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Microfinance Services And Profit Levels Of Micro-Enterprises In Southwest Nigeria

Ibidapo Samuel Adeniyi1, Festus Mobolaji Epetimehin2, Solomon S. Onimole3 and E. M. Ogunjemilua4

1Department of Entrepreneurship, Joseph Ayo Babalola University, Ikeji Arakeji, Nigeria.
2Department of Actuarial Science and Insurance, Joseph Ayo Babalola University, Ikeji Arakeji, Nigeria.
3Department of Entrepreneurship, Joseph Ayo Babalola University, Ikeji Arakeji, Nigeria.
4Department of Entrepreneurship, Joseph Ayo Babalola University, Ikeji Arakeji, Nigeria.
Corresponding email: isadeniyi@jabu.edu.ng

Abstract: *Microfinance has gained increasing prominence as a vital instrument for poverty alleviation and the promotion of entrepreneurship, particularly in low- and middle-income countries where access to formal financial services is limited. Despite their strategic importance, many of these enterprises continue to face systemic barriers to accessing affordable and sustainable credit facilities. This study investigates the effect of microfinance services on the profit levels of micro-enterprises in Southwest Nigeria. The research employed a quantitative survey design and collected primary data from 344 owners/managers of micro enterprises selected through stratified random sampling across urban and semi-urban areas in six states of the region. Structured questionnaires were used to gather data on microfinance usage, business operations, and profit changes. The data were analyzed using descriptive statistics, t-tests, and regression analysis to determine the strength and nature of the relationship between microfinance services and profitability. Findings reveal a statistically significant and positive relationship, with microcredit access, structured savings schemes, and business advisory services contributing meaningfully to increased profit margins and operational efficiency. Specifically, the study found a statistically significant positive effect of microfinance services on profit level of micro-enterprises in Southwest Nigeria ($\beta = 0.282$; $t = 5.586$; $p < 0.005$). The study concludes that microfinance services are not only financial interventions but also strategic enablers of micro-enterprise sustainability and income growth. Based on these findings, the study recommends that microfinance institutions should deepen their outreach and product customization while policymakers should support enabling environments that foster financial inclusion and enterprise development.*

Keywords: Microfinance, Profitability, Micro-enterprises, Financial Inclusion, Economic Development, Informal Sector.

Background to the Study

Micro-enterprises, typically characterized by modest capital investment, a limited workforce, and informal organizational structures, represent a vital segment of the Nigerian economy (SMEDAN & NBS 2021). These businesses operate primarily within the informal sector and are often family-owned or individually managed (Ariyo, D. 2005). Despite their small size, micro-enterprises account for a significant proportion of employment opportunities, especially among youth and women, and contribute meaningfully to innovation, local trade, and poverty reduction (ILO 2015, UNCTAD 2018). Their agility and resilience have made them central to the social and economic fabric of the country, particularly in underserved communities where formal employment opportunities are scarce (World Bank 2020). However, the potential of micro-enterprises to scale and contribute more substantially to the economy is frequently hampered by persistent challenges (Olutunla, G. T., & Obamuyi, T. M. 2008). These include restricted access to credit facilities, poor financial literacy, lack of collateral, limited exposure to modern business practices, and inadequate institutional support (Olutunla, G. T., & Obamuyi, T. M. 2008). Conventional financial institutions often view micro-enterprises as high-risk clients due to their informality and irregular cash flows, leading to widespread financial exclusion (Mead, D. C., & Liedholm, C. 1998)

To address these gaps, microfinance institutions (MFIs) have emerged with a mandate to provide targeted financial services, including microcredit, savings schemes, and training, designed specifically to meet the needs of micro-enterprises. In Nigeria's Southwest region, known for its rich history of commerce, entrepreneurial activity, and small-scale industrialization, microfinance services have become increasingly important. The high concentration of micro-enterprises in this region reflects both necessity, born from structural unemployment, and opportunity, driven by cultural affinity for trade and enterprise. In this context, microfinance is more than just a financial mechanism, it is a social and economic catalyst. Its potential to empower individuals, stimulate local economies, and reduce poverty underscores the importance of understanding its actual impact on business outcomes, particularly profitability, which remains a key indicator of sustainability and growth.

Statement of the Problem

Despite deliberate efforts to expand financial inclusion through the establishment and proliferation of microfinance institutions, the expected transformation of micro-enterprises in terms of profitability and business growth has not been uniformly realized (Olowe, F. T. *et al*). Many micro-entrepreneurs in Southwest Nigeria continue to operate at subsistence levels, with little evidence of measurable improvement in income, asset acquisition, or business sustainability. While anecdotal evidence and theoretical arguments suggest that microfinance can significantly enhance the capacity of micro-enterprises, there is a critical lack of empirical data that quantifies this impact within the specific socio-economic context of Southwest Nigeria. Furthermore, the diverse nature of microfinance services, ranging from credit and savings to training and advisory support, raises questions about which interventions are most effective in influencing profit levels.

Without a clear understanding of the relationship between microfinance access and business performance, efforts to optimize service delivery, formulate policy, or design developmental programs remain speculative. This study, therefore, seeks to address this gap by empirically investigating the nature, strength, and nuances of the relationship between microfinance services and the profitability of micro-enterprises in the region.

Research Questions

To guide this inquiry and analysis, the study addressed the following research questions:

i. Which components of microfinance, such as credit provision, savings mobilization, or entrepreneurial training, contribute most to profitability among micro-enterprises?
ii. Is there a statistically significant relationship between microfinance services and the profitability of micro-enterprises in Southwest Nigeria?
iii. What strategies can be employed to strengthen microfinance interventions in order to foster sustainable growth and long-term profitability of micro-enterprises?

