



Can Microfinance Activities Reduce Poverty in Nigeria? Evidence from Small Business Owners in Ilorin

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Abstract

Microfinance is increasingly promoted in Nigeria by governments, development agencies, and private investors, yet poverty remains widespread. This raises the question of whether microfinance is primarily a profitable venture, an effective anti-poverty instrument, or both. This study examines whether microfinance activities reduce poverty among small business owners in Ilorin, Kwara State, Nigeria. Using a quantitative, cross-sectional survey design, data were collected through a structured five-point Likert-scale questionnaire from 70 business owners selected by simple random sampling from small and medium-sized enterprises registered with the Small and Medium Enterprises Development Agency of Nigeria. The data were analyzed in SPSS version 22 using descriptive statistics and multiple regression. All four microfinance dimensions microcredit, micro-savings, training and advisory services, and financial inclusion had positive and statistically significant effects on poverty reduction and jointly explained 62.8 percent of its variation, with microcredit having the largest effect ($\beta = 0.499$). The study recommends that policymakers and microfinance banks expand accessible and flexible microcredit for individuals and small businesses while strengthening savings products, financial inclusion, and business training.

Keywords: *microfinance, poverty reduction, microcredit, financial inclusion, Nigeria*

Introduction

The term *microfinance*, in its modern sense, emerged as institutions such as the Grameen Bank of Bangladesh, founded by Muhammad Yunus, pioneered small, collateral-free loans to poor households.¹ In Nigeria, poverty remains one of the most pressing development challenges: about 40 percent of the population roughly 83 million people lived below the national poverty line in 2019.²

¹ Jonathan Morduch, "The Microfinance Schism," *World Development* 28, no. 4 (2000): 617–29.

² National Bureau of Statistics, *2019 Poverty and Inequality in Nigeria: Executive Summary* (Abuja: National Bureau of Statistics, 2020), <https://www.nigerianstat.gov.ng/elibrary/read/1092>.

Microfinance banks were established to bridge the gap between financially excluded groups and the formal banking system by offering low-income people small loans, savings accounts, and financial literacy programs. Obadire defines microfinance as the provision of financial services to low-income clients, particularly the self-employed.³

Microfinance is no longer the preserve of practitioners; it has grown into a global movement that attracts governments, donors, development agencies, foundations, firms, civil society organizations, researchers, universities, consultants, and philanthropists.⁴ Its growing acceptance among such diverse stakeholders raises an important question: is microfinance gaining popularity because it is a profitable venture, because it is an effective instrument against poverty, or because it is both?⁵ In many countries, including Nigeria, microfinance has been promoted as a practical tool against hunger and poverty and as a more sustainable alternative to charity, because it can deliver financial services to the poor efficiently and productively.⁶

According to Adejuwon and Adetoun, strong economic growth cannot be achieved without targeted programs that empower individuals by widening their access to productive resources, particularly finance, because the poor possess latent entrepreneurial potential that credit can unlock.⁷ Nigeria is among the developing countries that have adopted dedicated laws and policies to regulate the microfinance industry. Under the Microfinance Policy, Regulatory and Supervisory Framework launched by the Central Bank of Nigeria (CBN) in 2005, existing community banks were required to raise their minimum capital base from ₦5 million to ₦20 million in order to convert into microfinance banks (MFBs).⁸ The policy sought to create financially sound, self-sustaining institutions that are rooted in their communities and able to reach more clients. MFBs, which replaced the community banks previously established across the country, are now among the main financial institutions committed to poverty alleviation, including in Ilorin, the capital of Kwara State.⁹

Although microfinance banking is widely regarded as an effective means of reducing poverty, Nigeria's poverty rate remains a matter of national and international concern. Despite the expansion of microfinance institutions, chronic hunger and malnutrition persist, and poverty remains at an alarming level.¹⁰ Most Nigerian firms are small and medium-sized enterprises (SMEs), and many struggle to obtain the finance they need to expand, even though such microbusinesses are central to reducing poverty.¹¹

³ A. Obadire, "Analysis of the Impact of Microfinancing on Poverty Alleviation in Nigeria," *Journal of Financial Risk Management* 11, no. 3 (2022): 648–57, <https://doi.org/10.4236/jfrm.2022.113031>.

