



ASSESSMENT OF THE IMPACT OF MICRO FINANCE LOAN ON POVERTY REDUCTION IN DAURA LOCAL GOVERNMENT AREA, KATSINA STATE

Dahiru MUHAMMED

Department of Micro Finance and Enterprises Development
Federal Polytechnic Daura, Katsina State
dmuhammed@fedpolydaura.edu.ng

Salma ALIYU

Department of Micro Finance and Enterprises Development
Federal Polytechnic Daura, Katsina State
salmaaliyu@fedpolydaura.edu.ng

ABSTRACT

This study assessed the impact of microfinance loans on poverty reduction in the Daura Local Government Area of Katsina State. The persistent challenge of poverty in rural communities has necessitated innovative financial interventions, with microfinance positioned as a key tool for empowering low income earners to address this issue. This study aimed to determine the level of awareness of microfinance loans, identify the most prevalent loan types accessed, examine the challenges faced by beneficiaries, and evaluate the extent to which microfinance loans contribute to poverty reduction in the study area. A descriptive survey research design was adopted, and data were collected through structured questionnaires administered to selected loan beneficiaries in the study area. Data were analyzed using descriptive statistics. The findings revealed a high level of awareness of microfinance loans among the residents of Daura Local Government Area. Agricultural loans were the most widely accessed, reflecting the dominance of farming as a primary occupation. However, beneficiaries reported facing significant challenges, particularly high interest rates and poor communication with loan officers. Despite these constraints, this study established that microfinance loans have contributed positively to poverty reduction by enhancing income levels, promoting small business growth, and improving household welfare. The study concludes that microfinance has the potential to serve as an effective instrument for poverty alleviation if the existing challenges are addressed. It recommends interest rate reviews, improved client engagement, the design of agriculture-friendly loan products, and financial literacy programs for the beneficiaries.

Keywords: Microfinance Loans, Poverty Reduction, Daura Local Government, Katsina State, Nigeria.

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INTRODUCTION

There has been growing interest in accelerating processes of rural community transformation by various governments in Nigeria especially in the areas of poverty alleviation, provision of rural infrastructure such as health and medical facilities, electricity, pipe borne water, schools, agricultural extension and in the development of microfinance establishments that will affect positively the lives of the rural investors and community organizations. Based on this concept the Central Bank of Nigeria (CBN) in 1990 established an economic policy that would encourage the extension of banking business to the rural area of the country in order to mobilize rural savings. Thus, microfinance emerged as a noble substitute for informal credit system in operation in the rural areas and to serve as an effective and powerful instrument for poverty reduction among people, who are economically active but financially constrained and vulnerable in various countries. Despite its increasing roles, microfinance institutions are faced with a lot of challenges which include diversion of loan to non-productive users, high rate of default in loan repayment, lack of infrastructure and problem of illiteracy among the rural populace (Ogujiuba et al., 2013).

Poverty has been one of the major problems facing communities and its reduction is absolutely necessary for societal progress. People live in poverty if their income and resources are so inadequate as to prevent them from affording standard living. The poor are constrained by access to finance and this prohibit them from taking advantage of economic opportunities which will enable them increase their level of output thereby moving them out of poverty. Poverty is pervasive problem in our society spanning across the world, and poverty exist in different levels and forms (Electrin, et. al., 2013).

Poverty reduction was institutionalized in the mid of 19th century with the establishment of the World Bank in 1944. Its formation was aimed at granting loans to developing countries' governments and institutions through its structural adjustment programmes. The provision of micro-credit to the poor, especially to youth and women in the rural, is essential in poverty reduction through empowerment. One of the most popular new technical tools for economic development and poverty reduction is microloans, made famous in 1976 by the Grameen Bank in Bangladesh. The idea is to loan small amounts of money to farmers or villages so these people can obtain the things they need to improve their economic rewards. The availability of credit aids enterprises in purchasing superior technologies, employing competent workers, and applying new production methods to expand their business activities. With Africa's ever-increasing youth population projected to double by 2050, the need for innovative and sustainable ways to support youth employment grows in importance. While the challenge is daunting, it has also inspired many of Africa's creative and diligent young people to take charge of their own futures, coming up with innovative solutions to keep themselves employed and actively engaged.

Nigeria is among countries with the highest population of extreme poor or people living in abject poverty in the world. Similarly, United Nations Development Program (2015) estimated the proportion of Nigerians living in absolute poverty to be 62.6% of its population, while the human development index is put at 0.514 and ranks 152 out of the 188 countries. NBS (2016) survey across the six geopolitical zones estimates absolute poverty prevalence for 2015 to be 46.41%. Therefore, the universal objective of microfinance is to make it possible for large numbers of low income people to access microfinance; hence, the potential benefits of microfinance has accounted for its widespread adoption for economic development, job creation and poverty reduction strategy. The idea is to provide extremely poor people with small loan, strategy to save, so they can start and operate a business. Microfinance in general is a practice of

providing the poor with credit, savings and insurance facilities to set up or to expand income generating activities relating to agriculture and its allied activities and non-farm sector, and thereby is poverty reducing mechanism. Similarly, the institutional arrangements that are providing financial services at the micro level are called microfinance Institutions (MFIs). Microfinance services are provided by three types of sources which include formal institutions, such as rural banks and co-operatives, semiformal institutions, such as government, non-governmental organizations, and Informal sources such as money lenders, self-help group and shopkeepers.