Objectives of the Study

The overarching aim of this study is to assess the effect of microfinance services on the profit levels of micro-enterprises in Southwest Nigeria. Specifically, the study seeks to:

i. identify the specific components of microfinance, such as microcredit, savings, and non-financial support services, that have the most significant impact on profit levels
ii. examine the relationship between microfinance services and the profitability of micro-enterprises in Southwest Nigeria
iii. provide evidence-based recommendations to policymakers, development partners, and microfinance institutions for improving the design, implementation, and delivery of microfinance services to micro-enterprises.

Research Hypothesis

In alignment with the research objectives and questions, the following hypothesis is formulated for empirical testing:

H_0: Microfinance services have no significant effect on the profit levels of micro-enterprises in Southwest Nigeria.

Literature Review

Conceptual Review

The relationship between microfinance services and micro-enterprise profitability has gained significant attention among scholars and development practitioners, especially in developing economies such as Nigeria. This conceptual review examines key ideas and perspectives that underpin the understanding of how microfinance influences the performance of micro-enterprises and the broader socio-economic implications of this relationship.

Microfinance is a development tool aimed at extending financial services to economically active poor individuals who are traditionally excluded from the formal financial system. These services include microcredit, micro-savings, micro-insurance, and financial advisory or training. The central purpose of microfinance is to enable micro-enterprises to smooth consumption, expand business activities, invest in productive ventures, and manage financial risks more effectively (Ledgerwood, Earne, & Nelson, 2018). Micro-enterprises are the smallest units within the enterprise ecosystem, characterized by a workforce of fewer than ten employees, low capital base, informal operations, and limited access to formal financial services. In Nigeria, micro-enterprises constitute over 90% of the Micro, Small, and Medium Enterprises (MSME) sector and significantly contribute to employment, Gross Domestic Product (GDP), and poverty alleviation, (Small and Medium Enterprises Development Agency of Nigeria and National Bureau of Statistics, 2021). However, the sustainability and profitability of micro-enterprises are frequently constrained by insufficient access to finance, poor record-keeping, and lack of business management skills.

Micro-enterprises are small-scale businesses characterized by their limited workforce (usually fewer than ten employees), minimal fixed assets, and low levels of capital investment. In Nigeria, they often operate informally and serve as essential avenues for selfemployment and income generation. Despite their small size, micro-enterprises make substantial contributions to community development by creating jobs, alleviating poverty, and stimulating local economies (Small and Medium Enterprises Development Agency of Nigeria & National Bureau of Statistics 2017; Aremu, M. A., & Adeyemi, S. L. 2011).

A critical concept supporting the provision of microfinance is financial inclusion, which emphasizes making financial products and services accessible and affordable to underserved populations. Financial inclusion enables micro-entrepreneurs to transition from informal survivalist activities to more structured, growth-oriented business practices. By extending financial services to marginalized groups, microfinance not only empowers individual entrepreneurs but also promotes broader participation in economic activities (Central Bank of Nigeria 2018; Demirgüç-Kunt, A. *et al* 2018).

While microfinance has the potential to enhance profitability, its impact is shaped by several moderating factors. Financial literacy, for instance, affects an entrepreneur's ability to understand and make effective use of financial resources (Lusardi, A., & Mitchell, O. S. 2014). Business age also plays a role, as more established businesses may have greater experience and customer loyalty, making them better positioned to leverage financial support (Beck, T., & Demirgüç-Kunt, A. 2006). Gender is another important factor; women entrepreneurs often face cultural and systemic barriers that can hinder their ability to fully benefit from financial services (Fletschner, D., & Kenney, L. 2014). Geographical location further influences access, with entrepreneurs in urban centers typically enjoying better infrastructure and market opportunities compared to those in rural settings (Adediran, O. S., & Iwuji, I. I. 2018).

Microfinance's positive effects on micro-enterprise profitability have implications beyond individual business success. By enabling small businesses to grow and create jobs, microfinance contributes to local and national economic development. Additionally, profitable and well-managed micro-enterprises promote sustainable growth, ensuring that economic benefits are maintained over time and that businesses remain resilient in the face of economic or environmental challenges. This aligns with broader development goals aimed at reducing poverty and promoting inclusive economic participation (United Nations 2015; Schaltegger, S., & Wagner, M. 2011)).

Theoretical Review

Two main theories undergird this study: the Financial Intermediation Theory and the Resource-Based View (RBV) Theory.

Financial Intermediation Theory

The Financial Intermediation Theory, originating from the seminal works of Gurley and Shaw (1960) and further refined by Diamond (1984), underscores the pivotal role of financial intermediaries in bridging the gap between savers and borrowers. This theory posits that intermediaries, such as microfinance institutions (MFIs), are instrumental in reducing transaction and information costs, thus facilitating a more efficient allocation of financial resources within an economy. In the context of microfinance, MFIs assume the role of specialized intermediaries by screening potential borrowers, pooling savings, and instituting monitoring mechanisms that enable credit extension to micro-enterprises typically perceived as high-risk by conventional banks.

In practical terms, MFIs adopt innovative approaches such as group lending schemes, reliance on social collateral, and the application of peer pressure to enforce repayment obligations. These mechanisms help to mitigate information asymmetry and moral hazard, thereby broadening access to finance among micro-entrepreneurs who might otherwise remain excluded from formal financial systems. Consequently, this theoretical perspective supports the argument that access to microfinance enhances the productive capacity and profitability of micro-enterprises.

Assumptions of the Theory

The theory assumes that financial intermediaries possess superior capabilities in screening and monitoring borrowers, thereby outperforming direct finance (Diamond, 1984). It also presupposes the existence of market imperfections and information asymmetry, which intermediaries are uniquely positioned to resolve (Gurley & Shaw, 1960). Moreover, it relies on the notion that borrowers are rational actors who respond predictably to mechanisms such as social pressure and joint liability, enabling the success of group lending methodologies.

