Journal of Business and Organizational Development Volume 4, June 2012

www.cenresinpub.org
ISSN 2277-0046

MICRO-CREDIT AND WELFARE OF MICRO ENTREPRENEURS IN NIGERIA: A CASE STUDY OF ALIMOSHO LOCAL GOVERNMENT AREA OF LAGOS STATE

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ABSTRACT

This paper examined the impact of micro-credit on the welfare of small scale entrepreneurs in Alimosho Local Government Area of Lagos State, Nigeria, A total of ninety-five micro entrepreneurs were used as study sample. These comprises of twenty-four tailors/fashion designers, twenty-four tricycle drivers, twenty-two pepper grinders and twenty-five pepper sellers. Data were collected through the use of questionnaire and the hypothesis was tested with the Chi-square technique. The result obtained showed that there is a significant relationship between micro-credit and the welfare of the small scale entrepreneurs in Alimosho Local Government Area of Lagos State. It is therefore suggested that the interest rate charged by microfinance banks should be made more reasonable and some grace period should be given before repayment of loan starts so that the beneficiaries could invest the loan for a longer time.
Key-words: Micro-credit, Micro entrepreneurs, Welfare, Micro finance bank, Poverty

INTRODUCTION

Poverty, which has been described as a state of being in a state of deprivation is the lot of many people in Sub-Saharan Africa. Nigeria, being thee most populous in Black Africa, has over 50% of its population living in poverty. It has been realised that sustainable economic growth cannot be achieved without putting in place well focused programme to reduce poverty through empowering the people by increasing their access to factors of production especially credit .The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance to enable them engage in economic activities and be more self reliant, increase employment opportunities and create wealth (Central bank of Nigeria, 2003). According to Muktar (2009), credit has been recognized as an essential tool for promoting small scale enterprises. Over the years several traditional microfinance institutions, such as self help groups, Esusu and rotating saving and credit association have been in existence Nigeria to provide credit to the small scale entrepreneurs, however, they are only able to service a small proportion of the small scale entrepreneurs due to the financial strength. Besides, it has been identified that banks and other financial institutions are only able to provide services for only 25% of potential clients (Boros et al. 2002) and that only 2% of micro entrepreneurs are being served by banks (Mohammad (2007). Government also recognized the need to encourage the small scale entrepreneurs through the provision of credit and this informed policy reforms that led to the establishment of microfinance banks in Nigeria. The microfinance banks have been in operation for some years now in Nigeria. Despite their existence, the poverty incidence in Nigeria is yet to reduce significantly. It therefore becomes necessary to investigate how far the micro-credit provided by the microfinance banks have been able to reduce poverty and improve the welfare of the poor people which they are suppose to cater for. Thus this study investigates the impact of microfinance on the welfare of small scale business owners in Alimosho Local Government Area of Lagos State, which is semi-urban area and the most populous local government in Lagos State. The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds.

Micro financing has been described as the provision of financial services to low income or poor people including self- employed (Ledgerwood, 1998). It refers generally to the provision of small scale financial services (Gulli, 1998). Micro-financing is the provision of both credit and savings services to low income clients. It can also be described as the most realistic and vital channel for financing the poor (Osuji, 2005). According to Eluhaiwe (2005) microfinance is the provision of thrift, credit and other financial services and product in very small amount to the poor to enable them raise their income level and improve their standard of living. This is based on the belief that the goals of microfinance have been poverty reduction and accessibility to market. Microfinance is a key strategy in reaching the MDGs and in building global financial system that meets the needs of the poorest people, especially small scale entrepreneurs. Littlefied and Hashemi (2003), state that microfinance is a critical factor with strong impact on the Millennium Development Goals (MDGs), which poverty alleviation is one.

In Nigeria, credit has been recognized as an essential tool for promoting small and Micro Enterprises (SMEs) and poverty alleviation. About 70 percent of the population are engaged in the informal sector or in agricultural production. The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the rural and urban areas is vital, being the repository of the predominantly poor in society and in particular the SMEs. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspirations various policies have been instituted over time by the Federal Government to improve rural enterprise production capabilities. (Olaitan 2006).

