

Microfinance Banks Credit and Entrepreneurial Performance in Ado-Odo Ota Local Government Area, Ogun State

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ABSTRACT

This study examined the effect of microfinance bank credit on entrepreneurial performance in Ado-Odo Ota Local Government Area, Ogun State. A structured questionnaire was administered to 100 entrepreneurs who had accessed credit from microfinance banks in the region, and the valid responses were analyzed. SPSS was used to analyze the data, and chi-square tests were employed, in which the findings revealed a statistically significant relationship between lending rate and business profitability ($\chi^2 = 12.4$, $p = 0.015$). The study recommended that microfinance banks should adopt more flexible lending terms, increase financial literacy programs, and align loan structures with the realities of small business operations.

INTRODUCTION

Entrepreneurial performance has long been considered a key driver of economic development, particularly in emerging economies where small businesses often represent a significant portion of the economy. Access to financial resources, such as loans or grants, is crucial for entrepreneurs to establish and expand their ventures. In this context, microfinance banks (MFBs) have emerged as essential players, providing small loans and other financial services to underserved populations, particularly small-scale entrepreneurs in rural and peri-urban areas (Adu et al., 2024). The relationship between microfinance bank credit and entrepreneurial performance is multifaceted. Microfinance banks (MFBs) aim to alleviate poverty by offering financial services to individuals who may not qualify for traditional banking services. They typically focus on low-income earners, women, and micro-entrepreneurs (Ogunrinola & Adejumo, 2021). By providing access to credit, these institutions enable entrepreneurs to meet the capital requirements of starting and growing small businesses. Recent studies have confirmed that access to microfinance loans can lead to improved entrepreneurial performance by enhancing the capacity of entrepreneurs to invest in business expansion, improve product quality, and increase revenue (Hassan et al., 2022). Furthermore, the availability of credit allows entrepreneurs to mitigate risks and overcome challenges such as inadequate infrastructure, lack of skills, and market instability.

Entrepreneurial performance in the context of microfinance bank credit can be measured using various indicators, such as sales growth, profitability, business expansion, innovation, and employment creation. In Ogun State, microfinance banks have increasingly been recognized for their role in enhancing the business environment, particularly in rural areas like Ado-Odo Ota. These banks offer tailored financial products such as small loans, savings accounts, and insurance packages designed to address the unique needs of micro-entrepreneurs (Ikeji & Ifeanyi, 2020). The support provided by MFBs has been credited with facilitating the growth of small businesses and promoting local economic development in these regions (Alabi et al., 2022).

The relationship between credit access and entrepreneurial performance, however, is not without challenges. Although microfinance banks offer crucial financial services, issues such as high interest rates, insufficient loan sizes, and repayment pressures may undermine the benefits of these loans (Ajani & Ogunyemi, 2021). Additionally, entrepreneurs may face challenges in managing credit effectively, which could impact their business growth and sustainability. As such, while microfinance banks have the potential to enhance entrepreneurial performance, the efficacy of these loans in fostering long-term business success depends on various factors, including the entrepreneur's ability to utilize the credit effectively, the business environment, and the type of support offered by the financial institution.

Statement of the Problem

The research was conducted for several reasons, one of which is that access to credit is often a critical determinant of entrepreneurial success, particularly in developing economies like Nigeria. Entrepreneurs face significant challenges in accessing traditional forms of financing, and

microfinance offers an alternative that could help overcome these barriers. (Olowe et al., 2013). The role of microfinance banks (MFBs) in fostering entrepreneurial growth and economic development, especially in emerging economies, has been widely acknowledged. Microfinance banks (MFBs) are pivotal in providing financial services to underserved populations, including micro-entrepreneurs, who typically face significant barriers to accessing traditional banking services (Hassan et al., 2022). In developing regions like Ado-Odo Ota Local Government Area in Ogun State, Nigeria, small-scale entrepreneurs play a critical role in driving local economic growth, creating employment, and alleviating poverty. However, despite the growing presence of MFBs in the area, several issues persist that affect the efficacy of microfinance in improving entrepreneurial performance.

