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Economic Success of Credit Dependent Micro-Enterprises in Oyo State

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Abstract: Majority of Nigerians living in the rural areas live below the poverty level, one major reason for this situation is the absence of one of the most crucial factors of production which is capital. The microfinance policy was introduced in Nigeria to ameliorate the situation and business expansion among small and medium scale enterprises. The study investigated the economic success of SMEs which collected credit from MFIs. Primary data were collected from a hundred microfinance bank customers using structured questionnaires. Those selected were beef, pepper and garri traders. Descriptive and inferential statistics were used to analyze the data. The results showed the enterprises were profitable but limited in scope because the entrepreneurs did not identify opportunities for expansion; consequently they lacked strategic plans towards such goals. The different enterprises compared were significantly different in terms of prices even though the average amount of loan collected was not. The level of patronage, volume of sales and number of loans were found not to be of significant difference in the enterprises. The study indicates that MFIs have positive impact on the micro-enterprises but it could be more significant if business management servicesas partof the services offered. The policy implication is that microfinance policy needs to be expanded to include business development services.

Key words: Microfinance, credit, micro-enterprise, success, Nigeria

INTRODUCTION

Small and Medium scale Enterprises (SMEs) are drivers of economic growth and as such are capable of reducing poverty. They have the potential of supplying products and income generating opportunities in an increasingly urbanized economy. More importantly, SMEs link rural and urban areas and small and large scale industries. At the lower end of the continuum of SMEs are micro-enterprises such as traders, artisans, etc., who are in dire need of financial services for business expansion or stabilization. Such, services are currently being provided by both formal and informal microfinance institutions but micro-enterprises and SMEs need business support services alongside financial instruments. This is necessitated by the fact that having access to financial services through microfinance institutions has not really translated into business expansion or household poverty reduction. Several reasons can be given for this development, such include the fact that some MFIs are not healthy and self-reliant and as such cannot offer financial services sustainably to a vast number of clients, the exclusion of those deemed not to be economically active enough to merit financial support, the biased services towards non-farm related enterprises, the poor track record of microenterprises in developing business plans or keeping financial records and reports, etc. (Mutua *et al*., 1996; Robinson, 1996). Microfinance institutions on the other hand have improved their service delivery by providing funds alongside saving mobilization capacity, as well as the use of performance bench marks such as portfolio quality, cost effectiveness and out reach to evaluate the efficiency of the bank's operations. But, business and accounting knowledge gaps on the part of the bank's client's act, as funnels through which gains from accessing finance and being in a viable financial systems are lost. The drain in success underscores the importance of business development services for small and microenterprises not only in terms of increasing the profit margin but also in facilitating linkages and integration along the value chain.

In Nigeria, small and medium enterprises are seen, as the instrument for promoting economic growth and equitable development for several economic reason but also particularly because of the high level of individual creativity and innovation which drives the sector. Small and medium scale enterprise is very crucial to the development of the nation's economy, they are the bedrock of its industrialization through the output of goods and services, creation of jobs at relatively low capital cost, development of a pool of skilled and semi-skilled workers, as a basis for the future industrial expansion, improved forward and backward linkages

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between economically, socially and geographically diverse sectors of the economy and the provision of opportunities for developing and adapting appropriate technological approaches. The viability and efficiency of the sector has been hampered by inadequate investment capital. Agricultural SMEs in particular, do not have enough fund to back up their business, as a result of this, they end up moribund within the 1st 5 years of their existence.

In order to make the sector more viable, the microfinance scheme was introduced as a more efficient way of reaching and serving the financial needs of small and medium scale enterprises (Anyanwu, 2004). It was a means by which the economically active poor and low income household would be provided with sustainable financial services to help them engage in income generating activities or expand their small business. Prior to the emergence of formal microfinance institutions in the nation, informal institutions held sway. These informal institutions were mainly informal Self-Help Groups (SHGs) or Rotating Savings and Credit organization (ROSCAS) which provided savings and credit services to their members. The key characteristics of these informal schemes include savings and credit components, informalities of operations and higher interest rates in relation to the formal banking sector. They also generally had limited outreach, primarily due to paucity of loan-ablefunds (Olaitan, 2006; Yahaya *et al*., 2011).