On the empirical side, the impact of microfinance on welfare is mixed. While some studies conclude that microfinance leads welfare promotion, some find negative or insignificant impact of microfinance on welfare. Imai et al. (2010) analyzed the poverty reducing effect of microfinance using cross-section data for 99 development countries in 2007. In their study, they find that the gross loan portfolio of microfinance has a statistically significant negative relationship to poverty incidence, and that the poverty reducing effect of microfinance tends to be larger in sub-Sahara African countries. Zeller and Sharma (1998) argue that microfinance can help to establish or expand family enterprises, potentially making a difference between grinding poverty and economically secure life. Mosley and Hulme (1998) in their study of 13 MFIs in seven developing countries concluded that household income tended to increase, but at a decreasing rate, as the debtors income and asset position improved.

Some other studies suggest non-significant impact. Based on a study on 300 households in Kenya, 160 households in Malawi, and 150 households in Ghana, Buckley (1997) observed that there was little evidence to suggest any significant and sustained impact of microfinance on beneficiaries in terms of micro-entrepreneurs graduating to higher operations, increased income flows or level of employment. Diagne and Zeller (2001) also suggested in their study on Malawi that microfinance did not have any significance effect on household income. Coleman (1999), using a sample of 445 households from Northeast Thailand, observed that the village bank credit did not have any significant impact on physical asset accumulation, production and expenditure on education. In other words, credit on its own is not an effective tool for helping the poor to enhance their economic conditions, unless, for example, there is access to markets and other inequalities are removed.

Kondo et al (2008), using a model similar to Coleman (1999) and with some extensions, found in the case of rural households in the Philippines that microfinance has significant impact on welfare of small scale entrepreneurs and thereby on poverty alleviation. Similarly, Imai and Arun (2009) found "significantly positive effects of the Microfinance Banks on poverty alleviation. Zeller and Myer concluded in their study that saving and credit facilities help individuals or household build up or acquire funds for all kinds of investment when using data from 87 villages in Bangladesh in 1991-1992 estimated the marginal credit on a number of welfare indicator. Their study showed that household income increase by 18 taka for every 100 taka lent to woman. They also found net positive impacts of credit programs on both human and physical assets. Pitt and Khandker (1998) also indicated that microfinance has brought positive marginal impacts on consumption in Bangladesh. They showed that microfinance has become a promising strategy to shield the poor from vulnerability through consumption smoothing as well as building assets. In another study, Khandker (2003) found out that microfinance is serving a useful purpose in benefiting the poorest segment of the clients and in reducing poverty in Bangladesh. The result of his study was inconsistent with what Hulme and Mosley (1996) obtained. He indicated that females are found to benefit more than males from microfinance services. But, the poor are found to spend much on food, not on other income-generating activities.

The paper by Fitsum and Holden (2005) indicated that the impact of participation in microfinance resulted in positive changes in per capita consumption expenditure but this is not statistically significant. The impact on off-farm income and children's education was positive and statistically significant. However, livestock holding is negatively correlated with participation in the microfinance. Tsehay and Mengistu (2002) reported more positive impact of microfinance on poor women in Ethiopia. They concluded that participation resulted in significant increase in household income. Women were said to be able to provide for the basic needs of their families; had control over resources; owned assets; able to cope up with risks; save more for future use; and increased empowerment, among other things. According to Meehan (2000), microfinance credit and savings had a significant impact on increasing agricultural production, increasing trading activities, increasing income, food supply, child education, clothing and other basic necessities. The study concludes that the credit provision had a positive impact on alleviating poverty. Abiola and Salami (2011), using data from hairdressers from Ogbomosho in Nigeria found significant relationship between micro credit and income of small scale entrepreneurs. In summary, the impact of microfinance on poverty alleviation is mixed in the literature. However majority found positive impact of microfinance on poverty alleviation through creating job, increasing income, diversifying income sources, availing better access to health and education, empowerment, and protecting against risks, among others. The objective of this study is to investigate the impact of microfinance banks on the welfare of micro-entreprenuers in Alimosho Local government area.