Statement of the Problem

One of Nigeria's most urgent socioeconomic problems is still poverty, especially in rural areas with no access to official financial institutions. A sizable section of the populace in rural areas, such as Daura Local Government Area, still struggles with low income, limited access to credit facilities, and few prospects for a sustainable livelihood in spite of numerous government interventions and donor-supported projects. Inadequate social infrastructure, low agricultural output, and high unemployment all exacerbate the situation and contribute to an unbreakable cycle of poverty.

With the intention of helping the impoverished, particularly those who are not able to use traditional banking systems, microfinance organizations were established in Nigeria. Farmers, craftsmen, women's organizations, and small-scale traders are increasingly applying for microloans in the Daura Local Government Area. To what degree these loans have resulted in quantifiable poverty reduction is unclear, though. According to anecdotal evidence, some recipients have used the loans to grow their enterprises and enhance the well-being of their households, but others have had difficulties with repayment, money diversion, or narrow profit margins that haven't substantially changed their financial situation. Furthermore, a number of issues, including high interest rates, small loan amounts, little financial literacy, and weak monitoring mechanisms, cast further doubt on microfinance's ability to effectively fight poverty in the region. Thus, it's against these problems that this study seeks to assess the impact of microfinance loans on poverty reduction in Daura Local Government Area, Katsina State.

Aim and Objectives of the Study

The aim of this study is to analyze the impact of Microfinance loan on poverty reduction in Daura Local Government area of Katsina state. The specific objectives include the following:

- Determine the level of awareness of micro finance loans in Daura local government area, Katsina state.
- Determine the most prevalent micro finance loan accessed in Daura local government area, Katsina state.
- Determine the major challenges of accessing micro finance loans in Daura local government area, Katsina state.
- Determine the impact of micro finance loans in Daura local government area, Katsina state.

Research Questions

The following research questions guided the study:

- What is the level of awareness of micro finance loans in Daura local government area, Katsina state?
- What is the most prevalent micro finance loan accessed in Daura local government area, Katsina state?
- What are the major challenges of accessing micro finance loans in Daura local government area, Katsina state?
- What is the impact micro of finance loans in Daura local government area, Katsina state?

REVIEW OF RELATED LITERATURE

Micro Finance

Non-financial services like micro-insurance, payment services, social intermediation groups, financial literacy training, and business management are now included in the scope of microfinance services. Microfinance is the term used to describe a group of financial services that impoverished entrepreneurs and small business owners who lack security and would not normally be eligible for a typical bank loan can obtain. These services include credit, advances, money, and insurance coverage. The goal of microfinance is to provide financial services to the underprivileged, which make up the majority of the 65% of people who are not able to access traditional banks' financial services.

Microfinance has its roots in Nigerian culture (Mustapha et al., 2019). The unofficial Self-help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) have been lending money to low-income earners in both rural and urban areas, including SMEs, even before the Central Bank of Nigeria began offering microfinance banking. There are these unofficial groups all around Nigeria. The Nigerian federal government has launched numerous initiatives and organizations to lower the nation's poverty rate, increase employment, and improve the inclusion of the impoverished, rural residents, and small and micro businesses in the financial services sector, particularly banking. These government organizations include Family Economic Advancement Program (FEAP), Peoples Bank of Nigeria (PBN), Nigeria Agricultural Insurance Corporation (NAIC), The Community Banks (CBs), National Directorate of Employment (NDE) and Nigeria Agricultural and Co-operative Bank (NACB).

In 2005, the CBN commenced the process of reforms in the community banking sector. The latter resulted in the licensing of microfinance banks (MFBs), to replace community banks, with the goal of making MFBs, to replace community banks, with the goal of making MFBs more effective in granting credit to SMEs to develop the sector. Thus, private sector operators were statutorily empowered by the provisions of section 33 subsection (1) (b) of the CBN Act of 2007 to operate MFBs in place of the community banks in Nigeria (CBN, 2008). Presently, there are three categories of microfinance banks (MFBs) in Nigeria, namely;

The Unit MFBs (Tier1 & 2); State MFBs and National MFBs. A Circular issued to all MFBs by CBN dated March 7, 2019, with reference number FPRD/DIR/GEN/CIR/07/024 titled the 'Review Of Minimum Capital Requirement For Microfinance Banks In Nigeria' the minimum capital requirement for the categories of microfinance banks have been revised as follows:

- Tier 1 Unit Microfinance Bank N200,000,000 (Two Hundred Million Naira)

- Tier 2 Unit Microfinance Bank N50,000,000 (Fifty Million Naira)
- State Microfinance Bank N1,000,000,000 (One Billion Naira)
- National Microfinance Bank N5,000,000,000 (Five Billion Naira)

To aid the process of recapitalization, all microfinance banks are required to comply with the following: 1. Tier 1 Unit Microfinance Banks shall meet a N100million capital threshold by April 2020 7 and N200 million by April 2021; 2. Tier 2 Unit Microfinance Banks shall meet a N35 million capital threshold by April 2020 and N50 million by April 2021. According to CBN Circular FPRD/DIR/GEN/CIR/07/024 there are 902 MFBs in Nigeria with about 173 in Lagos State (CBN, 2019).