⁴ Anis Chowdhury, "Microfinance as a Poverty Reduction Tool: A Critical Assessment," DESA Working Paper No. 89, ST/ESA/2009/DWP/89 (New York: United Nations Department of Economic and Social Affairs, 2009).

⁵ Morduch, "Microfinance Schism."

⁶ A. E. Ayodele and A. Kayode, "The Impact of Microfinance on Economic Growth in Nigeria," *Journal of Emerging Trends in Economics and Management Sciences* 5, no. 5 (2014): 397–405; O. N. Awojobi, "Microfinance as a Strategy for Poverty Reduction in Nigeria: Empirical Investigation," *International Journal of Current Research* 6, no. 9 (2014): 8944–51.

⁷ J. A. Adejuwon and A. I. Adetoun, "Assessing the Role of Microfinance Institutions in Poverty Alleviation within the Context of Nigeria Economic Landscape," *International Journal of Research and Innovation in Social Science* 9, no. 6 (2025): 1058–75, <https://doi.org/10.47772/IJRISS.2025.90600084>.

⁸ Central Bank of Nigeria, *Microfinance Policy, Regulatory and Supervisory Framework for Nigeria* (Abuja: Central Bank of Nigeria, 2005).

⁹ A. Abdurraheem, O. F. Osemene, and K. A. Yahaya, "Effectiveness of Microfinance Banks in Alleviating Poverty in Kwara State, Nigeria," *Global Journal of Management and Business Research* 11, no. 4 (2011).

¹⁰ National Bureau of Statistics, *2019 Poverty and Inequality*.

¹¹ T. G. Sunday, A. B. Akinade, and B. Akanegbu, "Impact of Microfinance Bank Lending on the Small Business Growth in Nigeria," *Open Journal of Social Sciences* 13, no. 3 (2025): 772–85, <https://doi.org/10.4236/jss.2025.133050>.

SMEs in Nigeria's developing regions also face a shortage of entrepreneurial skills, poor infrastructure, and restricted access to finance, all of which undermine their sustainability and performance.¹² Empirical evidence shows that many SMEs fail because their owners cannot obtain the capital needed to grow precisely the gap that MFBs were created to fill. If MFBs are not closing this gap, their capacity to reduce poverty is in doubt. This study therefore asks whether microfinance activities reduce poverty in Nigeria, using evidence from small business owners in Ilorin, Kwara State. Specifically, it examines the effects of four dimensions of microfinance microcredit, micro-savings, training and advisory services, and financial inclusion on poverty reduction, and it offers evidence-based recommendations for policymakers and microfinance providers.

Literature Review

Conceptual Review

Microfinance refers to the provision of financial services credit, savings, insurance, and payments together with non-financial support such as training, to low-income households and microenterprises that are typically excluded from conventional banking.¹³ This study focuses on four dimensions of microfinance. *Microcredit* comprises small loans, often extended without conventional collateral, that enable the poor to start or expand income-generating activities. *Micro-savings* are deposit facilities that allow low-income clients to accumulate assets, smooth consumption, and cope with shocks. *Training and advisory services* are non-financial services such as business, financial-literacy, and skills training that improve clients' capacity to use finance productively. *Financial inclusion* denotes access to, and use of, affordable formal financial services, including credit, savings, and payments.¹⁴ *Poverty reduction*, the dependent variable, refers to improvements in income, consumption, assets, and overall living conditions that move households away from deprivation.¹⁵

Theoretical Framework

This study draws on the finance-led growth perspective, particularly Patrick's supply-leading hypothesis, which holds that creating financial institutions and services ahead of demand can stimulate economic activity by mobilizing savings and channeling credit to productive uses.¹⁶ Studies of the Nigerian financial system have tested this proposition against its demand-following alternative.¹⁷ Applied to microfinance, the supply-leading view implies that providing the poor with credit, savings facilities, training, and access to financial services should expand microenterprise activity, raise incomes, and reduce poverty.

¹² K. Ogujiuba, J. Fadila, and N. Stiegler, "Challenges of Microfinance Access in Nigeria: Implications for Entrepreneurship Development," *Mediterranean Journal of Social Sciences* 4, no. 6 (2013): 611–18, <https://doi.org/10.5901/mjss.2013.v4n6p611>.