The advent of microfinance banks was expected ameliorate the financial straits of micro, small and medium scale enterprises and ultimately lead to poverty reduction (Ekpe *et al*, 2010). But, according to Akangbe *et al*. (2012), the loan process creates delays which could lead to a loss in value of the cash if it is not available, as at when needed, this coupled with the limitations, such as high interest rates makes the banks unattractive to would be users. Also, the interaction of socio-economic characteristics and banking operations, such as expected date of loan repayment and marital status could limit the effectiveness of the bank in alleviating poverty among the poor and that beyond an efficient microfinance banks operation, targeted finance packages is a pre-condition for effective fulfilment of the businesses of their customers thereby enabling them carry on various small and medium enterprises which will in turn empower the core and moderately poor to be self-employed and eventually reduce the poverty level in the economy (Olaitan, 2001; Yahaya *et al*., 2011). A key contribution of the study by Akangbe *et al*. (2012) was that management capacity should be a key indicator in deciding who should be financially supported. This study, therefore examines the economic success of micro enterprises who have benefited from financial services of formal microfinance institutions. The specific objectives were to:

- Characterize the entrepreneurs based on socio-economic variables
- Examine the nature of the business and entrepreneurs strategy for expansion
- Examine the profitability of the enterprises

It is important to examine profitability of the enterprises because it is the primary goal of all business ventures and without it, the business cannot be supported with loans and it will not survive in the long run. Profitability is measured with income and expenses. Income is money generated from the activities of the business. For example, if crops and livestock are produced and sold, income is generated. The loans obtained from formal and informal MFIs is a cash transaction between the business and the lender to generate cash for operating the business or buying assets and to help it become profitable and sustainable. A profitable micro enterprises will in the long run reward its owners with a large return on their investment and eventually lead to an exit of poverty. The viability of such business should help redefine financial and business services for them.

MATERIALS AND METHODS

The study was carried out in Ibadan North Local Government Area of Oyo State. A random sample of clients from 3 microfinance banks was taken and a total of 100 customers were selected to participate in the survey. The data were collected from the customers using structured questionnaires. The respondents were operators of micro enterprises such as beef, pepper and garri sellers. The data collected were analyzed using descriptive and inferential statistics. The inferential statistics used is the Kruskal-Wallis test because it is nonparametric technique and uses more information than the median test. Also, it is usually more powerful and is preferred when the available data are measured on at least the ordinal scale.

RESULTS AND DISCUSSION

Socio-economic characterization of respondents: The socio-economic characteristics of respondents shows that more female respondents were in the survey but most of the respondents were within the active labour age bracket and were involved in horticulture, beef and staples value

Table 1: Micro-entrepreneur socio-economic characteristics

Characteristics	Frequency	Percentage
Sex		
Male	43	43
Female	57	57
Total	100	100
Age		
19-26	18	18
27-36	38	38
37-46	30	30
47-66	14	14
Total	100	100
Marital status		
Single	13	13
Married	67	67
Divorced	16	16
Widow	4	4
Total	100	100
Family size		
1-3	16	16
4-6	63	63
>6	21	21
Total	100	100
Type of business		
Pepper	42	42
Meat	27	27
Garri	31	31
Total	100	100

Field survey, 2012

chain. Most of them were married with an average family size of 5 and are involved in retail trade such as pepper, garri and beef (Table 1).

Nature of business and strategies for expansion: It shows that 32% of the respondents made a yearly profit of ₦ 90000-108000 naira which means that a greater percentage of the respondents made substantial profit through the loans received from the bank; an average of about ₦ 8500.00 per month. A straight line division by 5 which is the average family size shows that each individual has <₦ 2000 to live on per month; a simple estimate of poverty. The respondents are retailers who depend on a revolving loans scheme from the MFIs to run the business, this explains why the average number of times, the loan has been collected within a year is 5 time though most people have just about 6 years. The level of patronage is about 17 people per day while the average number of years of experience in the enterprise is 10 and the average loan size is about ₦ 27,500.00. Involvement in trade associations facilitated loans and also guaranteed returns to the bank, hence the high rate of loan repayment to the institutions. The major cash constraint experienced is said to be start-up capital (Table 2).

In order to expand a business, opportunities for expansion must first be identified and then strategic plans to move towards identified goals can be made. Table 3 shows that the respondents have not consciously identified opportunities or made plans for business

Table 2: Entrepreneur and business characteristics

Items	Frequency	Percent
Annual profit (₦)		
30000-60000	16	16
60001-90000	31	31
90001-120000	38	38
120001-150000	10	10
>150,000	5	5
Total	100	100
Loan size (₦)		
10000-25000	47	47
25000-40,000	19	19
40001-55000	26	26
>55000	8	8
Total	100	100
No. of loans		
1-3	15	15
4-6	59	59
7-9	26	26
Total	100	100
Daily patronage (Nos.)		
1-15	33	33
16-30	65	65
>30	2	2
Total	100	100
Years of experience		
1-5	21	21
6-10	48	48
11-15	16	16
16-20	11	11
>20	4	4
Total	100	100