Microfinance Institutions

The impoverished in developing nations like Nigeria often have creative business ideas, even if they are just local or basic product manufacturers, but they lack the resources to see their ideas through to completion. Low economic activity is the result in emerging nations. Because of the circumstances, the rate of poverty in these nations is rising alarmingly. Financial services typically include lending and savings, and MFIs fall under this same umbrella. MFIs operate in the general financial services industry, offering their customers insurance and repayment services. However MFIs are significant because they offer their clients social services and financial intermediation in addition to financial intermediation. Social services and social intermediation include trainings, management development, and financial literacy initiatives, all of which pave the way for the eventual growth of entrepreneurship (Okibo & Makanga, 2014).

In addition, a lot of MFIs host workshops where knowledgeable individuals mentor newcomers and offer helpful advice, ups, and other business approaches or strategies. As a result, microfinance blends social and financial services. Microfinance is not just a banking system; rather, it is a tool for development as well because the main goal of MFIs is financial intermediation, which cannot be accomplished without funding. This is despite the fact that the traditional banking system did not incorporate social services into its operations. The impoverished have difficulty getting into financial institutions. In this sense, MFIs serve as a pantry for funding accessibility and vital instruments for reducing poverty, such as health care and education literacy.

MFIs offer a variety of financial services, including as credit cards, savings accounts, insurance, and payment processing. While they are not required to offer all of these services to their clients, MFIs are free to offer any or all of them. This is mostly determined by the institutional structure, demand, and goals of the microfinance bank. Social intermediation, which deals with the process of constructing human and social capitals through long-term financial intermediation for the underprivileged, is another aspect of microfinance. Cooperative learning, leadership development, and group formation are all covered. For borrowers, the secondary function of MFIs is social intermediation, however, the cornerstone of sustainable growth for the impoverished and society at large is the building of social capital. Social capital acted as a bridge between MFIs and borrowers as well as between a group's clients and other groups. These connections are built upon a solid foundation of unity and trust, and by raising the percentage of social capital the foundation will encourage members to do business with one another and between MFIs and borrowers (Awojobi, 2017).

Another new instrument for economic growth is microfinance. It offers technical assistance to individuals or groups in launching businesses, developing manufacturing concepts, and developing their abilities. In certain developed and developing nations, it has become increasingly important. Even if the majority of studies on microfinance focus on the problem of empowering the underprivileged and reducing poverty, this in no way will not promote the growth of entrepreneurship. Micro-borrowers and micro-entrepreneurs are the two categories of microfinance borrowers, however. Micro-borrowers have capitalist tendencies, which are focused on maximizing transactional profit. Micro-borrowers so obtain loans from MFIs; upon repayment, they will continue to receive funds, but with the aim of making a profit devoid of any creativity (Samer et al., 2015).

Conversely, micro entrepreneurs raise capital through loans to support small operations and contribute unique ideas and methods. One of the social services that microfinance offers is financing the impoverished for productive endeavors that produces or led to necessities of life. To address the issues of poverty and accessibility to other necessities of life, including as food, shelter, health, self-esteem, family planning, education, and social support networks, the impoverished require more than microfinance (Kasali et al., 2015). As a result, by providing financial services along with supportive services, MFIs positively impact the lives of the impoverished and indubitably contribute to their sustainable development and standard of living.

The Clients of Microfinance People with low incomes who lack access to established financial institutions are the typical microfinance consumers. Microfinance clients are mostly independent contractors who run their own businesses out of their homes. Small farmers and other people involved in menial trade and food processing are the most common types of businesses in rural areas. Urban microfinance activities encompass a wider range of participants, such as street vendors, shops, service providers, and craftsmen. Microfinance consumers are both impoverished and vulnerable non-poor people with a reasonably steady source of income.

Women make up a larger percentage of the clientele for the majority of microfinance companies. There exist multiple interpretations and viewpoints regarding the unequal representation of women in the clientele of the majority of microfinance organizations. Experience shows that microfinance can help the poor increase their income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change, and by providing access to financial services, microfinance plays a significant role in the fight against the many aspects of poverty. Many practitioners believe that women clients exhibit better credit discipline than their male counterparts, which is why microfinance institutions seek them out (Mustapha et al., 2019). For example, generating revenue for a business aids in both the growth of the enterprise and household income, which in turn helps with food security, children's education, and other related issues.