¹³ Obadire, "Impact of Microfinancing."

¹⁴ David Mhlanga, Steven Henry Dunga, and Tankiso Moloi, "Financial Inclusion and Poverty Alleviation among Smallholder Farmers in Zimbabwe," *Eurasian Journal of Economics and Finance* 8, no. 3 (2020): 168–82.

¹⁵ T. A. Kasali, S. A. Ahmad, and H. E. Lim, "The Role of Microfinance in Poverty Alleviation: Empirical Evidence from South-West Nigeria," *Asian Social Science* 11, no. 21 (2015): 183–92.

¹⁶ Hugh T. Patrick, "Financial Development and Economic Growth in Underdeveloped Countries," *Economic Development and Cultural Change* 14, no. 2 (1966): 174–89.

¹⁷ S. Magaji, N. A. Darma, and G. U. Igwe, "Testing the Supply-Leading and Demand-Following Hypothesis for Financial Development and Economic Growth: A Case Study of the Nigerian Banking System," *Global Scientific Journal* 9, no. 12 (2021); G. U. Igwe, S. Magaji, and N. A. Darma, "Analysis of the Impact of Financial Development Indicators of the Banking, Insurance and Pension Sectors on the Economic Growth in Nigeria," *Applied Economics and Finance* 2, no. 2 (2021).

The study is also situated within what Morduch calls the “microfinance schism”: the tension between building financially sustainable, profitable institutions and reaching and benefiting the poorest households.¹⁸ By testing whether the services of MFBs translate into poverty reduction among their clients, this study speaks directly to the question raised above whether microfinance in Nigeria serves the poor or merely serves as a profitable venture.

Empirical Review

Abdurraheem, Osemene, and Yahaya examined the effectiveness of MFBs in alleviating poverty in Kwara State, Nigeria. Using a survey of 420 respondents, analysis of variance (ANOVA), and t-tests, they found that microfinance plays an important role in the economy by serving poor people who actively seek financial services, creating jobs, and providing small loans for business expansion.¹⁹ Enahoro and Ilori used a survey design, correlation, and logistic regression to examine MFB practices and wealth creation in Ogun State. They found that, although business activities in the state were generally profitable, profits could not be maximized without sufficient funds or loans to manage those activities efficiently.²⁰ Oyeniyi studied how Michika Microfinance Bank Limited in Adamawa State influenced the performance of small-scale businesses at the community level. Using a structured questionnaire administered to 360 clients and analyzed with descriptive statistics and regression, the study found that, despite many constraints, the bank significantly influenced the performance of small businesses in its service area.²¹

Similar results have been reported elsewhere in Nigeria. Using multiple regression and Pearson correlation, Tafamel found a positive and significant relationship between microfinance institutions and poverty reduction in the Ikpoba-Okha Local Government Area of Edo State.²² Mustapha, Yusuf, and Abdullahi showed that the loan facilities of Rima Microfinance Bank in Sokoto State reduced poverty and raised the incomes of the poor,²³ while Nwibo and colleagues confirmed that microcredit helps reduce poverty among rural farm households in Northeast Nigeria.²⁴ Using primary data and propensity score matching, Kasali found that microloans reduced poverty in rural South-West Nigeria.²⁵

Time-series studies present a more nuanced picture. Okafor, Ezeaku, and Ugwuegbe examined the relationship between microcredit and poverty reduction in Nigeria using multiple regression and reported that the activities of MFBs significantly improved the standard of living.²⁶ Obayagbona

¹⁸ Morduch, “Microfinance Schism.”

¹⁹ Abdurraheem, Osemene, and Yahaya, “Effectiveness of Microfinance Banks.”

²⁰ J. A. Enahoro and A. A. Ilori, “Determinants of Microfinance Bank Practices and Wealth Creation in Ogun State, Nigeria,” *Research Journal of Business* 2, no. 9 (2014): 2303–20.

²¹ A. K. Oyeniyi, “Influence of Microfinance Bank on the Performance of Small-Scale Businesses at the Community Level: A Case Study of Michika Microfinance Bank Limited, Adamawa State, Nigeria,” *European Journal of Business and Management* 6, no. 18 (2014): 68–79.