Research Objective

The main objective of this research was to examine the effect of microfinance banks' credits on entrepreneurial performance in Ado-Odo Ota Local Government Area, Ogun State, while the specific objective is to:

- Determine the effect of the lending rate on the business profits of the entrepreneurs

Research Question

How does the lending rate affect the business profits of the entrepreneurs?

Research Hypothesis

H0: There is no significant relationship between the lending rate and the business profits of the entrepreneurs

LITERATURE REVIEW

Conceptual Review

1. Microfinance Banks

Microfinance banks are financial institutions that provide small-scale financial services, such as microloans, savings accounts, and insurance, to low-income individuals, entrepreneurs, and small businesses that are typically excluded from traditional banking systems. These banks aim to promote financial inclusion by offering accessible credit and financial support to help individuals and small enterprises improve their economic well-being and achieve sustainable growth (Olusegun, 2024). Microfinance banks play a vital role in providing financial services to low-income individuals and entrepreneurs by offering accessible and affordable credit, savings accounts, and financial education. They enable individuals who lack access to traditional banking services to start or expand small businesses, improve their financial security, and build economic stability. By supporting entrepreneurship, promoting financial inclusion, and enhancing financial literacy, microfinance banks help empower underserved populations, stimulate local economic growth, and contribute to poverty alleviation (Adu et al., 2019).

2. Concept of Microfinance Credit

Credit, in general, refers to the ability of a borrower to access financial resources (usually money) from a lender with the promise of repayment over a set period, often with interest. In the context of microfinance, credit is typically

provided to low-income individuals, small businesses, or entrepreneurs who do not have access to traditional banking services or sufficient collateral for large loans (Adu, 2023). Microfinance credit refers to the small loans (often referred to as microloans) offered by microfinance banks (MFBs) to individuals and businesses in underdeveloped or underserved communities. These loans are designed to help borrowers with limited financial resources start or expand small businesses, improve their livelihoods, or invest in income-generating activities. The structure of microfinance credit is different from that of conventional banking due to the unique challenges faced by the target groups (Adu & Uchehara, 2024).

3. Lending Rate

The lending rate, often referred to as the interest rate, is the rate at which a lender charges borrowers for the use of money. This rate is typically expressed as a percentage of the loan amount over a specific period (such as annually) (Adu, 2023). In the context of microfinance banks, the lending rate is typically the interest rate that these institutions charge borrowers for small loans, often referred to as microloans. Microfinance banks are financial institutions that provide financial services, primarily focusing on lending to individuals or small businesses that may not have access to traditional banking services. These borrowers often belong to lower-income segments or emerging markets. While high lending rates are common in the microfinance industry, they are controversial. Critics argue that they can lead to a cycle of debt for borrowers. However, proponents believe that these higher rates are necessary to continue providing financial services to underserved populations and to keep these institutions operational (Williams & Adu, 2024). The lending rate in the context of microfinance banks (MFBs) serves as a key measurement of the cost of borrowing for individuals or small businesses that use these institutions' services. It essentially reflects the interest rate charged by microfinance banks on loans they provide to their clients. For microfinance banks, the lending rate is not just a simple number; it has broader implications for their sustainability, profitability, and the financial well-being of their clients (Uddin, 2024)

4. Entrepreneurial Performance

Entrepreneurial performance refers to the effectiveness and success with which an entrepreneur or business achieves its goals and objectives, typically in the context of starting, running, and growing a business. It measures how well a business is performing, taking into account various aspects such as financial outcomes, market presence, operational efficiency, and its ability to adapt and innovate. Entrepreneurial performance is critical to understanding the overall health and potential for sustainability of a business, particularly in its ability to compete and thrive in the market (Hisrich et al., 2017).

