

## **Impact of Microfinance Bank on Standard of Living of Hairdresser in Ogbomoso North Local Government of Oyo State, Nigeria**

Idowu Abiola and A.O. Salami  
Department of Management and Accounting,  
Ladoke Akintola University of Technology, Ogbomoso, Oyo State, Nigeria

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**Abstract:** The thrusts of this study are to determine the impact of Microfinance bank on standard of living of hairdressers in Ogbomoso North Local Government Area (LGA) of Oyo State and to examine the impact of Microfinance on asset acquisition and savings of hairdressers in that LGA. A total of 49 hairdressers who registered with Ogbomoso North LGA were used as study sample. Data were collected using questionnaire and hypothesis was used using Chi-square technique. The null hypothesis was rejected at 5% significant level. It was then concluded that there is a significant relationship between Microfinance bank efforts and standard of living of hairdressers in Ogbomoso North LGA. Recommendations was thus made that government through the Apex bank (CBN) should ensure that Microfinance bank loans are easily obtainable and repayment should include a grace period with reasonable schedule instead of weekly payment period that is commonly found among the microfinance banks in Nigeria.

**Key words:** Hairdressing, liquidity, micro-credit, micro enterprises, microfinance bank, standard of living, poverty

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### **INTRODUCTION**

The major problem facing African nations today is the eradication of poverty which every government has built in as part of its development program. Kehinde and World Bank Report defined poverty as hunger, lack of shelter and being sick and not being able to go to school, not knowing how to read, not having a job and fear for the future among others. When we speak of absolute poverty, we refer to existence below a reference standard of living (Ukwu, 2002). Aku *et al.* (1997) analyzed poverty from five dimension of deprivation among which is economic deprivation drawn from the lack of access to property, income, assets, factors of production and finance.

Microfinance is the form of financial development that has its primary aim to alleviate the poverty of the poor who are generally remained un-served or were offered improper financial service (Central Bank of Nigeria, 2005). According to Boros *et al.* (2002), banks and other financial institutions are currently estimated to provide services to only 25% of potential client worldwide. Mohammad and Mohammed (2007) opined that only 2% of micro entrepreneurs are being provided service by banks. Also, Adewole opined that the size of the unsaved market by existing financial institutions is large. The average banking density in Nigeria is financial institution

outlet to 32,700 inhabitants and in rural areas, it is 1-57,000 inhabitants that is <2% household have access to financial service. Small business firms can be described as the live wire of a developing economy like of Nigeria. Their role in the economic development can be appreciated by fact that they make substantial contributions to the Gross Domestic Product (GDP). Small businesses serve as a reliable revenue source for the government.

Government recognized the need to encourage the small enterprises through the provision of credit and this informed policy reforms that brought about the Microfinance bank that the Federal Government of Nigeria introduced during the Obasanjo regime to replace the formal community banks in Nigeria and the policy became operational in 2005.

Microfinance banks are established to fill the gap created by the formal financial sector by improving the socio-economic condition of the poor income generation. Many researchers, development workers and institution hauled microfinance as a potential solution to alleviation of poverty in which standard of living is one of the indicators (Yunus, 1999).

Nigerian government recognized the need to alleviate poverty and encourage small enterprises through the provision of credit and this inform policy reforms with

respect to bringing the Microfinance bank under the Central Bank of Nigeria to create enabling environment for access to small loans and the policy became operational in 2005.

There are still important gaps to be filled by this institutions in Nigeria, the Microfinance banks have not been able to adequately address the gap in terms of credits, savings and other financial services required by the small scale enterprises like barbing saloons, hair dressing saloon, block making outlets, sachet water making industries, etc.