Hypothesis

H_0: There is no significant relationship between Micro-credit and the welfare of micro-entrepreneurs in Alimosho LGA.

H_1: There is a significant relationship between Micro-credit and the welfare of micro-entrepreneurs in Alimosho LGA

MATERIALS AND METHODS

The data used in this study were obtained from primary source. The data were collected using questionnaire administered on a total of 100 micro entrepreneurs, whose associations are registered with the Alimosho LGA. These micro entrepreneurs consist of fashion designers, tricycle drivers, pepper sellers/grinders. Of the 100 questionnaires distributed, 97 were returned while only 95 of these were found usable and thus analysed. Both descriptive and inferential statistics are employed in the study. Frequency tables and percentages are some descriptive statistics employed while the Chi-square analysis was the inferential statistics used.

The Formular for the Chi-Square is as shown below:

The χ^2 cal. = $\sum_{i=1}^{7}\sum_{j=1}^{5}\left(\frac{\left(o_{ij}-e_{ij}\right)^2}{e_{ij}}\right)$

$e_{ij} = \frac{RT\ x\ CT}{n}$

where eij = Expectecd frequency
oij = Observed frequency
I = no. of rows
j = no. of columns
RT = Row total
CT = Column total
n = Grand total
Degree of freedom = (r -1) (c-1)

The five scales used in the analysis are: Strongly Agree (SA), Agree (A), Undecided (UD), Disagree (D) and Strongly Disagree (SD).

Decision Rule: Reject H_0 If χ^2 calculated > χ^2 tabulated
Accept H_0 If χ^2 calculated ≤ χ^2 tabulated

RESULTS

Socio-economic characteristics of Respondents

The socio-economic characteristics of the small scale entrepreneurs are analysed in terms of their gender, age, educational background, occupational categories and income level. The results are discussed below. The gender breakdown of the respondents shows that

72.6% were females while 27.4% were males. This should however, not be interpreted to imply that there are more female than male entrepreneurs in Alimosho LGA. It simply reveals that more female than male entrepreneurs responded to the questionnaire (see Table 1). As shown in Table 1, the age structure of respondents in the sample shows that 23.2% are less than 30 years, 45.3% are between 31 and 40 years, 25.3% are between 41 and 50 years while only 6.3% are above 50 years. About 10.5% of the respondents have no formal education, 68.4% have either first school leaving certificate or Senior Secondary School Certificate. 11.6% have Ordinary National Diploma or National Certificate of Education (NCE) while 13.7% have degree certificate. This reveals that majority (89.5%) of the respondents have acquired one level of education or the other (see Table 1). This presupposes that they were generally able to understand the workings of microfinance operations in the study area and this might influence the general performance of their business. The analysis of the marital position of the respondents shows that 24.2% of them are single while 68.4% are married, 2.1% are divorced while 4.2% are widowed. This implies that majority of the respondents are married and this might influence the impact of micro-credit on their business as a result of spousal support. The line of business of the respondents indicates that they are mainly small scale entrepreneurs, majority of whom could be classified as poor, given their income structure, with only 7.4% claiming to earn an income of over N40,000 per month. 25.3% of the respondents are tailors/fashion designers, 24.2 % are tricycle drivers, 26.3 % are pepper sellers and 24.2% are pepper grinders.