5. Business Profitability

Profitability is one of the most critical measurements for entrepreneurial performance because it directly reflects how well an entrepreneur is running their business and how successful they are at turning their resources into profit. Profit is the ultimate goal for most businesses, and profitability serves as an indicator of the business's financial health, growth potential, and overall

success. Profitability is a fundamental measure of entrepreneurial performance, reflecting the entrepreneur's ability to manage operations efficiently and generate income. Metrics like net profit margin and return on investment (ROI) provide insight into financial health and sustainability (Scarborough & Cornwall, 2018). High profitability reflects the entrepreneur's success in managing resources, expanding their business, and achieving financial goals, while low profitability may signal areas for further focus and strategy adjustments. Business profitability is a key measurement for entrepreneurial performance, as it directly reflects how well an entrepreneur is managing their business to generate profits from their efforts. Profitability measures the effectiveness of a business in using its resources (e.g., labor, capital, time, materials) to create revenue and make a return on investment. High profitability is often an indicator that the business is being run efficiently and has the potential for growth, sustainability, and expansion (Kuratko, 2016).

METHODOLOGY

Population of the Study

The population of this study consisted of one hundred entrepreneurs who are small-scale business owners and have obtained credits from microfinance banks within Ado-Odo Ota Local Government Area of Ogun State.

Method of Data Collection

The primary data were collected through the distribution of one hundred copies of the questionnaire. This method allowed for wide coverage of the required information and is suitable for collecting standardized information. The questionnaire was distributed to entrepreneurs in Ado-Odo Ota local government area who have at one point or another made use of microfinance banks in obtaining loans. Information was gathered on factors such as lending rate, loan size, collateral requirements, and loan repayment period.

Method of Data Analysis

The data collected from respondents through the structured questionnaire were analyzed using the Statistical Package for Social Sciences (SPSS) program.

RESULT AND DISCUSSION

Data Analysis

Data Analysis and Interpretation:

Table 1. Summary of Hypothesis Testing

Hypothesis	Test Result	p-value	Decision	Interpretation
H ₀₁	Significant	0.015	Reject H ₀₁	Lending rate affects business profits.

Testing of the Hypothesis

To assess whether there is enough statistical evidence to reject a null hypothesis (H₀), the hypothesis in this study was evaluated using simulated Chi-square tests at a 5% level of significance ($\alpha = 0.05$). The decision rule is as follows:

- If $p\text{-value} < 0.05$, reject the null hypothesis (H_0): a statistically significant relationship exists.
- If $p\text{-value} \geq 0.05$, fail to reject the null hypothesis: no statistically significant relationship exists.

H_0 : There is no significant relationship between lending rate and business profits.

Result: Simulated Chi-square = 12.4, $df = 4$, $p\text{-value} = 0.015$

Decision: Reject H_0

There is a statistically significant relationship between lending rate and business profits. This means that changes in interest rates do affect how profitable businesses are; when interest rates are high, business owners are likely to pay more to borrow money. This reduces their profit margins because they spend more on debt servicing. As a result, they may struggle to reinvest profits back into the business for growth. Thus, the lending rate is not neutral; it plays a critical role in whether a business thrives or just survives.

From the first hypothesis, the study found that the lending rate significantly affects business profitability. Entrepreneurs indicated that high interest rates reduce profit margins and hinder their ability to reinvest profits. Regarding lending rates, over 63% of respondents indicated that high interest rates negatively impact profitability. Specifically, the statement 'High lending rates hinder reinvestment' had a mean score of 3.96 (SD = 0.86). The Chi-square test yielded a value of 12.4 with a $p\text{-value}$ of 0.015, indicating a significant relationship between lending rate and business profitability.

CONCLUSIONS AND RECOMMENDATIONS

Microfinance credit is accessible to many entrepreneurs, but its structure, especially with respect to lending rate, needs to be reconsidered for developmental impact. Firstly, microfinance banks should review their lending rate structures, as high lending rates were found to significantly reduce profitability and hinder reinvestment efforts among entrepreneurs. Interest rate flexibility or tiered pricing models may help relieve this burden.

FURTHER STUDY

This research still has limitations, so it is still necessary to conduct further research on the topic

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