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EFFECTS OF MICRO-CREDIT ON SMALL-SCALE BUSINESS PERFORMANCE IN YEWA DIVISION OF OGUN STATE

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ABSTRACT

This study examined the effects of micro-credit on small-scale business performance in Yewa Division of Ogun State. The study examined how micro- credit impact on the performance of Small Enterprises in Yewa Division of Ogun State, Nigeria. The specific objectives are to; describe the socio-economic characteristics of the respondents; examine the cost and return structure of the respondents; analyze the effects of credit available on the business performance of the micro-entrepreneurs; determine the factors affecting the credit size in the study area; and identify problems encountered by the entrepreneurs. Descriptive statistics and econometrics (Tobit and multiple regression analysis) were employed as tools for the analysis. The investigated through the survey of 120 respondents which were randomly selected using multi-stage random sampling technique. Copies of well-structured questionnaire were administered to entrepreneurs sampled. Results showed that the average age of the respondents was 43 years and majority was female (about 66 percent). About 77 percent of the respondents were married with an average household size of 5. A very few number (3.3%) of the respondents had tertiary education. The study also revealed that the average monthly income of the respondents that was N50, 635.14. The Tobit analysis revealed that loan repayment period, family size years in business, and monthly income were the key determinants of business performance. On the other hand, volume of credit available to respondents is affected by repayment period, business experience, monthly income and interest on loan. Based on the findings and judging from the frequency ratings of the respondents, Bureaucracy of the lender, Education level, Afraid of default payment, and Unprofitable scale of operations are the major challenges facing the operation of entrepreneurship business. It was therefore recommended that: Micro entrepreneurs must try and source for loan from more than one source. This will lead to an increase in the volume of loan obtained and also increase in the proportion of loan used for business activities and the interest on loan should be reviewed in such a way that the end-users will be able to service the loan and also have some margin on the net returns.

KEYWORDS: - Microcredit, Credit users, Repayment period, Business, Performance

INTRODUCTION

Since Nigeria attained independence in 1960, considerable efforts have been directed towards industrial development. The initial efforts were government-led through the vehicle of large industry, but lately, emphasis has shifted to Small and Medium Scale Enterprises (SMEs) following the lessons learnt from the success of SMEs in the economic growth of Asian countries (Ojo, 2003). Thus, the recent industrial development drive in Nigeria has focused on sustainable development through small business development. Prior to this time, particularly judging from the objectives of the past National Development Plans, 1962-68, 1970-75, 1976-80 and 1981-85, emphasis had been on government-led industrialization, hinged on import-substitution strategy.

Since 1986, government had reduced its roles as the major driving force of the economy through the process of economic liberalization entrenched in the IMF pill of Structural Adjustment Programme. Emphasis, therefore, has shifted from large-scale industries to small and medium- scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention was focused on the organized private sector to spearhead subsequent industrialization programmes. The incentives given to encourage increased participation in these sectors were directed at solving and/or alleviating the problems encountered by industrialists in the country, thereby giving them opportunity to increase their contribution to the Gross Domestic Product (GDP). (Asikhia, 2009).

Allured by the success of micro-credit institutions in developed countries, the developmental economists in under developed and developing economies have increasingly become enthusiastic in the promotion of micro-credit as a rural development intervention, by tying it neatly with post-liberal development ideology (Hall, *et. al.*, 2006). It must be pointed out that, although the basic philosophy behind the micro-credit movement is to eradicate poverty as it stimulates the growth of micro enterprises by developing new markets and by promoting a culture of entrepreneurship. It involves minimal state intervention, thereby shifting the focus of attention away from the society towards individuals. As it has been asserted, the economic giants of the world developed their economies by relying on formal credit institutions through the development of their capital markets.