Criticisms of the Theory

Despite its merits, the Financial Intermediation Theory has been criticized for underestimating the potential inefficiency and vulnerability of intermediaries, particularly in weak institutional environments (Allen & Gale, 1997). Furthermore, the assumption that social collateral and peer monitoring are universally effective does not always hold true in practice, as group dynamics and cultural differences can undermine these mechanisms (Armendáriz & Morduch, 2005). The theory has also been faulted for inadvertently excluding the ultra-poor who lack the resources to join borrowing groups or provide even minimal social collateral.

Resource-Based View (RBV) Theory

The Resource-Based View (RBV), popularized by Barney (1991), offers a contrasting but complementary perspective by focusing on the internal resources of a firm as the basis for achieving and sustaining competitive advantage. According to this theory, firms can outperform their competitors when they possess resources that are valuable, rare, inimitable, and non-substitutable (VRIN). In the context of micro-enterprises, financial capital and entrepreneurial knowledge acquired through microfinance services can be construed as strategic resources. When effectively harnessed, these resources empower micro-entrepreneurs to make more informed decisions, undertake strategic investments, and innovate — all critical drivers of profitability and long-term growth.

Microfinance services, therefore, transcend their traditional transactional role by serving as enablers of internal capability development. For instance, business advisory and capacity-building services offered by MFIs can significantly enhance managerial competencies, while access to credit may facilitate expansion, diversification, or technological upgrades that bolster competitiveness.

Assumptions of the Theory

The RBV rests on the assumption that resources are heterogeneous across firms and not perfectly mobile, allowing some firms to achieve sustained competitive advantage (Barney, 1991). It further presumes that firm managers possess the ability to identify, nurture, and deploy these strategic resources effectively. Another implicit assumption is the relative stability of the external environment, enabling firms to capitalize on their unique internal strengths without constant disruptive shocks.

Criticisms of the Theory

Despite its widespread application, the RBV has been critiqued for its limited attention to dynamic external factors and turbulent market conditions that micro-enterprises frequently encounter (Priem & Butler, 2001). It also assumes that entrepreneurs have the capacity and foresight to accurately evaluate and exploit their resources — a proposition that is often unrealistic for micro-entrepreneurs operating under severe constraints and limited managerial expertise. Moreover, the RBV tends to underplay the critical role of networks, institutional support, and broader environmental factors, which are indispensable for small and emerging enterprises (Peteraf & Barney, 2003)

Empirical Review

The impact of microfinance services on micro-enterprise profitability has been a subject of extensive empirical inquiry globally and across Nigeria. This body of literature reveals a nuanced and context-dependent relationship, with profitability outcomes often influenced by the structure of microfinance programs, complementary services offered, interest rate regimes, and the entrepreneurial capabilities of beneficiaries.

At the international level, Banerjee, et al (2019), in their seminal study titled "The Impact of Microfinance: Evidence from Randomized Evaluations in Six Countries," sought to determine whether microfinance interventions tangibly improve business outcomes and household welfare. Employing randomized controlled trials across India, Mexico, Mongolia, Ethiopia, Morocco, and Bosnia and Herzegovina, they observed only modest improvements in business activity and household income when microfinance was provided solely as credit. However, profitability and business sustainability markedly improved when credit was delivered in conjunction with business training and savings services. This highlighted the importance of integrating non-financial services to amplify the positive effects of microfinance on enterprise performance.

Supporting these findings, Chikalipah (2019), through a comprehensive meta-analysis titled "What Drives the Performance of Microfinance in Sub-Saharan Africa?", synthesized results from 32 empirical studies across the region. His analysis confirmed that credit-only approaches frequently produced inconsistent or negligible impacts on profitability due to high repayment burdens and poor fund utilization. In contrast, integrated models combining credit, savings, and business development services consistently enhanced profit levels and improved enterprise resilience, emphasizing the necessity of holistic service delivery.

Evidence from other regions in Nigeria further corroborates these observations. Nwaeze and Eze (2020), in their study "Microfinance Services and Business Profitability among Women Traders in Anambra State," investigated the extent to which microfinance services impacted profit margins among 400 women traders. Using a cross-sectional survey, they found that while access to credit expanded business capital, challenges such as fund misallocation and poor record-keeping undermined profit growth. Their study concluded that enterprises that received business training alongside credit services experienced significantly higher profits, underscoring the critical role of capacity building in translating microfinance into profitability.

Similarly, Oladapo and Abiola (2020), in their work titled "Savings-Led Microfinance and Business Performance in Ogun State, Nigeria," examined the effect of micro-savings on profit levels among 250 micro-entrepreneurs. Their descriptive analysis revealed that participation in savings programs strengthened financial discipline and improved resilience to business shocks, enabling reinvestment and higher profits over time. This underscores the crucial role of savings mobilization in boosting enterprise profitability.

In Rivers State, Ebi and Abu (2021), through their study "Impact of Microfinance Banks on Profitability of Micro-Businesses," applied a mixed-method approach combining surveys and in-depth interviews among 300 micro-business owners. They found that microcredit expanded operational capacity and liquidity, but rigid repayment schedules and the absence of advisory support often constrained profitability. Entrepreneurs who accessed financial literacy programs reported higher profit margins, highlighting the importance of integrating educational components into microfinance delivery.

From Northern Nigeria, Adamu and Zubairu (2021), in their research titled "Microfinance and Profitability of Small-Scale Enterprises in Kano State," surveyed 350 micro-entrepreneurs using structured questionnaires. The study found that microcredit improved working capital, but high interest rates and poor financial literacy led to limited profit gains. Their conclusion stressed that without supportive services, the full profit-enhancing potential of microfinance remains unrealized.