Furthermore, interacting with formal institutions might boost women's confidence and sense of empowerment because they are frequently excluded from public spaces. The degree to which people living near the poverty line are susceptible to shocks like a wage earner's illness, bad weather, theft, or other similar occurrences has been demonstrated by recent study. These shocks place a significant burden on the family's meager financial resources, and in the absence of appropriate financial services, they can push a family into poverty from which they may never fully recover.

Microfinance is becoming a term that encompasses a wide range of financial services, including savings, loans, insurance, and remittances from a wide range of other products. It is

difficult to imagine a family in the world today for whom some kind of formal financial service could not be designed and made useful. The people who benefit most from microfinance are those who have recognized an opportunity in the economy and who can take advantage of it with a small amount of available cash. These people include the impoverished who work in stable or growing economies, who have proven to be able to undertake the suggested activities in an entrepreneurial manner, and who have shown a willingness to pay back their debts rather than perceiving the credit as a type of social validation, these individuals are the most suitable for microcredit. The following goals guide the establishment of microfinance institutions:

- To enhance the socioeconomic standing of women, particularly those residing in rural regions, by offering loan support, opportunities for skill development, access to reproductive health care, adult literacy, and education for girls and children.
- To develop rural responsive banking techniques in order to support sustainable livelihood and increase community capacity for wealth creation among enterprising impoverished people.
- To end poverty by offering microfinance and helping people develop the skills they need to generate money.

Nonetheless, the following summarizes the goals of microfinance policy:

- Provide financial services to a sizable portion of Nigerians who may otherwise be able to contribute more to society but have little or no access to them.
- Encourage collaboration and the mainstreaming of the unorganized sector into the country's financial system.
- Improve the services that microfinance organizations provide to small and medium sized business owners.
- Assist in the transformation of rural areas.
- Encourage connection initiatives between development and universal banks, as well as between specialized institutions and microfinance banks.

Importance of Microfinance Institution in Nigeria Microfinance plays a critical role in reducing poverty. Giving resources to the underprivileged who participate in the economy of the community is beneficial. You may rely on it to help accomplish the Millennium Development Goals (MDGs).

Microfinance can be a potent instrument for starting a cyclical process of growth and development. Rural impoverished people's access to financial services can be enhanced by microfinance activities. They also emphasized how microfinance interventions aid in forming the habits required for self-reliance and economic independence. Social and economic empowerment can be facilitated by group members participating in appropriate and participatory credit schemes. Increased access means that rural women are no longer isolated when it comes to financial services and credit denials brought on by a lack of collateral security. It might also lessen reliance on moneylenders and increase the resilience of low-income families against outside shocks. People who have historically been shut out of the financial system can now obtain loans thanks to microfinance. It helps address some of the shortcomings in the conventional banking system, frees people from the vicious cycle of exclusive interest rates, advances women's equality, and offers a safety net for emergencies.

Microfinance Loans

Microfinance loans are a type of financing that helps people who have inconsistent or low income take care of their financial obligations. The tougher eligibility requirements for these loans mean that they are intended for people who would not be eligible for standard lending choices. Two models underpin the operations of microfinance loans:

- **Relationship-Based Model:** To get their loans approved, entrepreneurs and small enterprises first build friendly relations with the bank.
- **Collective Model:** In this model, borrowers help one another collectively through group based lending.

The following are some additional loan options that microfinance institutions (MFIs) provide:

- **Group Loans:** Small groups of borrowers that agree to mutually guarantee one another's loans are eligible for group loans. These organizations, also known as solidarity groups, lower the risk for the microfinance institution by offering accountability and assistance.
- **Personal Loans:** Personal loans are given to specific borrowers according to their ability and creditworthiness to return the money back. These loans might need guarantees or collateral, based on the microfinance institution's requirements.
- **Small Business Loans:** These loans are intended primarily to assist entrepreneurs and small enterprises operating in a variety of industries, including retail, services, agriculture, and handicrafts. They can be applied to increasing business operations, buying equipment, or working capital.
- **Microenterprise Loans:** These loans are intended for people who run extremely tiny businesses or do cash-generating activities like food processing, tailoring, or street vending. These loans support microbusiness owners in expanding their operations and enhancing their standard of living.
- **Loans for agriculture:** Loans for agriculture are intended for farmers and other agricultural producers to cover input costs such as seeds, fertilizer, machinery, and irrigation systems. These loans frequently feature adjustable payback schedules to accommodate the seasonality of agriculture.
- **Consumer Loans:** Consumer loans are given to people for a range of uses, including making home modifications, paying for school, getting medical care, or buying consumer durables like appliances.
- **Emergency Loans:** Emergency loans are provided to borrowers who experience unanticipated medical costs, natural disasters, or unexpected income loss.
- **Housing Loans:** To assist low-income people in building or renovating their homes, microfinance organizations may provide housing loans. You can buy land using these loans, renovate existing structures, or build new ones.
- **Education Loans:** These loans allow people to make educational investments for themselves or their children. They pay for costs associated with books, uniforms, tuition, and other requirements for education.