Small scale enterprise is defined as any enterprise with a maximum assets less than ₦1 million and with the number of staff employed less than or equal to 10 (Akanni, 2007). Small scale enterprises in Nigeria are characteristically different from other form of enterprises and were relatively few before 1981, representing only 4.5% of enterprises in existence in 1960 and about 16.4% up to 1980 (Abumere *et. al.* 1995). The small and medium scale entrepreneurs in rural areas lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Consequently they depended on families, friends and other informal sources of funds to finance their businesses (Muktar, 2009). The ownership structure of Small scale enterprises (SSEs) has been found to comprise 83.4% individually owned enterprises, which varies across towns and cities. The eastern part of Nigeria displays a sole ownership rate of 98.5% while for the other parts of the country a sole ownership rate of at least 80% is common (Abumere *et. al.* 1995). Other forms of ownership in the SSEs in Nigeria such as partnership, joint ventures, cooperatives and limited liability companies are negligible and sometimes non-existent. With respect to legal status and registration procedures, two approaches are in existence, formal registration with government and second with appropriate association, union or guild.

Adam (1999) showed that the informal sector provides goods and services to marginalized population group and a survival basis for large number of self-employed tradesmen who are unable to find other employment. In addition, the informal sector can foster national economic growth. Maina (2000) wrote that considering the role the SSEs can play in poverty alleviation and economic growth, the central bank of Kenya sees the need to develop the sector and improve the access of micro-enterprises to banking services.

Owusu (2012) that results of the study indicated that CIAD's microcredit schemes impacted positively on the social and economic lives of SMEs operators. The businesses were able to increase their capital, assets and expanded the MSEs, which reflected in their social lives.

Also, other MSEs were set up to create employment for the unemployed and savings culture of clients was enhanced. In spite of the benefits, there were some challenges which included repayment difficulties, payment of multiple taxes, lack of market for products and services and high interest rates. Recommendations were made to CIAD. Specifically, CIAD was asked to put in measures that could help reduce interest rates, train operators of MSEs on proper business practices and MSEs were asked to adopt effective book-keeping modalities. Gubert and Paubaut (2011) indicated a positive impact of the project. Taken as a snapshot, the evaluations successively conducted in 2001 and 2004 indicate that the clients' enterprises recorded better average performance than enterprises without funding. With a dynamic perspective however, the results are more nuanced. If the positive effect of the project is clear during growth phases, its effect during economic recessions appears less certain.

A number of studies have concluded that the performance of MSEs is expected to improve with credit intervention (Oketch, 1999; Sebstad and Walsh, 1999) but other studies (Sethna 1992; Musinga 1994) found that there was lack of substantial growth in MSEs even after receiving credit facilities from diverse sources. According to (Osmani, 1989), high rate of interest on loans is effectively a burden on the incomes of the poor. Given the low capital intensity of investment made through lending institutions and the resultant low profit margins, high interest rates dampen the possibility of any significant savings on the part of the poor borrower who largely borrows to meet consumption related to household requirements .Therefore the fast economic growth anticipated after use of credit is not achieved instead a marginal economic growth is witnessed. This perhaps explains why there is continuous increase in unemployment and poverty is on the increase despite efforts being made to improve the performance of MSEs which have been widely accepted a being engines of national economic development. A study conducted by (Rahman, 1994), in Tangai district of Northern Bangladesh, found out that the timely repayments of loans taken from Grameen bank were not made from incomes gained from business operations but through further borrowing from private money lenders, therefore few of these MSEs ever develop into mega business concerns and a large number of them either remain small or simply fizzle out. It can be noted that credit to MSEs have been found to cause trauma and even self-pity and unfulfilment perpetuating a vicious cycle of financial problems to majority of borrowers.

Eigbe (2000) also in his study insisted that availability of adequate finance investment and working capital is one of the problems facing small and medium enterprises in the country. He identified lack of credit as a factor affecting the growth and development of small enterprises in Nigeria and consequently, they are not able to play their roles as catalyst for socio-economic and industrial development. In line with this, Obadan and Akerele (1995) emphasized that lack of working capital and finance to expand investment is the most general constraint affecting the informal sector activities in Ogun State.

OBJECTIVES OF THE STUDY

The broad objective of this study is to determine the Effect of Micro-Credit on Small-Scale Business Performance in Yewa Division of Ogun State, Nigeria.