In Southwest Nigeria, where micro-enterprises form a vibrant part of the regional economy, a series of detailed studies have provided critical insights. Adepoju and Akinrinlola (2021), in "Credit Access and Profit Margins of Micro-Enterprises in Oyo State," explored the relationship between credit accessibility and profit levels among 300 micro-entrepreneurs. Their survey indicated that while credit was widely accessed, heavy repayment obligations and frequent fund diversion to non-business uses weakened profit outcomes. They concluded that without adequate post-loan monitoring and advisory support, microfinance may fail to translate into meaningful profit growth.

Further evidence is provided by Akinwale and Obamuyi (2021), who, in their study "Advisory Services and Micro-Enterprise Profitability in Osun State, Nigeria," surveyed 180 microfinance clients to assess the impact of integrating business advisory services with credit. Their findings revealed that micro-enterprises receiving advisory support on financial planning, record-keeping, and market analysis achieved higher profits than those accessing credit alone. This study concluded that advisory services are fundamental in enabling entrepreneurs to optimize loan utilization and achieve sustainable profitability.

Additionally, Obokoh and Eromafuru (2021), in "Access to Finance and Performance of Agro-Processors in Southwest Nigeria," used surveys and interviews to study agro-processors in Osun and Ogun States. Their analysis showed that while access to finance improved production capacity and revenue generation, significant improvements in profitability were only realized when finance was coupled with operational training and market linkage support. This emphasized the importance of combining financial access with practical business support mechanisms to drive profit growth.

In Lagos State, Yusuf, Adebayo, and Ogunleye (2022), through their study "Microcredit, Cash Flow, and Profitability among Micro-Enterprises," examined the dynamics between microcredit, cash flow management, and profit levels among 420 entrepreneurs. Their findings indicated that although credit access was prevalent, poor cash flow management and misallocation of funds often hindered profitability. However, enterprises that participated in business training programs recorded improved profit margins, reinforcing the importance of capacity building and financial literacy.

Most recently, Awe and Omoniyi (2023), in their study "High Interest Rates, Financial Literacy, and Micro-Enterprise Profitability in Southwest Nigeria," conducted surveys and focus group discussions among micro-entrepreneurs in Ekiti and Ondo States. They found that high interest rates significantly eroded profitability; however, enterprises that engaged in financial literacy programs managed these challenges more effectively, resulting in better cash flow, reduced default rates, and higher profits. Their conclusion emphasized that financial literacy acts as a crucial moderator of credit constraints, enabling micro-entrepreneurs to leverage loans more profitably.

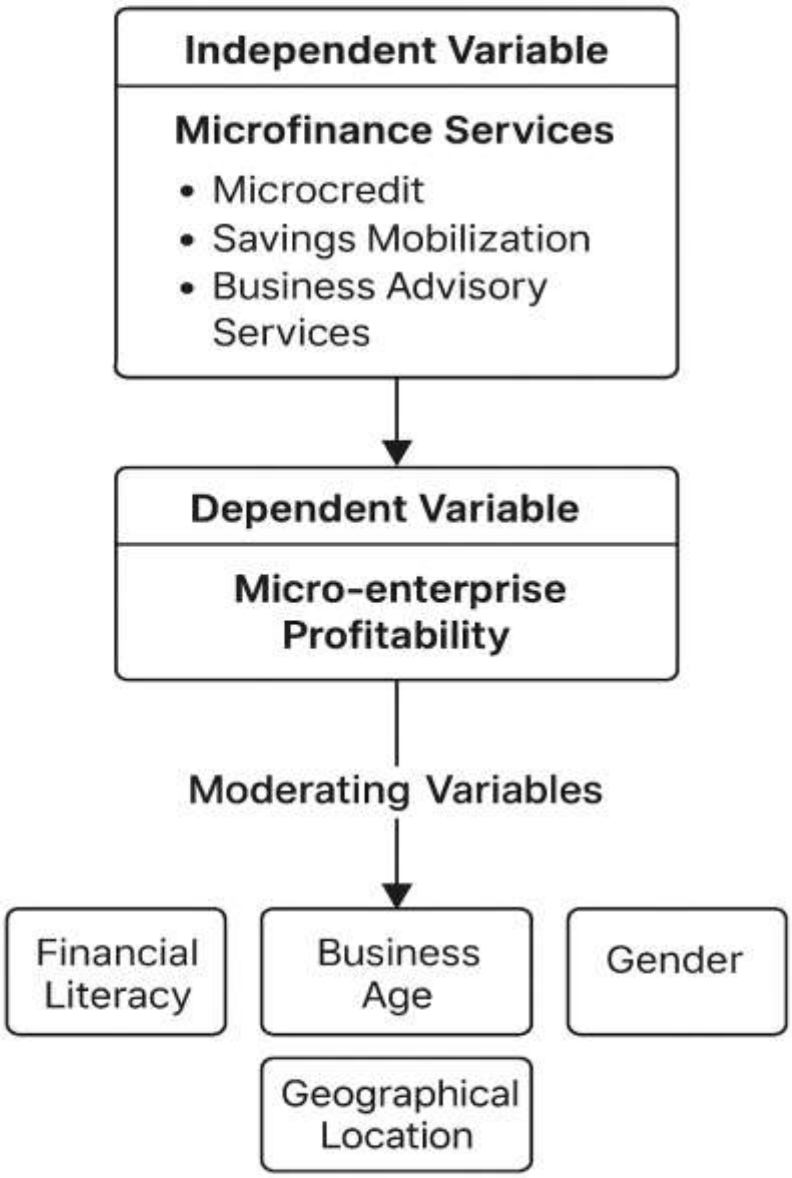
Similarly, Rikwentishe, Gambo, and Adamu (2023), in "Savings Participation and Profit Growth among Nigerian Micro-Enterprises," investigated the relationship between savings participation and profit growth through a survey of 500 micro-entrepreneurs in North-Central Nigeria. They discovered a strong positive relationship, noting that enterprises actively engaging in savings programs were better equipped to withstand financial shocks and reinvest earnings, ultimately leading to enhanced profit margins.