²² E. A. Tafamel, “Analysis of the Effect of Microfinance Institutions on Poverty Reduction in Nigeria,” *Academic Journal of Economic Studies* 5, no. 2 (2019): 114–19.

²³ M. B. Mustapha, B. I. Yusuf, and A. N. Abdullahi, “Micro-Financing and Rural Poverty Reduction: A Case of Rima Microfinance Bank in Goronyo Local Government Area, Sokoto State, Nigeria,” *Journal of Development and Agricultural Economics* 11, no. 10 (2019): 256–64.

²⁴ S. U. Nwibo et al., “Effect of Microcredit on Poverty Reduction among Rural Farm Households in Northeast, Nigeria,” *Asian Journal of Agricultural Extension, Economics and Sociology* 35, no. 2 (2019): 1–9.

²⁵ Taofeek Aremu Kasali, “Influence of Microfinance Intervention on Rural Poverty Alleviation in South-West Nigeria: An Application of Propensity Score Matching Technique,” *Asian Journal of Economics and Finance* 2 (2020): 411–22.

²⁶ I. G. Okafor, H. C. Ezeaku, and S. U. Ugwuegbe, “Microcredit and Poverty Reduction: A Case of Nigeria,” *International Journal of Multidisciplinary Research and Information* 2, no. 4 (2016): 319–25.

assessed the impact of MFBs on poverty in Nigeria over the twenty-five years from 1992 to 2016 using correlation analysis and ordinary least squares (OLS). Loan-to-deposit ratios and microfinance assets were important in reducing poverty, whereas microfinance deposits and liquidity ratios were not significant at the 5 percent level; microfinance gross profits and MFB loans, by contrast, appeared to hinder poverty reduction. The study recommended a comprehensive policy framework to help MFBs channel more of their earnings into credit for profitable micro, small, and medium enterprises (MSMEs).²⁷ Using an autoregressive distributed lag (ARDL) model for 1992–2018, Onyele and Onyekachi-Onyele found that the loan-to-deposit and liquidity ratios of MFBs reduced poverty in the long run but not in the short run, implying that MFB interventions take time to reduce poverty.²⁸ Ezeanyej, also using an ARDL model for 1992–2018, found that MFB loans reduced poverty in the long run but had no significant effect on economic growth.²⁹

Evidence from other countries is broadly consistent. In Bangladesh, Pomi studied three branches of the Association for Social Advancement (ASA) and one branch of the Bangladesh Rural Advancement Committee (BRAC) and found that microcredit significantly reduced poverty, improving the income, expenditure, living conditions, education, health, and decision-making capacity of poor women borrowers.³⁰ Akhter and Cheng used regression analysis to show that microcredit significantly increased the empowerment of rural women in Bangladesh,³¹ and Hossen, Miah, and Ruhi, using descriptive analysis of secondary data, concluded that microcredit is an effective tool for poverty reduction in that country.³² Drawing on data from 96 countries, Sohn and Ume found that microfinance institutions are effective instruments for long-term economic growth and substantially reduce poverty.³³ In Zimbabwe's Chivi District, however, Jaka and Shava's case study showed that rural women still faced limited access to markets, credit, micro-insurance, entrepreneurial training, and technology, as well as the effects of climate change; they concluded that adequate funding and entrepreneurial education are prerequisites for women's economic empowerment.³⁴

Not all the evidence is favorable. Nindi and Odhiambo used the ARDL bounds-testing approach and ECM-based Granger causality to examine the link between economic growth and poverty reduction in Swaziland (now Eswatini) from 1980 to 2011, with financial development as a third variable. They found that economic growth did not Granger-cause poverty reduction in either the short or the long run; instead, causality ran from poverty reduction to economic growth in the short

²⁷ J. Obayagbona, "Microfinance Bank and Poverty Alleviation in Nigeria: An Impact Assessment," *Amity Journal of Finance* 3, no. 2 (2018): 1–12.

²⁸ K. O. Onyele and C. Onyekachi-Onyele, "The Effect of Microfinance Banks on Poverty Reduction in Nigeria," *Management Dynamics in the Knowledge Economy* 8, no. 3 (2020): 257–75.