Table 1: Socio-economic characteristics of Respondents

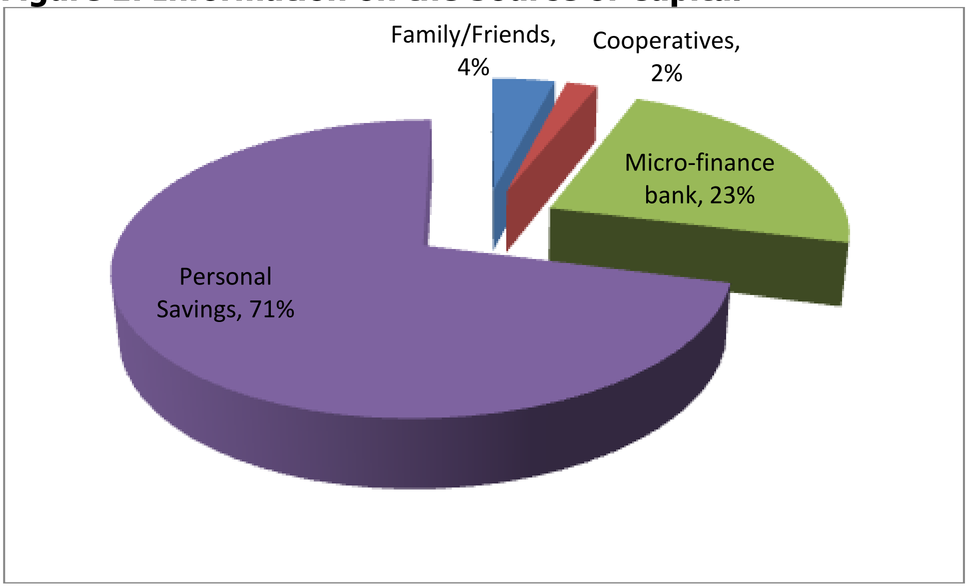
Parameters	Relative Frequency (%)
Gender	
Female	72.6
Male	27.4
Total (%)	100
Age	
21 -30	23.2
31 - 40	45.3
41- 50	25.3
Above 50	6.3
Total (%)	100
Marital Status	
Single	24.2
Married	68.4
Divorced	2.1
Widowed	4.2
Total (%)	100
Educational Background	
No formal Education	10.5
SSCE and below	64.2
OND/NCE	11.6
HND/BSC and Above	13.7
Total (%)	100
Line of Business	
Tailoring/Fashion Design	25.3
Tricycle Drivers	24.2
Pepper Seller	26.3
Pepper Grinder	24.2
Total (%)	100
Average Income (Per Month)	

N10,000 – 20,000	54.7
N20,001 – 40,000	37.9
N40,001 and Above	7.4
Total (%)	100

Source: Field Survey, 2011

Figure 1 below shows the source of start up capital of the respondents. The figure indicates that loans from microfinance bank are not only used for expansion of business but also for starting new business thus bringing to fore the importance of microfinance banks in entrepreneurial development. Besides, it might indicate that many people in the area of study are aware that there is the opportunity of obtaining microfinance bank loans to start their businesses. The result obtained here in respect of initial capital contradicts that of Abiola and Salami (2011) where only 6% of respondents obtained their start up capital from microfinance banks.

Figure 1: Information on the Source of Capital



Source: Field of survey, 2011

83% of the respondents claimed they have obtained loan from microfinance bank at one time or the order. However, majority of them (73%) felt the interest rate charged by these banks is high. Although majority of the respondents said they have obtain loan from microfinance bank at one time or the other, they consider the interest charged on this loans to be unreasonable. 73% of the respondents considered the interest rates charged to be unreasonable. The high interest rate may be charged to cover risk since majority of the respondents said they did not offer any collateral before being given the loans Majority of the respondents (87.4%) said they did not offer any collateral to obtain a loan from the microfinance bank. This result is surprising given the fact that majority (52.6%) of the respondents did not patronise the microfinance banks used by their cooperative societies. Despite the high interest rate only 7.4% of the respondents said they had difficulty in repayment of the loan. The result obtained here might be due to the procedure of repayment which is weekly repayment which start immediately after loan collection

To analyse the impact of microfinance bank credit on welfare, the response to the questions such if the respondents' savings, income and consumption has increased since taking the microfinance loan were used. 38.9% of the respondents said their income has increased since they took the microfinance loan. A similar percentage, (36.8%) claimed that the microfinance loan has contributed to increased savings for them while 41.1% said their consumption improved since taking the microfinance loan. What runs through when analysing the effect of microfinance on income, consumption and savings is that in all cases less that 50% of the respondents claim that microfinance loan has contributed positively to increasing their income, savings and consumption. This is probably due to the high interest rates that have to be paid by the people. More than 45% of the respondents pay 20% and above as interest on the loans obtained from the microfinance bank. Moreover, the system where microfinance banks collect obligatory savings from their clients on weekly basis and borrowers has to commence repayment almost immediately leaves little amount for the borrowers for investment purpose.