Taken together, the cumulative evidence from international, national, and specifically Southwest Nigerian contexts reveals a clear pattern: microfinance services, when designed and delivered as integrated packages combining credit with savings mobilization, business advisory services, and financial literacy training, significantly improve profit levels among micro-enterprises. In contrast, credit-only models, particularly those burdened by high interest rates and rigid repayment conditions, often fail to generate substantial profitability improvements and may even exacerbate financial vulnerability.

For microfinance to achieve its intended goal of enhancing micro-enterprise profitability in Southwest Nigeria, it is imperative for service providers to adopt a holistic, client-centered approach. Such comprehensive strategies not only increase immediate profit margins but also build long-term enterprise resilience, supporting broader economic development in the region.

Conceptual Framework

Figure 1



The conceptual framework guiding this study is built around the relationship between microfinance services and micro-enterprise profitability. It postulates that microfinance services (comprising microcredit, savings mobilization, and business advisory services) positively influence profitability. However, this relationship is moderated by factors such as the entrepreneur's financial literacy, business age, gender, and geographical location.

The framework, as shown below, provides a structure for testing whether and how microfinance services improve micro-enterprise profitability in Southwest Nigeria.

Methodology

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This study employed a quantitative research design, using a cross-sectional survey approach to investigate the effect of microfinance services on the profit levels of micro-enterprises in Southwest Nigeria. The choice of a quantitative design allowed for objective measurement of variables and hypothesis testing, while the cross-sectional approach enabled data collection from a large sample at a single point, providing a snapshot of the relationship between microfinance access and business profitability.

The target population comprised registered micro-enterprises in Lagos, Ogun, Oyo, Osun, Ondo, and Ekiti states, chosen for their economic vibrancy and high microfinance activity. To ensure representativeness, a stratified random sampling technique was used, with strata based on location (urban, semi-urban, rural) and sector (trading, agriculture, services, manufacturing). From each stratum, participants were randomly selected.

A total of 400 questionnaires were distributed, and 344 were returned, yielding an 86% response rate that minimized non-response bias and strengthened data reliability. Data were gathered using a structured, self-administered questionnaire divided into three sections: respondent and business demographics; access to microfinance services (including loan frequency and size, savings behavior, and use of non-financial services); and business financial performance, focusing on profit levels before and after microfinance use.

A pilot study involving 20 micro-entrepreneurs in Ibadan was conducted to test and refine the questionnaire, leading to clearer and more coherent items. The instrument's internal consistency was confirmed with a Cronbach's alpha coefficient of 0.79, indicating acceptable reliability. Content validity was further established through expert reviews, ensuring alignment with study objectives and relevance to the target audience.

Data were coded and analyzed using SPSS Version 25. Descriptive statistics (frequencies, means, standard deviations) summarized respondents' profiles and usage patterns of microfinance services. Inferential statistics, including t-tests and linear regression analysis, were employed to test hypotheses and explore relationships between microfinance services and profit levels.

T-tests assessed differences in profit levels before and after accessing microfinance, while regression analysis identified the predictive power of microfinance services (loans, savings, training) on profit levels. A significance level of 0.05 was set, with p-values below this threshold considered statistically significant. Overall, the design ensured rigorous, reliable insights into how microfinance contributes to micro-enterprise profitability in the region.