²⁹ C. Ezeanyej, "Microfinancing, Poverty Alleviation and Nigeria's Economic Growth: The Nexus," *European Journal of Economic and Financial Research* 4, no. 1 (2020): 1–43.

³⁰ S. S. Pomi, "Impact of Microcredit on Rural Poverty Alleviation in the Context of Bangladesh," *International Journal of Economics and Finance* 11, no. 6 (2019): 70–82.

³¹ J. Akhter and K. Cheng, "Sustainable Empowerment Initiatives among Rural Women through Microcredit Borrowings in Bangladesh," *Sustainability* 12, no. 6 (2020): 2275, <https://doi.org/10.3390/su12062275>.

³² Arman Hossen, Md. Rubel Miah, and Roksana Aftab Ruhi, "Contribution of Micro Finance on Poverty Alleviation in Bangladesh," *Preprints* (2019), <https://doi.org/10.20944/preprints201911.0045.v1>.

³³ W. Sohn and L. Ume, "Impact of Microfinance on Poverty Alleviation: A Global Analysis," *Journal of Economics and Development Studies* 7, no. 2 (2019): 82–102, <https://doi.org/10.15640/jeds.v7n2a6>.

³⁴ Hilda Jaka and Elvin Shava, "Resilient Rural Women's Livelihoods for Poverty Alleviation and Economic Empowerment in Semi-Arid Regions of Zimbabwe," *Jamba: Journal of Disaster Risk Studies* 10, no. 1 (2018): a524, <https://doi.org/10.4102/jamba.v10i1.524>.

run.³⁵ Chikwira, Vengesai, and Mandude applied a vector error correction model (VECM) to quarterly Zimbabwean data from 2009 to 2019. They found that, while SME growth and agricultural output reduced poverty, growth in microfinance lending was associated with higher poverty in the long run a result contrary to expectations and concluded that the effectiveness of microfinance depends on how loans are used rather than on their mere provision.³⁶ Such findings raise legitimate concerns about the effectiveness of microfinance institutions in Africa, where poverty has persisted even as these institutions have multiplied.

Research Gap and Hypotheses

The review shows that much of the Nigerian evidence comes from national time-series data covering fixed periods, which cannot capture the experiences of individual clients,³⁷ or treats microfinance as a single construct, usually microcredit. Few studies have examined, at the client level, how several dimensions of microfinance credit, savings, training and advisory services, and financial inclusion jointly affect poverty among small business owners, and fewer still have done so in Ilorin. The mixed and sometimes contradictory findings also warrant further investigation. To address these gaps, this study tests the following null hypotheses:

H_{01} : Microcredit has no significant effect on poverty reduction in Ilorin, Kwara State.

H_{02} : Micro-savings have no significant effect on poverty reduction in Ilorin, Kwara State.

H_{03} : Training and advisory services have no significant effect on poverty reduction in Ilorin, Kwara State.

H_{04} : Financial inclusion has no significant effect on poverty reduction in Ilorin, Kwara State.

Methods

Research Design

This study adopted a quantitative, cross-sectional survey design to determine the effect of microfinance activities on poverty reduction in Ilorin. Primary data were collected through a structured questionnaire covering respondents' experiences with microfinance services, their income levels, and their perceptions of how those services have affected them.

Population and Sample

The population consisted of the 2,825 owners and managers of SMEs in Ilorin registered with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). A sample of 70 business owners was selected by simple random sampling, a procedure in which every member of the population has an equal chance of selection. Seventy questionnaires were distributed to the selected SME owners in Ilorin, Kwara State.

³⁵ Angelique G. Nindi and Nicholas M. Odhiambo, "Poverty and Economic Growth in Swaziland: An Empirical Investigation," *Managing Global Transitions* 13, no. 1 (2015): 59–74.

³⁶ Collin Chikwira, Edson Vengesai, and Petronella Mandude, "The Impact of Microfinance Institutions on Poverty Alleviation," *Journal of Risk and Financial Management* 15, no. 9 (2022): 393, <https://doi.org/10.3390/jrfm15090393>.