Nigeria's Microfinance Institutions' Issues

In Nigeria, microfinance institutions encounter a number of difficulties. The following are barriers and limitations to effective microfinance in Nigeria:

- Insufficient training for employees to manage loans to small and medium-sized businesses. 2. Conflicts in policy brought about by multiple alternative financing sources with varying interest rates.
- Borrowers' incapacity to provide suitable collateral for sizable loans, which restricts their likely operational scope.
- Issues with illiteracy that impact borrowers' capacity to keep records and make decisions.

The following are the primary issues affecting microfinance institutions:

- Loans that don't yield results and delays in the processing of loans that do: The majority of the poor find it difficult to get loans approved for engaging in economic activity, even if they wish to, as the bulk of the needy and impoverished are illiterate and prefer loans for consumption rather than productive purposes. In defiance of government regulations, borrowers are occasionally required to provide documentation and collateral security for the approved loan.
- Inflexibility and delay: Borrowers experience a great deal of waiting, which demotivates them, as a result of the strict processes and procedures for approving loans and paying them to the recipients.
- Social obligation, not business opportunity: They thought that rather than being viewed as a possible commercial opportunity, microfinance has been considered as a social obligation.
- Lack of training: It has been observed that, in the majority of situations, group members engage in particular economic activity for their subsistence without first obtaining the necessary training.

The microfinance industry is about to take off thanks to the groundbreaking work done over the past few years by the government, banks, NGOs, and so forth. Nonetheless, Iganiga (2008) listed the following issues with microfinance:

- The issue of loan repayment: Delinquency is a fatal "virus" that plagues MFIs and poses a serious threat to the sustainability of the institution. Poor leadership is a symptom of delinquency. This explains why the majority of MFIs and programs in Nigeria have failed.
- Insufficient experience among credit staff: In his view, competent and experienced staffs are essential to the viability of microfinance organizations. He emphasized that there is a need of skilled personnel in planning, product development, and effective customer involvement in this young and developing market.

Challenges of Accessing Micro Finance Loans

Customers in Nigeria may find it difficult to obtain microfinance loans for a variety of reasons. Among the main obstacles that clients must overcome and according to Sunday et al., (2025):

- **Limited Accessibility:** Because microfinance institutions (MFIs) are mostly found in urban areas, it might be challenging for people living in rural and distant places to use their services. Access to microfinance services is hampered in remote communities by a lack of physical branches and infrastructure.
- **High Interest Rates:** Because of their high operating costs, several microfinance organizations in Nigeria impose relatively high interest rates on loans, which may discourage low-income consumers. Another factor that could contribute to high interest rates is the risk involved in lending to borrowers who don't have conventional collateral.
- **Lack of Financial Literacy:** Many prospective borrowers, particularly those living in rural regions, might not be very knowledgeable about loans, conditions of repayment, or other financial concepts. People who lack financial literacy and education may find it difficult to use microfinance services efficiently and to comprehend their obligations and rights as borrowers.
- **Limited Loan Products:** Nigerian microfinance firms might only provide a small selection of loan products, which would not be sufficient to satisfy the wide range of needs of borrowers. Some MFIs, for instance, might only concentrate on group lending or particular industries, excluding those who need diverse kinds of financial products.
- **Documentation Requirements:** Low-income people may find it difficult to provide the standard documentation needed for loan applications, which include official identification, collateral, and evidence of income. Many prospective borrowers do not have the required paperwork or a formal job to be eligible for microloans.
- **Inadequate Infrastructure:** Inadequate infrastructure can impede the operations of microfinance institutions and make it challenging for borrowers to obtain their services, especially in remote areas. This includes inadequate road networks and limited access to energy and telephones.
- **Loan Delinquency and Default:** Because many borrowers' enterprises are informal, there may be seasonal swings in revenue, and unanticipated economic shocks might present issues for microfinance institutions in relation to loan delinquency and default. Because of this, some MFIs might levy penalties or set strict repayment guidelines, deterring potential borrowers.
- **Limitations by Regulation:** Nigerian microfinance institutions' ability to expand and endure may also be hampered by regulatory obstacles and regulatory environment discrepancies. Bureaucratic processes and intricate regulations may prevent new players from entering the microfinance market and restrict the growth of already established organizations.

A multimodal strategy is needed to address these issues, including raising financial literacy, increasing access to financial services in rural areas, lowering interest rates, streamlining

documentation requirements, and establishing regulatory frameworks that support the growth of microfinance institutions.

Theoretical Framework

Most studies of poverty have adopted different theoretical underpinning in order to find a workable solution to their subject matter. This work adopts Social Structural Failure Theory of Poverty (SSTFTP). A great number of theories attempt to explain causes, consequences and way out of poverty. An attempt is made here to review one of them. This theory was propounded by Rank, Yoom and Herschl (2003). Social structural failure theory of poverty emerges as a result of criticism label against Personal Traits Theory of Poverty (PTTP). SSTFTP opposed the opinion that a person is poor because of personal trait they possess. SSTFTP present a contrary view that opposed the idea that personal trait such as laziness, educational attainment and other traits account for why people are poor.