According to Kasali as laudable as the government policies and programmes are towards financing of small enterprises, it is discovered that many Microfinance banks are not willing to release funds to these enterprises, instead, stringent conditions are introduced day in day out. The focus of this study is on hair dressing saloons in Ogbomosho North local government area of Oyo State. This is because the researchers discovered in their preliminary study that hair dressing saloon businesses are very predominant among women living in this area. In view of the above problems and study scope, this study attempt to answer the following research questions:

- Has Microfinance bank impacted on the standard of living of hairdresser in Ogbomosho North local government?
- Has Microfinance bank increase asset acquisition and savings of the hairdresser in Ogbomosho North local government?

**Objectives of the study:** The general objective of the study is to determine the impact of Microfinance bank on standard of living of hairdresser in Ogbomosho North local government area. The specific objectives are to:

- Determine the extent to which accessibility to micro credit has increased the household income and enrolment in school, of wards of hairdresser in Ogbomosho North local government
- Examine the impact of Microfinance bank on asset acquisition and saving of hairdresser in Ogbomosho North local government

**Hypothesis of the study:** The following hypothesis was tested:

H<sub>0</sub>: There is no significant relationship between Microfinance Bank and standard of living of Hairdresser in Ogbomosho North local government

## MATERIALS AND METHODS

Primary data were collected using questionnaire to obtain the required data from Hairdresser in Ogbomosho North Local Government Area (LGA). A total of 49 hairdressers who registered with the Ogbomosho North LGA were selected for this study. This was because their records can be easily traced when compared with the unregistered ones.

Both descriptive and inferential statistics are employee in the study. Descriptive statistics such as frequency table and percentage are employed. While Chi-square was used to determine the relationship between the variables to measure standard of living and Microfinance bank impact. The Chi-square formula:

$$\chi^2 \text{ cal} = \sum_{i=1}^6 \sum_{j=1}^5 \left( \frac{(O_{ij} - e_{ij})^2}{e_{ij}} \right)$$

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

Where:

- e<sub>ij</sub> = Expected frequency
- O<sub>ij</sub> = Observed frequency
- I = Row
- j = Columns
- RT = Row total
- CT = Column total
- n = Ground total

$$\text{Degree of freedom} = (r - 1)(c - 1)$$

The Five Likert scales; Strongly Agree (SA), Agree (A), Undecided (UD), Disagree (DA) and Strongly Disagree (SA) was used to analysis this data collected from the respondents.

**Brief history of microfinance:** Micro savings has existed in the developing world of many centuries. Rotating Saving and Credit Association (ROSCAs) are found in nearly every locale of the world, a very basic principle, they are based on pooling resources with neighbours and friends to improve the situation of all members. The pool is distributed to one member of the ROSCA at a time until each member had a chance to take from it. The system allows members to save earnings more quickly than they could individually (Armendariz de Aghion and Morduch, 2005). While ROSCAs are a form of micro savings, experiments with micro credit have existed throughout history as well. Micro credit is a process of providing loans to the very poor with the purposes of poverty

reduction and social change (Armendariz de Aghion and Morduch, 2005). Jonathan Swift first introduced micro credit in the 18th century by establishing the Irish loan fund system which provided small loans to poor farmers that lacked collateral. At its peak, it annually serviced 20% of all Irish households. Subsequently, Friedrich Wilhelm Raiffeisen developed the idea of a financial cooperative in Germany and cooperatives rapidly spread throughout Europe and then to the rest of the world in the mid 19th century. State owned development financial institutions also known as farmer's cooperatives, started appearing in the mid 1950s and channeled loans to customers with lower than market interest rates.

Such micro credit schemes were unsuccessful because customers interpreted the loans to be government handouts and were disinclined to pay them back. Finally in 1976, Muhammed Yunus pioneered the Grameen bank.

**Microfinance and women:** Nigeria is the seventy world largest exporter oil, yet ranks 158 out of the 188 countries of the world in terms of quality of life (UNDP, 2007). Available statistics indicate that poverty has become endemic in Nigeria and is on the increase. About two third of the Nigeria's population (about 150 million) are poor (UNDP, 2007). Out of these numbers of poor Nigerian, women represent greater proportion due largely to their ascribed and acquired role: for instance, about 65% of active population, most of them women have been excluded from formal financial institutions (Bamisile, 2006). The increased focus on gender and development debate has been an important development of the last three decades.