Table 3: Limitations and strategies to business expansion

Limitations to business expansion	Frequency	Percentage
Lack of time	3	3
Low business volume	1	1
Nature of business (retail)	1	1
None	95	95
Total	100	100
Strategies		
Get more loans/money	8	8
Hardwork	13	13
Employ more people	1	1
None	78	78
Total	100	100

Field survey, 2012

expansion. While 95% do not see any limitation to expansion possibilities only 22% have some form of strategy for expansion which range from getting more money to working hard or employing people. They focus on this approach because it is what they are used to and what they assume will work for them. None of them mentioned the possibility of getting more customers to patronize them. About 5% see the current nature and volume of business, as a limitation while another 3% claims that they could not give more time to the enterprise. Other business failure risk such as location, management, planning and deficient preparation were not mentioned (Table 4).

Economic success of the enterprise: The assets of an enterprise, its net-worth and profit give an indication of the success of the business. About 45% of the entrepreneurs owe either afellow trader or a friend in a

Table 4: Indebtedness of business to creditors

Items	Frequency	Percentage
Amount owed to traders (₦)		
1000-5000	33	82.5
5001-10000	6	15.0
10001-15000	1	2.5
Total	40	100.0
Amount owed to friends (₦)		
1000-3000	24	53.0
3001-5000	10	23.0
5001-7000	9	20.0
7001-9000	2	4.0
Total	45	100.0
Amount owed to MFIs (₦)		
10000-25000	47	47.0
25000-40000	19	19.0
40001-55000	26	26.0
>55000	8	8.0
Total	100	100.0

Field survey, 2012

Table 5: Income and expenditure differentials among micro-enterprises

Items	Pepper (n = 42)	Beef (n = 27)	Garri (n = 31)
Years of experience	11** (±5)	7** (±2)	11** (±9)
Patronage per day	19 (±7)	18 (±6)	18 (±9)
No. of units sold daily	27 (±8)	23 (±9)	28 (±15)
Average weekly sale	8,761.09** (±6,456.94)	6,770.37** (±8528.11)	7,306.45** (±6,436.46)
Highest weekly sale	12,635.71** (±11,201.52)	9,000** (±16,781.97)	7,596.77** (±7,692.44)
Estimated monthly sales	17,342.86** (±10,568.62)	22,629.63** (±11,283.58)	33,709.68** (±19,119.26)
Yearly sales	208,114.29** (±126,823.41)	271,555.56** (±135,402.91)	404,516.13** (±229,431.16)
Total monthly expenses	2,990.48** (±3,184.09)	1514.81** (±587.5)	2,448.71** (±3,411.73)
Total yearly expenses	35,585.71** (±38,209.11)	18,177.78** (±7,050.01)	29,384.52** (±40,940.52)
Profit from business	100,309.52** (±121,834.05)	89,444.44** (±17,063.02)	117,419.35** (±51,589.26)
MFI loan received	28428.59 (±14066)	28,518.52 (±10,267.09)	33,387.1 (±15,187)
No. of loans	6 (±3)	5 (±2)	5 (±2)

*Significant at 90% confidence interval; **Significant at both 95 and 90% confidence interval values in parenthesis are standard deviation. All tests are Kruskal Wallis test

different enterprise, however the amount owed is generally low which could be related to the fact that they are micro-businesses with low capital investment and returns. All the respondents indicated that they had borrowed some amount from the microfinance banks several times within the year; the average debt is about ₦ 35,000.00. This indicates that at least 45% of the respondents depend on multiple sources to finance their small enterprise. The enterprise profit is presented in Table 5 and it shows that pepper and garri enterprises are more profitable compared with beef. It indicates that the loans collected and used in the business is actually worth the expense.

CONCLUSION

The study shows that the potentials and opportunities open to micro-entrepreneurs cannot be effectively harnessed without a re-orientation and capacity building on business development. The options which they are aware of are too narrow and microfinance financial services hardly cover such areas. The results showed the enterprises were profitable but limited in scope because the entrepreneurs did not identify opportunities for expansion, consequently they lacked strategic plans towards such goals. The different enterprises compared were significantly different in terms of prices, even though the average amount of loan collected was not. The level of patronage, volume of sales and number of loans were found not to be of significant difference in the enterprises. The study indicates that MFIs have positive impact on the micro-enterprises but it could be more significant if business management services, as part of the services offered. The policy implication is that microfinance policy needs to be expanded to include business development services. What exists now in the linkage between micro entrepreneurs and MFIs is very thin but they hold great potentials for profitability and expansion. A number of challenges need to be overcome to facilitate proper financing of this sector and to realize the vast potential of microfinance in transforming this sector.

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