The main thrust of SSTFTP revolves around the idea that social structural failure is the major cause of poverty in society. Poverty is a product of failing at the structural level. Failure of social and economic structures contributes heavily to the incidence of poverty in society. For instance, the failure of the job market to provide adequate jobs with high pay, enough to cater for the wellbeing of households could result to poverty (Rank et al., 2003). SSTFTP posit that minimal net of social insecurity in society is cause by social structural failure, and this is a significant major contributor to poverty. It suggests that, poverty can be reduced in society by strengthening institutions that create high pay jobs. It includes the establishment and maintenance of social safety framework that provides welfare services to members of society (Rank et al., 2003). This theory is relevant to the study because, microfinance credit scheme, saving and training are a social structure that supports the provision of job especially within small and medium enterprises (SMEs) and could be a prime mover in the war against poverty in society.

Review of Related Empirical Studies

Abdurraheem et al. (2011) examined the effectiveness of microfinance banks in alleviating poverty in Kwara State Nigeria. The Survey method was chosen because of its inherent advantages over other research methods as stated by the researchers. For investigation the research used t-test and analysis of variance (ANOVA). A population of 420 respondents was also used in the study. From the research findings, results revealed that microfinance has significant role to play in the economy, as it helps reduce poverty by providing financial services to the active poor, help in generating employment and also provide small loans to grow small businesses. Onwuka and Udeh (2015) assessed the impact of rural credit facilities of Microfinance banks on rural financial markets and the implication on the rural economy and poverty alleviation. A sample of 27 Microfinance banks was picked from 77 Microfinance banks in Imo and Enugu. 10 house hold were selected from each 27 communities making a total respondent of 270, out of which 265 were successfully administered questionnaire. The study showed, among others, that deposits mobilized from rural communities by Microfinance banks were siphoned out of the communities by way of fixed deposits with commercial banks usually located outside the communities, thereby defeating the sole idea of financial intermediation within the communities.

Nindi and Odhiambo (2015) examined the causal relationship between poverty reduction and economic growth in Swaziland during the period 1980-2011 using ARDL - bounds testing approach to co-integration, and the ECM based Granger causality method to examine this linkage. The study also incorporates financial development as a third variable affecting both poverty reduction and economic growth. The results of the study show that economic growth does not Granger cause poverty reduction either in the short run or in the long run.

Umar et al. (2019) examined the effect of microfinance services on poverty reduction among women in Katsina metropolis. The study uses a cross sectional survey with a sample of 336 women of women development center/future assurance, Bima foundation, and Katsina youth craft village in Katsina metropolis, Katsina state, Nigeria. The data collected was analyzed using SPSS version 21; the study used multiple regressions for analysis. The result of the study revealed a positive and significant effect between microcredit and poverty reduction, micro-saving also had a positive and significant effect with poverty reduction, while training had a positive but statistically insignificant effect with poverty reduction. In another study Enahoro and Ilori (2014) investigated the relationship between Microfinance banking and poverty alleviation using a survey research design. The data for the study were analyzed using logistic regression model and correlation. The result of the study revealed that economic analysis of business practices in Ogun state is generally profitable the profit cannot be maximized if there is no adequate loan or capital for the effective monitoring of the lucrative business activities.

Oyenyi (2014) investigated the influence of microfinance bank on the performance of small-scale Businesses at the Community Level using Michika Microfinance Bank Limited, Adamawa State, Nigeria. The primary data used were sourced through structured questionnaire administered to 360 customers of the bank. Descriptive statistics using mean values and histogram as well as multiple regressions were used for the analysis. The result indicated that the Microfinance bank, despite its numerous challenges/limitations has great impact on the performance of small-scale business in its area of operation. Another researcher Pomi (2019) conducted a research in Bangladesh on the impact of microfinance bank on poverty alleviation. Primary data was used via questionnaire. A branch of Bangladesh Rural Advancement Committee (BRAC) and 3 branch of and Association for Social Advancement (ASA) were used as sample of the study. The study revealed that microcredit disbursed through BRAC and ASA, plays a dynamic role to reduce poverty in the study areas. It is found from the study that microcredit has positive impact on income, expenditure, condition of dwelling house, education, health and decision making ability of the poor women borrowers.

METHODOLOGY

The researchers adopted Descriptive survey research design. Descriptive survey research design is a method of research that aims to gather information about prevailing conditions or situations for the purpose of description and interpretation. It involves the collection of qualitative or quantitative data, which is then analyzed and described in the form of words and language. The population of study comprises three hundred and sixty-five (365) customers of Bayajidda microfinance bank, Daura Katsina state. A sample of one hundred and ninety-six (196) respondents were selected for this study. This sample was determined using research Advisors table (2006). The respondents were selected using sample random sampling techniques. The researcher adopts Descriptive Statistics of the sample frequency and mean, in answering the research questions.

RESULTS AND DISCUSSION

Research Question One: What is the level of awareness of micro finance loans in Daura local government area, Katsina state?