The specific objectives are to:

(i) examine the cost and return structure of the respondents;

(ii) analyse the effects of credit available on the business performance of the micro-entrepreneurs; and

(iii) determine the factors affecting the credit size in the study area;

RESEARCH METHODOLOGY

Area of the Study

The study area is Yewa Division of Ogun State, formally known has Egbado Division, In 1995 they changed their name to the Yewa. Yewa Division of Ogun State comprises 5 Local Government (Yewa-South, Yewa-North, Imeko-Afon and Ipokia, and Ado-Odo/Ota LGA). The Egbado appear to have migrated - possibly from the Ketu, Ile-Ife, or Oyo - to their current area early in the 18th century. Egbado towns, most importantly Ilaro, Ayetoro, Imeko, Ipokia and Igbogila, were established in the 18th century to take advantage of the slave trade routes from the inland Oyo empire to the coast at Porto-Novo. Other towns were Ilobi and Ijanna, which were strategic in protecting the flanks of the slaving routes (Odugbemi, 1992). The 'Egbados' were subject to the rule of the Oyo kingdom, which managed them via governor Onisare of Ijanna.

Sources and Methods of Data Collection

Data for this study were sourced from both primary and secondary sources. The primary sources of data target the small scale entrepreneurs. The major research instrument here was questionnaire (written interview), oral interview, and field observation which help in the gathering of relevant data on the effect of micro-credit on the performance of their business. This technique provided valuable information with respect to the problem under investigation. The secondary data were obtained from related books, journals, published papers, documented materials, magazines and conference articles.

Sample Size and Sampling Technique

The population for this study comprises small-scale entrepreneurs in Yewa Division of Ogun State. Multistage sampling method was used to select respondents from the study area. Purposive selection of two (Yewa North and Yewa South) Local Government Areas, was done in the first stage. In second stage, five (5) communities were selected from each LGA to make a total of ten (10) communities to be sampled, and while at the third stage, twelve (12) small scale entrepreneurs were sampled from each community, making a total of 120 sampled respondents.

Methods of Data Analysis

Descriptive and inferential statistics were used in the analysis of data. Descriptive statistical tools such as frequency table, measures of central tendency and measures of dispersion were used to describe the socio-economic characteristics of the respondents and problem encountered by the business owners in the study area. While, inferential statistics such as Budgetary Analysis was used to determine the profitability of the business and Multiple Regression Analysis was to examine factors militating against credit obtained and repayment.

MODEL SPECIFICATION

Cost and return structure of the respondents

Gross Margin was used to examine the cost and return structure of the respondents which is stated as:

$GM = TR - TVC$

Where:

TR= Total Revenue = P x Q

P = Output price

Q = Output quantity

TVC = Total Variable Cost

GM = Gross Margin

Effects of credit available on the business performance of the micro entrepreneurs

The effect of credit availability on the business performance was analyzed using Tobit regression model. The model is specified as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \varepsilon$$

Where:

Y = Gross margin (₦)

X_1, X_2,…,X_{10} are independent variables.

X_1 = Proportion of loan used by respondents for expansion of business (₦).

X_2 = Family size (Number of person)

X_3 = Business experience (years)

X_4 = Monthly income (₦)

X_5 = Loan repayment period (months)

X_6 = Amount of loan obtained (₦)

X_7 = Interest on loan (%)

X_8 = Sex (1= female; 0= male)

X_9 = Years of formal education (years)

X_{10} = Number of workers/employee

β_0 = Constant or intercept

$\beta_1, to \beta_{10}$ Are coefficients attached to each of the independent variable.

Factors affecting amount of credit obtained in the study area

Ordinary Least Square (OLS) regression method was also be used to determine the factors affecting amount of credit obtained in the study area

The regression analysis is expatiated below:

$Y = f(X_1, X_2, \ldots, X_8)$

Where:

Y = Volume of credit (₦)

X_1, X_2,..., X_8 are independent variables.

X_1 = Age.

