

Analysis of Effect of Microfinance on the Profit Level of Small and Medium Scale Enterprises in Lagos State, Nigeria

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Abstract : The study analysed the effect of microfinance on the profit level of small and medium scale enterprises in Lagos. The data for the study were obtained by simple random sampling, and total of one hundred and fifty (150) small and medium scale enterprises (SMEs) were sampled for the study. Seventy-five (75) each are microfinance users and non-users. Data were analysed using descriptive statistics, logit model, t-test and ordinary least square (OLS) regression. The mean profit of the enterprises using microfinance is ₦16.8m, while for the non-users of microfinance is ₦5.9m. The mean profit of microfinance users is statistically different from the non-users. The result of the logit model specified for the determinant of access to microfinance showed that three of specified variables- educational status of the enterprise head, credit utilisation and volume of business investment are significant at $P < 0.01$. Enterprises with many years of experience, highly educated enterprise heads and high volume of business investment have more potential access to microfinance. The OLS regression model indicated that three parameters namely number of school years, the volume of business investment and (dummy) participation in microfinance were found to be significant at $P < 0.05$. These variables are therefore significant determinants of impacts of microfinance on profit level in the study area. The study, therefore, concludes and recommends that to improve the status of small and medium scale enterprises for an increase in profit, the full benefit of access to microfinance can be enhanced through investment in social infrastructure and human capital development. Also, concerted efforts should be made to encouraged non-users of microfinance among SMEs to use it in order to boost their profit.

Keywords : credit utilisation, logit model, microfinance, small and medium enterprises

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