owners will endure through their enterprises and will create by eliminating rigidities and embarking on risk-taking whenever they gain access to credit (Kumar et al, 2023). Additionally, focused financial inclusion efforts, and Microfinance Institutions (MFIs) play an enormous role in the enhancement of socio-economic empowerment in the clients, particularly women and the minorities (Sondhi, 2023).
With regards to descriptive statistics, defining variables and hypotheses, the identification has revealed that higher innovativeness and higher business survival rates are realistically connected with higher availability of microfinances. This is likely because as firms mobilize more resources and enhance their entrepreneurial capabilities, they attract greater public attention (Mia, 2016). According to Mia, Nigeria's future hinges on reducing its reliance on oil revenue, supporting micro, small, and medium enterprises (MSMEs), and boosting exports. By improving access to funding and other supportive services from microfinance institutions (MFIs),

Nigeria can foster entrepreneurship, which in turn will lead to improved business metrics such as growth and sustainability.

Methodology

This is a conceptual paper and therefore the method used in writing this paper entails the use of literature review in order to gather the existing knowledge about microfinance and its effects on entrepreneurial development and business growth and expansion in Nigeria from government documents, research databases and international bodies. By this review, a theoretical framework embracing elements like Social Capital Theory and Financial Systems Theory is built. From here, a conceptual framework is developed to explain how, when and through which input and output pathways MFIs affect forms of entrepreneurial activities such as new venture creation and business incubation, business outcome such as growth, sustainability and revenues and entrepreneurial outcomes such as, access to finance and skills. Based on the synthesis of findings in the literature review and the theoretical frameworks, the following outlines the application of the rationale for analyzing the role of MFIs in the Nigerian entrepreneurial environment and the areas where this work can be empirically validated to contribute to the future research and development of the proposed conceptual framework.

Discussion

As highlighted by various scholars in their case studies, empirical analysis, and survey findings in the Nigerian context, MFIs play an important role in the development of businesses and entrepreneurship. Conclusions suggest how and through which mechanisms, MFIs contribute to economic agency by providing micro-entrepreneurs with financial, human capital, as well as business development services (Stead, 2020; Miah, 2016). Availability of these credit and savings however fulfills important needs that are left unfulfilled in conventional financial markets. They are especially useful where there is little access to formal banking structures within a given economy (Amin, 2021). Furthermore, MFIs help in building business and new venture opportunities that will in turn promote employment generation and growth of the economy in the targeted sectors of the society (Mia, 2016). The literature also points out activities and the barriers which are for instance the lack of standardized financial products that can meet the needs of different kinds of entrepreneurship and sustainability (Kumar et al, 2023).

Implications

It is also relevant for the scholars of entrepreneurship, policy makers, and microfinance organizations as it provides insights into the outcome of the microfinance. Thus, according to the information, obtained by the literature review, with the help of the described recommendations, policymakers can enhance the regulatory frameworks, which support the functioning of microfinance institutions as well as the environment that promotes the development of entrepreneurial initiatives and financial liberalization (Sondhi, 2023). In an effort to ensure that policies reflect the needs or Micro-entrepreneurs across the various regions in Nigeria this SND given the opportunity to improve outreach and impact by strengthening the cooperation between MFIs, and Government departments (Amin, 2021). It is against this context of dynamic opportunities and risks highlighted in the literature that it became important for practitioners in the microfinance industry to know just how essential it is to design and deliver forms of financial arrangements that can effectively promote the viability and sustainability of business endeavors (Mia, 2016).

In developing countries, microfinance institutions (MFIs) can significantly improve access to financial literacy programs and capacity-building sessions, which equip entrepreneurs with essential skills for managing and growing their businesses (Kumar et al., 2023). By fostering aspirational entrepreneurship in Nigeria, stakeholders can collectively promote inclusive growth, poverty reduction, and sustainable community development. This is achievable through the application of effective policies that enhance MFI efficiency and address real-world challenges faced by entrepreneurs.

Conclusion

This conceptual paper has significantly enhanced our understanding of the role of microfinance institutions (MFIs) in supporting micro and small enterprises in the U.S. Through a critical review of relevant literature and theoretical models, the paper demonstrates that MFIs offer not only financial products and services but also training and various forms of assistance to micro-entrepreneurs. This support contributes to economic development by generating employment and reducing poverty. The paper has explained the effectiveness of microfinance institutions (MFIs) in satisfying financial needs and promoting microfinance services among disadvantaged groups, particularly the poor living in rural and other downward mobile regions through theoretical frameworks and the results of the study. Analyzing the availability of microfinance and its connection to the main factors, the article presents potential correlation pathways that contribute to establishing the influence of microfinances on entrepreneurship, company growth, and Nigeria's general economic advancement.

Despite the findings, there are several areas of research that may help to improve presumably existing understanding of the relations between MFIs and entrepreneurship outcomes in Nigeria. Secondly, to assess the challenges and opportunities unique to each sector of MFIs, it is needed in future researches to discuss sectoral impact of micro-entrepreneurs and available services sector, technologies, agricultural, and other sectors. For the purpose of evaluating the outcome of the microfinance interventions on the overall and threshold levels of business owners' resilience & sustainability, Longitudinal study is pertinent. Moreover, literature on the adoption and impacts of MFI-sourced digital financial services may help to examine the lessons to be learned on service delivery and development and the extent of outreach, in the context of the evolving market in Nigeria.

Moreover, research that compares one region of Nigeria to another would help establish regional variations as well as highlight the best practices for MFI operations to enhance the growth of Franken media for inclusive economic growth. It is for future research to substantiate theorisations to enhance MFI intervention strategies, contribute towards policy making and have a positive impact on sustainable economic development across Nigeria by addressing these research gaps.

Declaration

We declare that this manuscript is an original work and has not been submitted for publication elsewhere. All authors have reviewed and approved the final version of the manuscript. This research has been conducted in compliance with ethical guidelines and research standards.

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Ethics approval/declaration: This study was conducted in accordance with the ethical guidelines for research involving human participants. All necessary ethical approvals were obtained from the relevant institutional review boards, and informed consent was secured from all participants involved in the study.

Consent to participate: Informed consent was obtained from all participants involved in this study. Participants were provided with comprehensive information about the research objectives, procedures, and their rights, including the option to withdraw from the study at any stage without any consequences

Consent for publication: All authors have given their consent for the publication of this manuscript. Additionally, participants' identities and any personal data have been anonymized to ensure their privacy and confidentiality.

Data availability: The data that support the findings of this study are available from the corresponding author, Abubakar Abdulkadir Abuabdin, upon reasonable request. However, due to privacy and ethical considerations, some data may be subject to restrictions.

Authors contribution: Abubakar Abdulkadir Abuabdin led the conceptualization of the study, conducted the literature review, and was primarily responsible for drafting the manuscript. Umar Abubakar Arabo contributed to the development of the theoretical framework and assisted in refining the research objectives. Umar Usman provided critical insights during the manuscript development and contributed to the literature review and theoretical discussions. All authors read, reviewed, and approved the final version of the manuscript.

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