³⁷ Obayagbona, "Microfinance Bank and Poverty Alleviation"; Onyele and Onyekachi-Onyele, "Effect of Microfinance Banks."

Research Instrument

The main instrument was a closed-ended questionnaire developed from the research hypotheses. Closed-ended questionnaires are appropriate for this purpose because they collect data consistently and yield objective, comparable responses. The questionnaire had two sections: Section A captured respondents' socio-demographic characteristics, and Section B measured the four microfinance variables and poverty reduction. Items in Section B were rated on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Measurement of Variables

Microfinance bank services are reflected in greater access to financial services that help the poor accumulate assets and become less vulnerable to external shocks.³⁸ Microcredit was measured by loan amount, repayment rate, borrowing frequency, and loan utilization.³⁹ Micro-savings were measured by savings amount, savings frequency, savings purpose, and access to savings. Training and advisory services were measured by training duration, training topics, knowledge gained, perceived training quality, and frequency of advisory sessions.⁴⁰ Financial inclusion was measured by financial literacy, use of digital financial services, use of financial products, and access to banking services.⁴¹ Poverty reduction was measured by improvements in income, consumption, and assets.⁴² Table 1 summarizes how the variables were operationalized.

Table 1: Operationalization of Variables

Variable type	Variable	Measurement
Independent	Microcredit (X_1)	Loan amount received, loan purpose and utilization, repayment rate, borrowing frequency
	Micro-savings (X_2)	Amount saved, savings frequency and purpose, type of savings product used
	Training and advisory services (X_3)	Training duration and topics, knowledge gained, perceived training quality, frequency of advisory sessions
	Financial inclusion (X_4)	Access to and use of formal financial services (credit, savings, and payments), including digital channels; financial literacy
Dependent	Poverty reduction (Y)	Income, consumption, assets, poverty status
Control	Age, gender, education, occupation	Years; binary; categories

Source: Author's compilation (2026).

³⁸ Chowdhury, "Microfinance as a Poverty Reduction Tool."

³⁹ K. S. Usifoh, O. O. Chukwuemeka, and C. I. Ezeanyej, "Impact of Microfinance Banks on Poverty Alleviation and Economic Growth in Nigeria," *NG-Journal of Social Development* 6, no. 5 (2017): 22–34, <https://doi.org/10.12816/0042815>.

⁴⁰ M. Electrín et al., "An Evaluation of Microfinance Services on Poverty Alleviation in Kisii County, Kenya," *Research Journal of Finance and Accounting* 4, no. 10 (2013); S. Samer et al., "The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective," *Procedia – Social and Behavioral Sciences* 195 (2015): 721–28.

⁴¹ Mhlanga, Dunga, and Moloi, "Financial Inclusion."

⁴² Kasali, Ahmad, and Lim, "Role of Microfinance."

Model Specification

The relationship between the microfinance variables and poverty reduction is specified as the following multiple regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

where Y is poverty reduction; X_1 is microcredit; X_2 is micro-savings; X_3 is training and advisory services; X_4 is financial inclusion; β_0 is the intercept; β_1 – β_4 are the coefficients to be estimated; and ε is the error term. A priori, all four coefficients are expected to be positive ($\beta_1, \beta_2, \beta_3, \beta_4 > 0$).

Validity and Reliability of the Instrument

Both face validity and content validity were established. Content validity ensures that the instrument covers every relevant facet of the constructs under study; accordingly, the questionnaire items were developed from a thorough review of the literature on microfinance and poverty alleviation and, where appropriate, adapted from existing standardized measures. Face validity is the extent to which an instrument appears to measure what it is intended to measure. A pilot test with members of the target population assessed the wording, clarity, and sequence of the items, and items that respondents found unclear or misleading were revised or removed.

An instrument is reliable if it produces consistent results on repeated measurement. Internal consistency was assessed with Cronbach's alpha coefficient, which ranges from 0 to 1 and requires only a single administration of the test; higher values indicate that the items consistently measure the same underlying construct.⁴³ A coefficient of at least 0.70 is generally considered acceptable.⁴⁴ A pilot study of 30 respondents was conducted to assess internal consistency. As Table 2 shows, all constructs exceeded the 0.70 threshold.