According to UNECA and Dejene (2007) one of the reasons why Africa is off track in terms of meeting the millennium development goal targets, includes persistent gender inequality and discrimination. The current challenge facing the continent (Africa) and Nigeria in particular is how to achieve a reversal of inequalities. Emergence of Microfinance bank was largely aggravated by the exclusion of the informal sector by the formal financial system in Nigeria and indeed other developing countries. Thus, the Microfinance banks are primarily established to fill the gap created by the formal financial institutions.

Anyanwu (2004) summarizing the objectives of Microfinance bank to include: improvement of the socio-economic conditions of women, especially those in the rural areas through the provision of loan assistance.

This role has become necessary in Nigerian in order to foster the living standard of women that are heavily disenfranchised by the formal banking system due largely

to the perceived and real high risk and cost associated with serving the poor. Corroborating this view, Anyanwu (2004) opined that a particular example in Nigeria is that women suffer the disability of non access of bank credit yet such credit removes constraints and poverty.

This research will investigate the extent to which women has benefited in Microfinance banks in local government areas of Oyo State.

**Microfinance and Micro enterprises:** Microfinance institutions are expected to serve small and Micro entrepreneurs whose income is not beyond the minimum wage who have assets of <N500,000 that is those that are not in regular employment and is between 18 and 60 years. Each is entitled to a maximum of N500,000 unsecured loan and which is payable within a maximum of 12 months (Central Bank of Nigeria, 2005).

Microfinance is the provision of small loans (micro credit) to poor people to help them engage in productive activities or grow very small businesses. Lashley (2004) said that Microfinance has spread across the globe as a means to develop micro-entrepreneurs. Hossain (2002) defined Microfinance as the practice of offering small, collateral-free loans to people who otherwise would not have access to capital to begin small business or other income generating activities. Boros *et al.* (2002) believed that microfinance will raise income and broaden financial market by providing credit among other services to small scale entrepreneurs.

Central Bank of Nigeria (2005) stated as one of its policy's target, elimination of gender disparity by improving women's access to financial services by 5% annually. Muo (2007) reported that it has become imperative that all arrangements towards poverty alleviation must go beyond lip service. In fact policy should be properly conceptualized, well funded, managed and coordinated. The aim of Microfinance bank is to provide small unsecured loan to the poor. Effort must be made to ensure that programmes designed to assist the poor are actually delivered to the poor.

Instances abound when subsidized products and services end up in the hands of those who well off and influential (Dejene, 2007). Many researches has shown that the poor are majorly found in the rural areas and mostly engaging in farming, therefore this study want to know who the beneficiaries of Microfinance bank are in Oyo State, the research will also examine the impact of Microfinance bank on poverty alleviation in Oyo State by examining Microfinance bank impact on household income, micro enterprises (informal businesses) and savings. Lack of liquidity of fund is one of the big problem for entrepreneurs who want to set up small scale

business, therefore this study verified the nature of liquidity problem facing hairdresser in Ogbomosho North local government by observing the range of initial capital that is borrowed from Microfinance bank by them.

**Microfinance bank and standard of living:** Income is one of the important elements of living standard of the poor people as well as saving (Mohammed and Mohammed, 2007). The Microfinance banks are to provide loans to the poor not only the increase their income but also to mobilize their savings (Central Bank of Nigeria, 2005). Apart from these, other factors that contribute to human development, like education, empowerment are also included as variables indicating a level of standard of living.