X_2 = Family size (Number of person)

X_3 = Business experience (years)

X_4 = Loan repayment period (months)

X_5 = Interest on loan (%)

X_6 = Monthly income (₦)

X_7 = Sex (1= female; 0= male)

X_8 = Years of formal education (years)

β_0 = Constant or intercept

$\beta_1, to \beta_8$ are coefficients attached to each of the independent variable.

RESULTS AND DISCUSSION

Table 1: Socio-Economic Characteristics of the Respondents

Variables	Frequency	Frequency	Mean
Age (years)			
≤ 30 years	14	11.7	43 years
30 - 39 years	38	31.7	
40 - 49 years	42	35.0	
50 - 59 years	22	18.3	
Above 60 years	4	3.3	
Sex			
Male	41	34.2	
Female	79	65.8	
Marital Status			
Single	12	10.0	
Married	92	76.7	
Divorced	4	3.3	
Widow	12	10.0	
Household Size			
< 4 persons	28	23.3	5 persons
4 -5 persons	56	46.7	
6 - 7 persons	30	25.0	
Above 7 persons	6	5.0	
Educational Level			
No formal education	9	7.5	
Primary education	41	34.2	
Secondary education	66	55.0	
Tertiary education	4	3.3	
Entrepreneurship Exp.			
≤ 5 years	6	5.0	
5 - 9 years	26	21.7	
10 - 19 years	72	60.0	
Above 20 years	16	13.3	
Monthly Income			
< ₦10,000	24	20.0	
₦10,000 - ₦20,000	30	25.0	
₦20,001 - ₦40,000	43	35.8	
₦40,001 - ₦50,000	13	10.8	
> ₦50,000	10	8.3	
Source of Micro-Credit			
Relative and friends	20	16.7	
Savings and revolving credit	32	26.7	
Cooperative association	57	47.5	
Daily savings and credit	11	9.2	
TOTAL	120	100.0	

Source: Field Survey, 2016

Data in Table 1 presents the socio-economic characteristics of the respondents. The key socio-economic characteristics discussed are age, sex, marital status, educational status, household size, years of experience and income. The finding revealed that the majority (35 percent) of the respondents were between the ages of 40 and 49 years. The mean age of the respondents was 43 years. This showed that an average entrepreneur is young and so there is a great opportunity for expansion which will require credit. The sex distribution of respondents indicated that more than half (65.8%) of the respondents were female. This implies that most of the small-scale business especially foodstuff marketing was done by female in the study area.

The study showed that more than half (76.7%) of the respondents were married and have high probability of being responsible for the upkeep of their households. Distribution of respondents by size of household revealed that the average household size was 4.6. This may have a negative effect on business development, because there is high tendency of diverting credit to domestic fused. On the other hand, large household size may have positive effect on business by supplying cheap and free labor which leads to a reduction in cost. Household size may be a determinant of the total amount of loan borrowed and this showed that the loan received may not be strictly used on the business alone but family demands and responsibilities.

The distribution of respondents by their educational status showed that about 34.2 percent of the respondents had primary education and below while those with secondary education had the highest percent (55%). This showed that most of the respondents were averagely literate while few of them cannot read and write. The inability of some to read and write may have a negative effect on their managerial skill, credit accessibility and utilization. The years of experience of respondents can have effect on their attitude to risk and utilization of credit. The finding revealed that about 60 percent of the respondents had between 10-19 years of business experience. This implies that knowledge acquired over years would help used to maximize the usage of the available credit facilities for their expansion and growth.

The distribution of respondents by their income showed that about 45 percent of the respondents earned of ₦20, 000 and below as their monthly income. This implies that the monthly income of the respondents in the study area is low. Monthly income is very important for this study because it determines the performance (Gross income) of the entrepreneur.

The finding showed the major source of credit available to the respondents is cooperative loan for enhancement of their business activities. The study showed that the respondents made use of one source of credit. This may be due to the fact that the amount of loan granted by each source was limited compared to the financial requirement. The cooperative associations recorded the highest patronage while the formal financial institutions had the least patronage. The low patronage in the formal financial institutions may be due to their being involved in the informal sector of the economy, cumbersome transaction process, and unaffordable collateral securities.