Table 1: Descriptive statistics showing the level of awareness of micro finance loans in Daura

S/N	Items	SA	A	U	D	SD	Mean	Remark
1	I am aware of the existence of microfinance loan services in Daura LGA.	122	46	24	2	2	4.56	Agree
2	Information about microfinance loans is easily accessible in my community.	96	65	10	12	13	4.12	Agree
3	People around me know about and talk about microfinance loan opportunities.	45	35	20	50	46	2.91	Disagree
4	I understand the requirements and processes involved in obtaining microfinance loans.	102	84	5	3	2	4.43	Agree
Grand Mean							4.00	Agree

The findings in Table 1 present respondents' views on the level of awareness of microfinance loans in Daura Local Government Area, Katsina State. The analysis shows that the majority of respondents demonstrated a high level of awareness regarding microfinance loan services.

Specifically, the mean score of 4.56 for item 1 indicates that most respondents agreed that they are aware of the existence of microfinance loan services in the area. Similarly, item 2 recorded a mean of 4.12, suggesting that information about microfinance loans is relatively accessible within the community. Item 4 also shows a high mean score of 4.43, reflecting that respondents understand the requirements and processes involved in obtaining microfinance loans.

However, item 3 had a lower mean score of 2.91, with respondents who disagreed that people around them frequently discuss or know much about microfinance loan opportunities. This suggests that while individuals personally have awareness and understanding of microfinance loans, community-wide discussions or collective awareness may still be limited.

The grand mean of 4.00 indicates an overall high level of awareness of microfinance loans among respondents in Daura Local Government Area. This implies that according to Adejuwon and Adetoun (2025) most individuals are informed about the existence and procedures of microfinance loans, even though community engagement or peer discussions about such opportunities remain relatively low.

Research Question Two: What is the most prevalent micro finance loan accessed in Daura local government area, Katsina state?

Table 2: Descriptive statistics showing the most prevalent micro finance loan accessed in Daura local government area, Katsina State

S/N	Items	SA	A	U	D	SD	Mean	Remark
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5	Many people in Daura LGA have benefited from microfinance loans.	20	15	15	101	45	2.31	Disagree
6	Business loans are the most common type of microfinance loans accessed here.	105	77	4	5	5	4.34	Agree
7	Agricultural loans are the most common type of microfinance loans accessed here in Daura LGA.	116	78	0	1	1	4.58	Agree
8	The loan amounts given by microfinance institutions are sufficient for small businesses.	15	23	30	20	108	2.07	Disagree
Grand Mean							3.33	Agree

Table 2 presents the responses on the most prevalent types of microfinance loans accessed in Daura Local Government Area, Katsina State. The results reveal a mixed perception among respondents regarding the types and accessibility of microfinance loans in the area.

Item 5, with a mean score of 2.31, indicates that respondents generally disagreed that many people in Daura have benefited from microfinance loans. This suggests that while awareness may be relatively high, actual participation or access remains limited. Similarly, item 8, with a mean score of 2.07, shows disagreement that the loan amounts provided by microfinance institutions are sufficient to meet the needs of small businesses. These points to a possible constraint in the adequacy of financial support offered to entrepreneurs and small-scale business owners.

On the other hand, items 6 and 7 recorded high mean scores of 4.34 and 4.58, respectively; indicating strong agreement that business loans and agricultural loans are the most common types of microfinance loans accessed in the area. This implies that microfinance institutions in Daura LGA primarily focus on supporting business and agricultural ventures, which are key economic activities within the region.

The grand mean of 3.33 suggests a moderate overall agreement among respondents, reflecting that while access to microfinance loans exists, especially for business and agricultural purposes the overall participation rate and sufficiency of loan amounts remain areas of concern.

Research Question Three: What are the major challenges of accessing micro finance loans in Daura local government area, Katsina state?

Table 3: Descriptive statistics showing the major challenges of accessing micro finance loans in Daura local government area, Katsina State

S/N	Items	SA	A	U	D	SD	Mean	Remark
9	Microfinance loan application processes are too complicated.	15	11	20	55	95	1.96	Disagree
10	High interest rates discourage people from applying for microfinance loans.	97	59	20	14	6	4.16	Agree
11	Many people are denied loans due to lack of collateral.	22	30	35	40	69	2.47	Disagree
12	Poor communication from loan officers makes it difficult to access loans.	96	45	35	11	9	4.06	Agree
13	Community members lack adequate training on how to manage microfinance loans	55	40	60	21	20	3.45	Agree
Grand Mean							3.22	Agree

Table 3 presents respondents' opinions on the major challenges associated with accessing microfinance loans in Daura Local Government Area, Katsina State. The results indicate that while some structural and procedural issues exist, certain specific challenges significantly hinder loan accessibility.

The data reveal that respondents disagreed with the statements that microfinance loan application processes are too complicated (Mean = 1.96) and that many people are denied loans due to lack of collateral (Mean = 2.47). This suggests that, to some extent, the loan procedures are considered manageable, and collateral requirements may not be the dominant barrier for all applicants.