This study endeavor to explore and find out to what extent the standard of living of hairdresser in Ogbomosho North local government has been influenced since, they joined the microfinance program. Microfinance programs target both economic and social poverty and in essence it is important to assess the success of Microfinance bank. And according to Ghalib (2007), there need to measure the impact on borrowers whom in this study are the hairdresser in Ogbomosho North LGA. Mohammad and Mohammed (2007) opined that Microfinance bank interventions promote living condition of poor people by offering supportive service. These supportive services are important indicators of the human development. Mohundra and Haddad (2005) and Mohammad and Mohammed (2007) said Microfinance banks, micro credit helps to empower in society, especially among the women clients. Traditionally, development initiatives are synonymous with raising people's incomes, employment opportunities, consumption, building of assets and accumulating savings. Impact assessment studies look for indicators and variables that measure prosperity no terms of material and tangible assets that can be awarded numeric values such as increased income, greater employment ownership of physical assets (Ghalib, 2007).

**RESULTS**

Table 1 shows the source of start up capital of respondents. About 51% of the total respondents started their hairdressing business through personal contribution, the rest of them have either borrowed money from friends and relatives, personal contribution and only 6% from Microfinance bank.

This implies that many of the hairdressers have not enjoyed the credit of Microfinance bank to start their business. Many of the respondents took the loan for expansion.

Table 1: Information regarding source of start-up capital

Variables	Measuring groups	Frequency	Percentage
Source of start up capital	Loans form friends	5	10
	Loan from cooperative society	4	8
	Loan from relatives	12	25
	Personal contribution	25	51
	Loan from microfinance bank	3	6
	Total	49	100

Field survey, 2010

Most of the Microfinance bank in Ogbomosho North local government follow the same method as the Grameen Bank of Bangladesh whereby the micro credit is small and the first installments is taken away at the point of collection of the loan. From Table 2, one can see that 61.22% of the total respondents disagree with the statement that Microfinance bank credit (loan) has increased their saving. From Table 3, it can be seen that the taking of the loan has not increased the savings of the respondents, the reason for this is not far fetched, Microfinance banks collect obligatory savings from the clients on weekly basis and net amount received by the client is after the deduction of first installment. So the first installment for the loan is already taken by the lender as soon as loan is approved living little amount for investment.

The interest rate of the Microfinance banks are very high, this can be seen from Table 3 where 81% disagree with the reasonability of microfinance bank interest. This is in conformity with the study of Lashley (2004) Microfinance banks' interest rates which is higher than commercial banks in some cases. The study also showed that income of the hairdresser has not increased after the collection of the loan because the frequency with which repayments have to be made is a job in itself and the loan are been used for repayment purpose instead of generating income:

$$\chi^2 \text{cal} = \sum_{i=1}^6 \sum_{j=1}^5 \left( \frac{(o_{ij} - e_{ij})^2}{e_{ij}} \right)$$

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

Critical value at  $\alpha = 5\%$

$$\chi^2_{0.05, 20} = 31.41$$

**Decision rule:**

Reject  $H_0$  if  $\chi^2 \text{cal} > 31.41$

Accept  $H_0$  if  $\chi^2 \text{cal} \leq 31.41$

**Decision:**

Reject  $H_0$  since  $\chi^2 \text{cal} > 31.41$

Accept  $H_0$  if  $\chi^2 \text{cal} \leq 31.41$

Table 2: Information from respondents concerning effect on savings income, better access to education, employment opportunities, reasonability represent frequency of interest rate and produce for obtaining loan

Variables	SA		A		UD		DA		SD		Total
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	
Savings has increased	4	8.16	2	4.08	1	2.04	30	61.22	12	24.50	49
Interest rate is reasonable	2	4.80	2	4.08	0	0.00	40	81.63	5	10.20	49
Income has increased	3	6.12	4	8.16	0	0.00	32	65.31	10	20.40	49
Procedure for obtaining loan is easier	38	79.16	10	20.83	0	0.00	0	0.00	0	0.00	48
Better access to education	0	0.00	1	12.00	0	0.00	40	81.63	6	12.76	47
Employment opportunities	2	4.08	3	6.12	0	0.00	41	83.67	3	6.12	49