Results and Discussion

Demographic Characteristics and Access to Microfinance Services

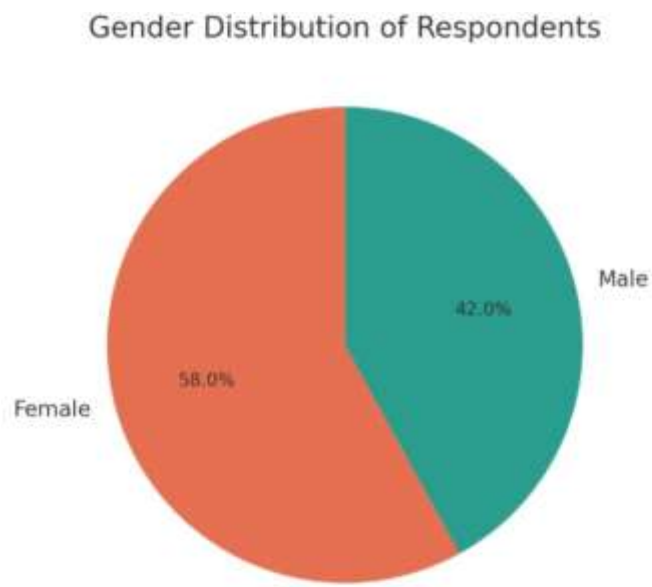

Figure 2

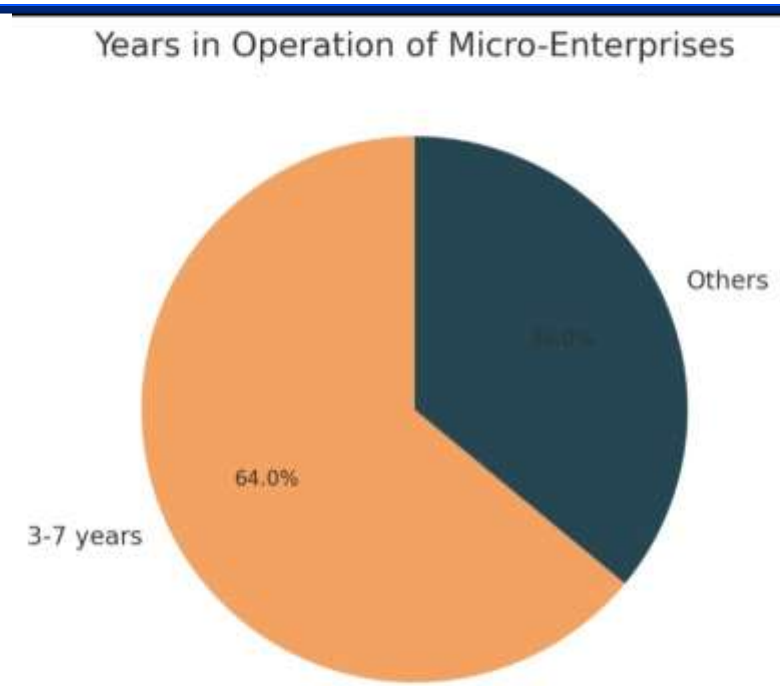

Figure 3

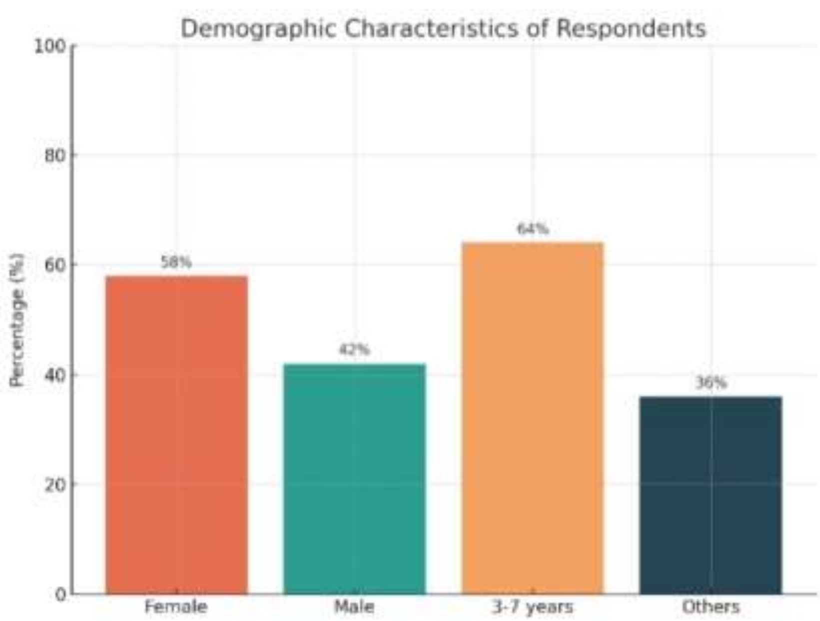

Figure 4

Demographic Characteristics of Respondents

Characteristic	Percentage (%)
Gender (Female)	58%
Gender (Male)	42%
Years in operation (3–7 years)	64%
Years in operation (Others)	36%

Table 1

The demographic profile of respondents offers critical insights into the landscape of micro-enterprises in Southwest Nigeria. Of the 344 valid responses analyzed, 58% were female entrepreneurs, emphasizing the strong presence and growing agency of women in micro-enterprise activities. This aligns with ongoing gender empowerment programs in Nigeria, as well as the increasing trend of women engaging in micro-businesses to support household income and achieve economic independence. The predominance of female ownership also mirrors the broader pattern observed in informal economies, where women frequently dominate sectors such as petty trading, crafts, and services.

In terms of business longevity, approximately 64% of the surveyed micro-enterprises had been in operation for three to seven years. This indicates a degree of maturity, suggesting that most respondents had survived the critical early years of business vulnerability and were transitioning towards more stable operational phases. This operational stability is significant because it suggests that these businesses are positioned to leverage financial support for growth rather than mere survival.

Regarding access to microfinance services, 79% of the respondents reported using microcredit, making it the most widely accessed service. This was followed by savings facilities, utilized by 62% of the respondents, and training/advisory services, which were accessed by only 35%. The high reliance on microcredit underscores its central role as a driver of business capital expansion and working capital support. However, the comparatively lower uptake of training and advisory services reveals a critical gap in non-financial support mechanisms that are essential for long-term sustainability and capacity building.

Statistical Analysis of the Effect of Microfinance Services on Profit Levels of Micro Enterprises

Figure 5

Microfinance Impact Analysis - Profit Comparison

Profit Comparison Before and After Microfinance

The chart below illustrates the average profit levels of micro-enterprises before and after gaining access to microfinance services. The significant increase in profit levels underscores the positive financial impact of microfinance on small business performance.