Table 2: Response on Welfare Impact of Micro-finance Bank Loans

Variables	SA	A	UD	D	SD	Total
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	No. (%)
Interest rate is reasonable	5 (5.26)	2 (2.11)	15 (15.79)	13 (13.68)	60 (63.16)	95 (100)
Savings has increased	35 (36.84)	5 (5.26)	10 (10.53)	5(5.26)	40 (42.11)	95 (100)
Consumption has increased	30 (31.58)	9(9.47)	15(15.79)	8 (8.42)	33 (34.74)	95 (100)
Income has increased	30(31.58)	7 (7.37)	15(15.79)	3 (3.15)	40(42.11)	95 (100)
Children/Ward has better access to education	29 (30.53)	6 (6.32)	17 (17.89)	5(5.26)	38 (40.0)	95 (100)
Loan Repayment is easy	70 (73.68)	9 (9.47)	8(8.42)	2(2.11)	6(6.32)	95 (100)
Access to health care has improved	25 (26.32)	7(7.37)	12 (12.63)	8(8.42)	43 (45.26)	95 (100)

Source: Field Survey, 2011

Table 3: Analysis of Responses

Variables	SA		A		UD		D		SD		Total
	a_1	e_{11}	a_2	e_{12}	a_3	e_{13}	a_4	e_{14}	a_5	e_{15}	
Interest rate is reasonable	5	32	2	6.43	15	13.14	13	6.29	60	37.14	95
Savings has increased	35	32	5	6.43	10	13.14	5	6.29	40	37.14	95
Consumption has increased	30	32	9	6.43	15	13.14	8	6.29	33	37.14	95
Income has increased	30	32	7	6.43	15	13.14	3	6.29	40	37.14	95
Children/Ward has better access to education	29	32	6	6.43	17	13.14	5	6.29	38	37.14	95
Loan Repayment is easy	70	32	9	6.43	8	13.14	2	6.29	6	37.14	95
Access to health care has improved	25	32	7	6.43	12	13.14	8	6.29	43	37.14	95
Total	224		45		92		44		260		665

df= (r-1)(c-1)= (7-1)(5-1) = 6 x 4 = 24

$$e_{ij} = \frac{RT \times CT}{n}$$

χ^2 tabulated at 5% significant level and df of 24 = 36.42

χ^2 calculated is 135.88

The χ^2 calculated is greater than the χ^2 tabulated; we therefore reject the null hypothesis and accept the alternative hypothesis. This suggests that there is a significant relationship between microfinance bank credit and the welfare of small scale entrepreneurs in Alimosho Local Government Area of Lagos State.

DISCUSSION

From the data analysed, about 23% of the respondents claimed they obtain their start-up capital from microfinance banks, while majority got their start-up capital from personal savings. However, 73% did not agree that the interest rate charged by the bank is reasonable hence the interest rate is a problem for the entrepreneurs. The high interest has also not make the microfinance credit not able to increase the saving as well as the income of the entrepreneurs. Despite the high interest rate, borrowers did not have problem of repayment probably because of the procedures of repayment which starts immediately after being granted the loan. These procedures though ensure repayment did not allow the capital to be meaningfully invested before repayment of loan. The loan therefore could not have contributed much to improvement in access to better health care and children better access to education because of the short repayment period of the loan.

CONCLUSION

Despite the fact that there is a significant relationship between microfinance credit and welfare of the small scale entrepreneurs in Alimosho Local Government Area, their impact is limited because of the loan repayment procedures which did not give grace period before repayment starts. The shortness of repayment time did not make it possible for micro-credit to be able to generate future income, thus preventing it from improving savings, consumption and giving better access to health care. Based on the problems highlighted above, it is suggested that the interest rate charged by microfinance bank should be made more reasonable. Moreover, the repayment procedures should be reviewed to provide for grace period instead of the current system where repayment starts almost immediately. This would enable micro entrepreneurs to invest the loan obtained for a longer time and the loan would thus enhance their income, savings and consumption and reduce the poverty rate.

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