However, several items reflect notable challenges. Respondents strongly agreed that high interest rates discourage people from applying for microfinance loans (Mean = 4.16), indicating that the cost of borrowing is a major deterrent for many potential beneficiaries. Likewise, poor communication from loan officers (Mean = 4.06) was identified as another key challenge, suggesting that inadequate interaction or guidance between microfinance institutions and clients limits accessibility.

Additionally, respondents agreed that a lack of adequate training among community members on how to manage microfinance loans (Mean = 3.45) also poses a significant barrier. This highlights a gap in financial literacy and borrower education, which may affect effective utilization and repayment of loans.

The grand mean of 3.22 reflects an overall moderate agreement that substantial challenges exist in accessing microfinance loans in Daura LGA, particularly regarding high interest rates, insufficient borrower education, and ineffective communication between clients and loan officers. These factors collectively impede broader participation in microfinance programs within the area (Ogubiuba et al., 2013; Sunday et al., 2025).

Research Question Four: What is the impact of micro finance loans in Daura local government area, Katsina state?

Table 4: Descriptive statistics showing the impact of micro finance loans in Daura local government area, Katsina State

S/N	Items	SA	A	U	D	SD	Mean	Remark
14	Microfinance loans have helped me improve my business and livelihood.	104	80	0	11	1	4.40	Agree
15	I have been able to support my family better since receiving a microfinance loan.	60	65	22	29	20	3.59	Agree
16	Microfinance loans have reduced my dependence on friends or family for financial help.	47	79	40	18	12	3.67	Agree
17	Access to microfinance loans has increased job opportunities in Daura LGA.	19	21	15	50	91	2.12	Disagree
18	My ability to meet household needs has improved after the loan	55	49	43	29	20	3.46	Agree
19	Microfinance loans have empowered women and youth in Daura community	58	50	45	30	13	3.56	Agree
20	Overall, microfinance loans have contributed to reducing poverty in Daura LGA.	106	88	0	1	1	4.52	Agree
Grand Mean							3.62	Agree

Table 4 presents the respondents' opinions on the impact of microfinance loans in Daura Local Government Area, Katsina State. The findings show that microfinance loans have had a generally positive impact on the economic and social wellbeing of beneficiaries within the area.

The results reveal that respondents strongly agreed that microfinance loans have helped improve their business and livelihood (Mean = 4.40) and that such loans have contributed to reducing poverty in Daura LGA (Mean = 4.52). These high mean scores indicate that access to microfinance loans has significantly enhanced individual economic activities and overall community welfare.

Furthermore, respondents agreed that microfinance loans have enabled them to support their families better (Mean = 3.59) and reduced dependence on friends or family for financial help (Mean = 3.67). These findings suggest that microfinance loans foster financial independence and household stability. Similarly, agreement levels on items regarding improved ability to meet household needs (Mean = 3.46) and empowerment of women and youth (Mean = 3.56) show that the scheme promotes inclusive growth and supports vulnerable groups within the community.

However, respondents disagreed that access to microfinance loans has increased job opportunities in Daura LGA (Mean = 2.12), indicating that while loans improve individual livelihoods, they may not have significantly expanded employment opportunities at the community level.

The grand mean of 3.62 reflects an overall agreement that microfinance loans have made a meaningful positive impact in Daura LGA. This implies that microfinance initiatives have enhanced entrepreneurship, reduced poverty, and improved living standards, even though their effect on large-scale job creation remains limited.

CONCLUSION

This study assessed the impact of microfinance loans on poverty reduction in Daura Local Government Area, Katsina State. The findings conclude that awareness of microfinance loans in the area is relatively high, suggesting that residents are increasingly knowledgeable about the opportunities offered by microfinance institutions. More importantly, agricultural loans emerged as the most accessed form of credit, underscoring the central role of agriculture as a livelihood source in the community. However, despite the benefits, challenges such as high interest rates and poor communication between loan officers and clients were found to hinder effective loan utilization. Notably, the study establishes that microfinance loans have had a measurable impact on poverty reduction in Daura, enabling many beneficiaries to improve their income levels and sustain their household welfare. This indicates that microfinance, when well-structured and effectively managed, can serve as a viable strategy for tackling rural poverty. Nevertheless, the sustainability of this impact depends on addressing the barriers that limit equitable access and efficient loan repayment.

Recommendations

- Microfinance institutions operating in Daura should consider reducing interest rates or adopting flexible repayment plans. This will make loans more affordable and accessible, particularly for low-income earners who depend on small-scale farming and trading.

- Loan officers should be trained in effective communication and client engagement. Regular sensitization forums and feedback mechanisms should be introduced to ensure transparency, trust, and mutual understanding between clients and institutions.
- Given that agricultural loans are the most prevalent, microfinance institutions should design credit schemes that align with the farming calendar, including grace periods for repayment. This would enhance productivity and reduce the burden on farmers during off-seasons.
- Beneficiaries should be provided with training on financial management, business planning, and income diversification. Equipping clients with these skills will help maximize loan benefits, ensure repayment, and promote long-term poverty reduction.

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