Table 2: Reliability Analysis

Construct	Number of items	Cronbach's alpha	Decision
Microcredit	5	0.741	Reliable
Micro-savings	5	0.702	Reliable
Training and advisory services	[—]	[—]	[—]
Financial inclusion	5	0.720	Reliable
Poverty reduction	5	0.740	Reliable

Source: Author's computation from pilot data (2026).

Data Analysis

The data were coded and analyzed in the Statistical Package for the Social Sciences (SPSS), version 22. Descriptive statistics were used to summarize respondents' demographic characteristics, and inferential statistics correlation and multiple regression analysis were used to estimate the model and test the hypotheses at the 5 percent level of significance.

⁴³ Lee J. Cronbach, "Coefficient Alpha and the Internal Structure of Tests," *Psychometrika* 16, no. 3 (1951): 297–334.

⁴⁴ Jum C. Nunnally, *Psychometric Theory*, 2nd ed. (New York: McGraw-Hill, 1978).

Results and Discussion

Regression Results

Table 3 presents the multiple regression results. Together, the four microfinance variables significantly predicted poverty reduction, $F(4, 155) = 65.309, p < 0.001$. The coefficient of determination ($R^2 = 0.628$) indicates that the model explains 62.8 percent of the variation in poverty reduction among the respondents. The standardized coefficients show that all four variables have positive and statistically significant effects on poverty reduction, with microcredit the strongest predictor.

Table 3: Multiple Regression Results

Variable	Standardized coefficient (β)	Significance
Microcredit	0.499	$p < 0.05$
Micro-savings	0.236	$p < 0.05$
Training and advisory services	0.183	$p < 0.05$
Financial inclusion	0.185	$p < 0.05$
R^2	0.628	
$F(4, 155)$	65.309	$p < 0.001$

Dependent variable: poverty reduction. Source: Author's computation using SPSS 22 (2026).

Hypothesis Testing

Because each coefficient is significant at the 5 percent level, all four null hypotheses are rejected. Table 4 summarizes the decisions.

Table 4: Summary of Hypothesis Testing

Hypothesis	Statement	Result	Decision
H_{01}	Microcredit has no significant effect on poverty reduction in Ilorin.	$\beta = 0.499; p < 0.05$	Rejected
H_{02}	Micro-savings have no significant effect on poverty reduction in Ilorin.	$\beta = 0.236; p < 0.05$	Rejected
H_{03}	Training and advisory services have no significant effect on poverty reduction in Ilorin.	$\beta = 0.183; p < 0.05$	Rejected
H_{04}	Financial inclusion has no significant effect on poverty reduction in Ilorin.	$\beta = 0.185; p < 0.05$	Rejected

Source: Author's compilation (2026).

Discussion of Findings

The regression coefficients describe both the strength and the direction of the relationship between poverty reduction and each microfinance variable.

Microcredit. Microcredit had the largest standardized coefficient ($\beta = 0.499, p < 0.05$). Holding the other variables constant, a one-unit increase in microcredit is associated with a 0.499-unit increase in the poverty reduction score; that is, greater access to microcredit is associated with lower poverty. This finding is consistent with studies reporting that microcredit significantly reduces poverty in

Nigeria and Bangladesh.⁴⁵ It suggests that expanding access to microcredit in Nigeria is likely to be accompanied by greater poverty reduction. It contrasts, however, with Chikwira, Vengesai, and Mandude's finding that microfinance lending was associated with higher poverty in Zimbabwe, which underlines their point that the impact of credit depends on how loans are used.⁴⁶

Micro-savings. Micro-savings had the second-largest effect ($\beta = 0.236, p < 0.05$): a one-unit increase in micro-savings is associated with a 0.236-unit increase in poverty reduction. This result agrees with evidence from Kenya that microfinance services, including savings facilities, contribute to poverty reduction.⁴⁷ Savings enable small business owners to accumulate capital, smooth consumption, and absorb shocks, so wider use of micro-savings is likely to support poverty reduction in Nigeria.