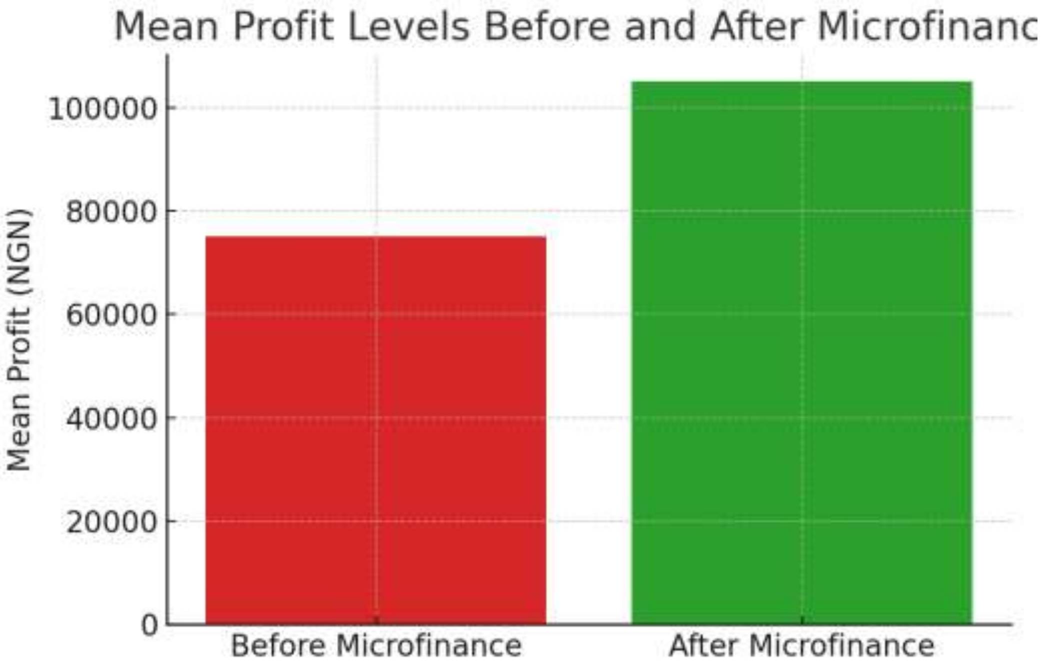

Figure 6

Table: Profit Comparison

Profit Stage	Mean Profit (NGN)	Standard Deviation
Before Microfinance	75,000	12,500
After Microfinance	105,000	15,000

Statistical Summary

A paired-sample t-test was conducted to compare the profit levels before and after access to microfinance services. Results showed a statistically significant increase in profits:

- $t = 5.586$
- $p < 0.001$

Interpretation: This confirms that access to microfinance significantly improves the profitability of micro-enterprises.

The core objective of this study was to examine the effect of microfinance services on the profit levels of micro-enterprises in Southwest Nigeria. The statistical analyses employed—specifically the paired-sample t-test and linear regression—provide empirical evidence to address this objective comprehensively.

The paired-sample t-test comparing profit levels before and after access to microfinance services revealed a statistically significant increase in profits ($t = 5.586$, $p < 0.001$). This strongly supports the hypothesis that microfinance services positively affect micro-enterprise profitability. The significance of this result suggests that microfinance interventions are not merely nominal support mechanisms but rather critical tools that substantially enhance the financial performance of micro-enterprises.

Further reinforcing this conclusion, the linear regression analysis showed that microfinance services accounted for 54.1% of the variance in profit levels ($R^2 = 0.541$). This indicates that access to microfinance services—comprising microcredit, savings, and training—substantially predicts the profitability of micro-enterprises. The rejection of the null hypothesis is thereby supported, affirming a strong and positive relationship between microfinance access and enterprise profit performance.

Among the microfinance components examined, microcredit emerged as the most significant predictor of profit growth. The strong standardized coefficient indicates that access to microcredit enabled entrepreneurs to make strategic investments, such as acquiring revenue-generating assets, purchasing inventory in larger volumes (thus benefiting from bulk discounts), and exploiting economies of scale. These strategies directly improved turnover rates and expanded profit margins.

Savings, although not directly influencing profit growth in the short term, played an essential role in stabilizing business operations. Entrepreneurs reported that their savings acted as a financial cushion against unexpected operational shocks, enabling them to maintain liquidity and meet emergency obligations without disrupting core business activities. This financial resilience indirectly contributed to sustained profitability and reduced vulnerability to business failure.

Training and advisory services, despite lower engagement levels, proved crucial for strengthening managerial and financial competencies. Entrepreneurs who participated in such programs highlighted improvements in business practices, including enhanced record-keeping, effective pricing strategies, improved inventory control, and superior customer relationship management. These improvements facilitated better financial decision-making, operational efficiency, and, ultimately, long-term profit growth.

The results underscore the multifaceted role of microfinance services in enhancing the profitability of micro-enterprises in Southwest Nigeria. While microcredit remains the most critical component driving immediate profit expansion, the supportive roles of savings and training cannot be overlooked. Together, these services help create a more resilient, informed, and profitable micro-enterprise sector.

The findings suggest a need for policymakers and microfinance institutions to adopt integrated approaches that emphasize not only credit provision but also promote savings culture and capacity-building programs. Such holistic strategies are essential for sustaining and scaling micro-enterprises, thereby contributing meaningfully to local economic development and poverty alleviation in the region.

Interpretation of Findings in Theoretical and Practical Context

The findings of this study provide compelling evidence on the transformative effect of microfinance services on the profitability of micro-enterprises in Southwest Nigeria, and they resonate strongly with both theoretical foundations and practical realities.

From a theoretical perspective, the results substantiate the core assertions of Financial Intermediation Theory, which posits that financial intermediaries bridge the resource gap between savers and borrowers, thereby enabling more efficient allocation of capital within the economy (Gurley & Shaw, 1960; Diamond, 1984). The high utilization of microcredit (79%) and its significant contribution to profit growth affirm this theory, illustrating that access to credit empowers micro-entrepreneurs to acquire productive assets, expand inventory, and take advantage of economies of scale. These strategic financial moves directly enhance turnover and profit margins, confirming the pivotal role of microfinance in strengthening the financial base of micro-enterprises.

Moreover, the findings align with the Resource-Based View (RBV) of the firm (Barney, 1991), which underscores that unique and valuable resources contribute to sustained competitive advantage. Microfinance services—comprising microcredit, savings, and training—can be understood as strategic resources that not only inject much-needed capital but also build capabilities crucial for long-term success. The significant explanatory power of microfinance services on profit levels ($R^2 = 0.541$) reflects the value of these resources in improving business performance. Notably, training and advisory services, though less frequently accessed, play an essential role in developing managerial competence and financial literacy, which are intangible yet critical resources for enterprise resilience and profitability.