Field survey, 2010

Table 3: Analysis of respondent's responses

Variables	SA		A		UD		DA		SDA		Total
	a <sub>1</sub>	e <sub>11</sub>	a <sub>2</sub>	e <sub>12</sub>	a <sub>3</sub>	e <sub>13</sub>	a <sub>4</sub>	e <sub>14</sub>	a <sub>5</sub>	e <sub>15</sub>	
Savings has increased	4	8.251	2	3.704	1	0.168	30	30.804	12	6.062	49
Interest rates is resemble	2	8.251	2	3.704	1	0.168	30	30.804	5	6.062	49
Income has increase	3	8.259	4	3.704	0	0.168	32	30.184	0	6.062	49
Procedure for obtaining loan	38	8.082	10	3.629	0	0.165	0	30.186	0	5.938	48
Better access to education	0	7.914	1	3.553	0	0.162	40	29.557	6	5.814	47
Employment opportunities	2	8.251	3	3.704	0	0.168	41	30.814	3	6.062	49
Total	49	-	22	-	2	-	173	-	26	-	291

Analysis emanated from field survey, 2010

$$df = (r - 1)(c - 1) \rightarrow (6 - 1)(5 - 1)$$

$$5 \times 4 = 20$$

$$e_{11} = \frac{49 \times 49}{291} \Rightarrow e_{11} = 8.251$$

$$\chi^2_{cal} = \left( \frac{(4 - 8.251)^2}{8.251} \right) + \left( \frac{(3 - 6.062)^2}{6.062} \right)$$

$$\chi^2_{cal} = 214.27$$

At 5% significance level, the  $\chi^2$  calculated (214.27) is greater than the table value (31.41). This data suggest that Microfinance efforts and standard of living are dependent which implies there is significance relationship between Microfinance bank's efforts and standard of living of hairdressers in Ogbomosho North local government.

### DISCUSSION

From the study, on the impact of Microfinance bank on standard of living of hairdresser in Ogbomosho North local government, the analyzed data showed that the source of start up capital of many of the hairdresser is as follows: 51% got their start up capital form personal contribution, followed by loan from friends and family that is 21% of the respondent while only 14% got their start up capital from cooperative society and Microfinance bank.

Examining the procedure of obtaining loans from Microfinance bank, 73% of the respondents believe that the procedure for obtaining loan from Microfinance bank

is easier than that of Conventional banks. This study also confirms the study of impact of Microfinance bank by Mohammad and Mohammed (2007). On the interest rate, 63% of the respondent stated that the interest rate of Microfinance bank is very high and therefore serve as a problem. Savings of the respondent has not increased because of the short time of repayment.

About 71.4% of the respondent was the opinion that the time for repayment was too short and usually 2 weeks after collection and did not allow the capital to be meaningful invested before the repayment and hence, the repayment is paid weekly and the capital is used in repaying thereby living little or nothing at the end.

The problem of paying the loan plus the capital out of the original capital did not leave room for better access for education nor better financial situation of their family and hence left many poorer than before collecting of the micro credit thereby reduced their standard of living.

### CONCLUSION

Despite the laudable impact of microfinance in many part of world (Yunus, 1999; Mohammad and Mohammed, 2007), the impact is not felt in Ogbomosho North LGA majorly because of the shortness of time between obtaining of credit and repayment. The shortness of times did not give room for loan (micro credit) to generate future income. This is because according to the respondents before the end of loan repayment the business would have almost collapsed.

## RECOMMENDATIONS

In view of the problems encountered, we recommend that:

- The government through the Apex bank (Central Bank of Nigeria) should ensure that Microfinance bank loans are extended to the poor without too much strict deposit condition
- The interest rate that will be charged on the loans should be lower than that of commercial banks to enable me repayment of both interest and money borrowed
- The repayment should include a grace period and reasonable schedule instead of weekly payment that is commonly found among the Microfinance bank

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