COST AND RETURN STRUCTURE OF THE RESPONDENTS

In relation to the gross margin, the study was interested in ascertaining the effect of credit available on business performance (Gross Margin). The summary of the analysis is presented in Table 2.

Table 2: Gross Margin of SMEs in the Study Area (N = 120).

Item	Minimum	Maximum	Mean	Std dev
Total Revenue ₦	10,000.00	125,000.00	50,635.14	28,407.92
Total Variable Cost ₦	3,500.00	66,666.67	21,136.25	15,536.32
Gross margin ₦	7,500.00	58,333.33	29,498.89	13,270.90
B/C Ratio	2.86	1.87	2.40	1.83
RRR = GR/TC	2.14	0.87	1.40	0.84

Source: Field survey 2016

As shown in the Table 2, the entrepreneur reported a mean monthly revenue from all sources of over ₦50,635 and a mean Total Variable Cost of ₦21,136. The mean Gross Margin from the small scales of the entrepreneur was calculated as ₦29,499. Thus, the profitability analysis shown above indicates a fair return in their small scale enterprises. The result also further gives detailed information on the profitability ratios. The benefit cost ratio is high (2.4), this showed an increase in returns. The indication is that the enterprise is profitable even with little capital invested. The rate of return in the enterprise was 140% (1.4). This means that for every one naira invested in the business, ₦1.40k is gained by the farmer.

Effects of credit available on the business performance of the micro entrepreneurs

The effects of credit availability on business performance were examined with the aid of to bit regression analysis. Ten variables in addition to the amount of credit used for business activities were adopted as explanatory variables for the variations in amount of Gross Margin of the respondents as shown in Table 3. From the findings, it can be observed that family size was statistically significant at 5%, years of experience in business were significant at 5%, monthly income was significant at 1% and also loan repayment period was significant at 5%. The negative relationship that exists between the household size and the gross margin showed that as the household size increases the Gross margin decreases. This may be due to the fact that a major part of the profit was used to meet domestic need of the family instead of being turned into the business. Also, due to the increase in the dependency ratio within the household which may result from increase in household size, there is high tendency of diverting loan to domestic use and not to business expansion or diversification.

Table 3: Tobit Analysis of Effect of Credit Availability on Business Performance

Variables	Coefficient	Standard error	b/St. Er
Constant	-20.089**	11.600	-2.451
Proportion of loan used by respondents for expansion of business	-0.123	0.520	-0.450
Family size	-4.614**	1.519	-2.370
Business experience	9.768**	1.434	2.191
Monthly income	0.479***	0.927	3.649
Loan repayment period	11.123**	5.837	2.304
Amount of loan obtain	0.384	0.489	0.785
Interest on loan	-6.281	3.110	-0.169
Sex	-3.771	4.586	-0.772
Years of formal education	21.966	7.667	0.251
Number of workers/ employee	-13.806	12.304	-1.194
Sigma	22.664***	7.815	15.402
R-squared	0.7745		
Adjusted R-squared	0.7722		
Log likelihood function	-1071.857		

Source: Field Survey, 2016 ***** Significant at 1%, **Significant at 5%**

The years of experience in business was positively related to the Gross margin. This showed that the longer the years of experience in business, the more the turnover and the reverse is also true. This may be due to the fact that as the years of experience increase, the micro entrepreneurs get familiar with the business rudiments which will enhance the business development.

The monthly income is positively related to the gross margin. That is, the more the monthly income, the more the gross margin. The positive relationship that exists between the gross margin and the loan repayment period shows that the longer the repayment period, the more the possibility of using the loan effectively to yield more profit. The proportion of loan used by respondents for expansion of business is not significant and negatively related to the gross margin although it is expected to be positively related. This may be due to the fact that the amount of loan granted is small compare to the financial requirement of the business. Therefore, there is an insignificant effect on the gross margin of the entrepreneur.