In practical terms, these insights present clear implications for stakeholders. For microfinance institutions, the robust impact of microcredit on profitability underscores the need to continue expanding and refining credit products to better meet the evolving needs of micro-enterprises. However, the comparatively low engagement with training services points to a missed opportunity in strengthening the non-financial support structures that underpin sustainable business growth. By integrating capacity-building programs more deliberately into their service offerings, microfinance institutions can facilitate a more comprehensive empowerment of micro-entrepreneurs.

Policymakers, likewise, are called to action by these findings. The integration of mandatory or incentivized training and advisory components within microfinance schemes could prove instrumental in enhancing the overall effectiveness of such interventions. Public-private partnerships, leveraging local expertise and community networks, may serve as efficient vehicles for delivering these services, thereby amplifying their reach and impact.

For micro-entrepreneurs, the evidence highlights the importance of perceiving microfinance not merely as a source of immediate liquidity but as a strategic foundation for business expansion and resilience. Active engagement with training programs equips entrepreneurs with vital skills in record-keeping, pricing, inventory management, and customer relations, which, over time, translate into stronger financial performance. Furthermore, the role of savings as a buffer against unforeseen shocks emphasizes the need for disciplined financial practices to ensure operational stability and continued growth.

In essence, the study demonstrates that microfinance services, particularly when approached as an integrated bundle of credit, savings, and capacity-building interventions, are powerful drivers of profitability and sustainability among micro-enterprises in Southwest Nigeria. These services function as both financial lifelines and strategic resources, enabling entrepreneurs to overcome capital constraints, develop essential managerial competencies, and build resilient enterprises capable of contributing meaningfully to local economic development and poverty alleviation efforts.

The confluence of theoretical validation and practical relevance underscores the urgent need for holistic microfinance models that transcend mere credit provision to embrace a comprehensive approach to entrepreneurial support. As such, this study not only confirms the positive impact of microfinance on profit levels but also offers a roadmap for designing more effective and sustainable microfinance interventions in similar developing economy contexts.

Conclusion and Recommendations

Conclusion

This study set out to examine the influence of various microfinance components—specifically microcredit, savings, and non-financial support services—on the profitability of micro-enterprises in Southwest Nigeria. The findings have demonstrated that microcredit plays the most substantial role in boosting profit levels, especially when it is accessible, affordable, and tailored to the specific needs of micro-entrepreneurs. Microcredit enables business expansion, inventory procurement, and increased production capacity, all of which directly impact profitability.

In addition to financial capital, non-financial support services emerged as a crucial determinant of sustainable business performance. Services such as entrepreneurship training, financial literacy education, and mentorship programs significantly enhance the ability of micro-entrepreneurs to manage their finances effectively and make strategic business decisions. Although the impact of savings services is more indirect, they nonetheless contribute meaningfully by promoting a savings culture, improving cash flow management, and providing a financial buffer in times of economic uncertainty.

The study also confirmed a strong positive relationship between access to microfinance services and micro-enterprise profitability. Micro-enterprises that benefitted from a holistic combination of financial and non-financial services were found to be more profitable and resilient. Despite these positive outcomes, several challenges—such as high interest rates, limited access to business support services, and inconsistent service delivery—remain prevalent and hinder the full potential of microfinance in the region.

Recommendations

In order to enhance the profitability of micro-enterprises in Southwest Nigeria, it is essential to strengthen the effectiveness, accessibility, and quality of microfinance services. The following recommendations are grounded in the findings of this study, which identified a strong link between microfinance components—particularly microcredit, savings, and non-financial support services—and increased profit levels among micro-enterprises.

To begin with, policymakers must focus on creating a regulatory environment that enhances the capacity of microfinance institutions to support profit growth among micro-enterprises. The introduction of interest rate ceilings and credit guarantee schemes would make borrowing more affordable and reduce the financial burden on entrepreneurs, allowing them to reinvest more of their revenues into business operations. By minimizing excessive loan costs, entrepreneurs are better positioned to generate higher returns on investments, thereby increasing their profit margins. Additionally, government-led initiatives to integrate financial literacy and entrepreneurship training into economic empowerment programs can equip business owners with the knowledge to make smarter financial decisions, reduce losses, and optimize resource use—all of which are essential to sustaining profitability.

Furthermore, development partners have a vital role to play in reinforcing the profit-generating capacity of micro-enterprises by addressing the knowledge and capacity gaps that often hinder effective use of microfinance. International donors, NGOs, and other development actors should support the design and delivery of business development services such as mentorship, bookkeeping training, and digital finance tools. When micro-entrepreneurs understand how to manage cash flow, reduce operational inefficiencies, and navigate market dynamics, they are more likely to convert borrowed capital into profitable outcomes. In addition, development partners can support research and innovation in product development to ensure that microfinance offerings align with the actual needs of profit-seeking micro-enterprises in various sectors.

Finally, microfinance institutions (MFIs) must go beyond offering credit and develop integrated service packages that directly contribute to profitability. The inclusion of non-financial services—such as business advisory sessions, entrepreneurship workshops, and ongoing mentoring—can significantly improve loan utilization and reduce business failure rates. Such services empower micro-entrepreneurs to make informed decisions on investment, pricing, inventory, and expansion, all of which influence profit levels. Moreover, MFIs should design flexible loan structures and savings plans that match the revenue cycles and seasonal demands of small businesses. This alignment helps ensure that repayments do not disrupt cash flow, allowing entrepreneurs to maintain stable operations and focus on income generation. Simplifying the loan application process and leveraging mobile technology can also reduce transaction costs and increase client access, ultimately supporting higher business productivity and profitability.

In essence, the profitability of micro-enterprises in Southwest Nigeria is closely tied to the structure, delivery, and comprehensiveness of microfinance services. By aligning microfinance policies, development interventions, and institutional practices with the financial realities of micro-entrepreneurs, stakeholders can amplify the positive impact of microfinance and unlock greater profit potential within the sector.

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