Training and advisory services. Training and advisory services also had a positive and significant effect ($\beta = 0.183, p < 0.05$): a one-unit increase in these services is associated with a 0.183-unit increase in poverty reduction. This finding is in line with studies that emphasize entrepreneurship development and non-financial services in helping microfinance clients use finance productively.⁴⁸ It implies that expanding training and advisory services for SMEs is likely to contribute to poverty reduction in Nigeria.

Financial inclusion. Financial inclusion had a positive and significant effect ($\beta = 0.185, p < 0.05$): a one-unit increase in financial inclusion is associated with a 0.185-unit increase in poverty reduction. This result agrees with evidence that financial inclusion reduces poverty among smallholder farmers in Zimbabwe and contributes to economic growth in Nigeria.⁴⁹ It suggests that bringing more people especially those with little formal education into the formal financial system can reduce poverty by enabling them to save, borrow, and transact more productively.

Taken together, the results support the supply-leading view that expanding the supply of financial services to the poor stimulates productive activity and reduces poverty.⁵⁰ They also suggest that, at least among SME clients in Ilorin, the services of MFBs translate into welfare gains for clients rather than merely into institutional profitability.

Conclusion and Recommendations

This study examined the effect of microfinance activities on poverty reduction in Ilorin, Kwara State, Nigeria. Multiple regression analysis showed that microcredit, micro-savings, training and advisory services, and financial inclusion jointly and significantly predicted poverty reduction, explaining 62.8 percent of its variation. All four variables were positively and significantly related to poverty reduction, and microcredit made the largest contribution. The study concludes that microfinance activities can reduce poverty among small business owners in Ilorin and that

⁴⁵ Okafor, Ezeaku, and Ugwuegbu, "Microcredit and Poverty Reduction"; M. N. Ugochukwu and G. Onochie, "Impact of Micro-Credit on Poverty Reduction in Nigeria," *Online Journal of Arts, Management and Social Sciences* 2, no. 2 (2017): 149–60; Pomi, "Impact of Microcredit"; S. Mago, "Microfinance and Poverty Alleviation: An Empirical Reflection," *Journal of Asian Finance, Economics and Business* 1, no. 2 (2014): 5–13.

⁴⁶ Chikwira, Vengesai, and Mandude, "Impact of Microfinance Institutions."

⁴⁷ B. W. Okibo and N. Makanga, "Effects of Microfinance Institutions on Poverty Reduction in Kenya," *International Journal of Current Research and Academic Review* 2, no. 2 (2014): 76–95; Electrín et al., "Evaluation of Microfinance Services."

⁴⁸ Ogujiuba, Fadila, and Stiegler, "Challenges of Microfinance Access"; Samer et al., "Impact of Microfinance."

⁴⁹ Mhlana, Dunga, and Moloi, "Financial Inclusion"; I. Musa, S. Magaji, and A. Salisu, "Relationship between Financial Inclusion and Economic Growth: Evidence from ARDL Modelling," *International Journal of Indonesian Business Review* 2, no. 2 (2023): 117–27, <https://doi.org/10.54099/ijibr.v2i2.377>.

⁵⁰ Patrick, "Financial Development."

microcredit is the most important channel through which they do so. In light of these findings, the following recommendations are offered:

1. Policymakers should expand existing microcredit programs or introduce new ones, for example by increasing the number and accessibility of microcredit loans available to individuals and small businesses.
2. Microfinance banks, credit unions, and other financial institutions should broaden their range of microfinance products, emphasizing flexible and easily accessible microcredit tailored to the needs of small businesses and individuals.
3. Given the positive effect of micro-savings, financial institutions should design and market innovative micro-savings products that help people with limited means build sound saving habits and financial practices.
4. Government and regulators should promote financial inclusion through policies that widen access to financial services, including digital financial services.
5. Providers of training and advisory services should adapt their programs to the needs and challenges of poor clients, offering workshops on entrepreneurship, financial literacy, and skills development.

Limitations and Directions for Future Research

This study has several limitations. It relied on a cross-sectional survey of a relatively small sample of business owners in a single city, so its findings may not generalize to Nigeria as a whole, and its self-reported Likert-scale measures may be subject to response bias. Cross-sectional data also reveal associations rather than causal effects. Future research could use larger, multi-state samples, objective poverty measures such as household income and consumption, and longitudinal or quasi-experimental designs to strengthen causal inference.

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