Factors affecting amount of credit obtained by the respondents

This section is devoted to the factor affecting the volume of credit obtained by the respondents. The model showed moderate level of goodness of fit as indicated by the R^2 of about 50 percent. The model performed well as the F-value showed that the explanatory variables were able to explain the variations in total even at 1% level.

As shown in Table 4 the result revealed that business experience was significant at 10%. Interest on loan was significant at 5%. Repayment period and Monthly income were significant at 1% respectively. Out of the four significant variables, three of them which are years of experience, repayment period and monthly income obey the priori expectation while interest on loan did not conform to it.

The years of experience in business was positively related to the volume of loan. This showed that the longer the years of experience in business, the more the micro entrepreneurs will be willing to take more loans, because he/she is not afraid of risk in the business. The repayment period was positively related to the total loan because the longer the repayment period, the wider the spread of payment and the easier for the borrowers to repay. In other words, if the repayment period was long, the micro entrepreneurs will be willing to take more loans. The monthly income is negatively related to the volume of loan. That is, the more the monthly income, the less the micro entrepreneurs will be willing to take more loans.

Table 4: Regression Analysis of Factors Affecting the Amount of Credit Obtained

Variables	Coefficient	T-value
(Constant)	1.211*	1.659
Age	-0.027	-0.207
Household size	-0.100	-1.091
Business experience	0.051*	1.743
Loan repayment period	0.377***	4.473
Interest on loan	0.023**	2.283
Monthly income	-0.330***	-3.968
Sex	0.150	0.943
Years of formal education	0.197	0.278
R Square	***0.493***	
Adjusted R square	***0.457***	
F-Value	***9.797***	

Source: Field Survey, 2016 ***** Significant at 1%, **Significant at 5%, *Significant at 10%**

The interest rate is also statistically significant at 5%. However, it has a positive relationship with the total loan instead of the inverse relationship expected. This may be due to the fact that most of the micro-entrepreneurs will be willing to take loan at a higher interest rate. Since their main aim is to make profit, as long as they can make profit that will be able to service the loan and also leave some margin of net returns, the micro-entrepreneurs will be ready to take loan at higher interest rate.

Problems encountered by the entrepreneurs

The various challenges facing the entrepreneur in running their business were also investigated and reported in Table 5. Based on the result and judging from the frequency ratings of the entrepreneurs, the bureaucracy of the lender have the highest percentage, among other major problems confronting the entrepreneurs in obtaining loan for improvement in their business operations and performance..

Table 5: Problems affecting the small-scale entrepreneurs in sourcing for credit

Constraints	Frequency	Percentage
Education level	52	43.3%
Unprofitable scale of operations	46	38.3%
Defective management and shortage of skilled man power	30	25.0%
Delay in loan disbursement	42	35.0%
Afraid of default payment	50	41.7%
Distance to credit source	42	35.0%
Financial problems	32	26.7%
Bureaucracy of the lender	86	71.7%
Lack of collateral	36	30.0%

Source: Field Survey, 2016 ***Multiple response**

CONCLUSION & RECOMMENDATIONS

In conclusion, it was found that micro-credit have positive impact on small-scale performance in the study area. The results revealed that the socio-economic characteristics of the entrepreneurs also helped in securing loan and enhance repayment most especially educational level and business experience of the respondents is affected by the repayment period, business experience, monthly income and interest on loan. Bureaucracy of the lender have the highest percent, among others, it becomes the major problems facing the operation of entrepreneurship activities. In view of these, the following recommendations are made for the improvement of micro-credit on small scale enterprises in the study area,

- Loan repayment period should be long term. This will ensure that the end-users have better use of the loan, and increase ease of repayment because payment will be spread over a wide period of time. At the same time, creditors will be able to make more profit.
- The interest on loan should be reviewed in such a way that the end-users will be able to service the loan and also have some margin on the net returns.
- Micro entrepreneurs must have a stable occupation. That is, there should not be unnecessary changing of business activities. This will enhance their experience in a particular business which leads to better performance.

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