## RESEARCH ARTICLE

# MICROCREDIT AND BUSINESS PERFORMANCE IN NIGERIA: THE CASE OF MFI FINANCE ENTERPRISES

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| ARTICLE INFO | ABSTRACT |
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| | This paper investigates the impact of microcredit loan on business performance of Microfinance Institutions (MFI) finance microenterprises in Nigeria. A Microenterprise refers to an individual business that consists of less than five employees and is generally organized as a sole proprietorship or family business. The objective of the study is to examine the effects of micro credit on several business performance criteria of MFI clients. Data for the study are derived from both primary and secondary sources. A survey of MFI and entrepreneur – clients was undertaken using simple random sampling technique to select our respondents. The data obtained was analyzed using multiple regression analysis. We find a positive relation between microcredit and profit of the microenterprise. The study recommends a wider coverage of microfinance through effective implementation of micro-fund scheme and mandatory business related training for all micro entrepreneurs.<br><br>** |

## INTRODUCTION

To enhance international development, the United Nations Organization (UNO) in year 2000 announced the Millennium Development Goals (MDGs), aimed at poverty reduction among other objectives by 2015. In this regard, microfinance was chosen by United Nations General Assembly, as a form of financial development tool with the primary objective of reducing poverty level. The importance of microcredit was noted in the United Nations World Summit Outcome Document, 2005, (United Nations, 2005) which states that "We [the United Nations] recognize the need for access to financial services, in particular for the poor, including through microfinance and microcredit..." The document stipulates that microcredit will help member countries achieve the millennium development goals (MDGs) of reducing poverty rates by 50% by 2015. The year 2005 was declared the Year Microcredit by the General Assembly of United Nations. In the declaration statement, former United Nations Secretary General said specifically that "…sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs." (Kofi Annan, December 2003). As a result Governments, donor organizations and Non Governmental Organizations (NGOs) around the world responded enthusiastically with plans and promises to work together towards the realization of the objectives. Thus, this financing instrument is perceived worldwide as a very effective tool of fighting against hunger

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and poverty, mainly in developing countries (Daley-Harris 2002; Littlefield, Murduch and Hashemi 2003). It has been recognized by international organization such as Consultative Group Against Poverty (CGAP) and Opportunity International (OI) that poor people are capable of coming out of poverty with dignity and can improve their living standard when the right environment and opportunities exist. Countries such as Bangladesh and Indonesia have succeeded in generating dynamic and productive self-employment through microfinance programs. The emphasis is on improving women empowerment, particularly those who live in absolute poverty and experience constant hindrances to growth. Microfinance organizations provide financial assistance to micro entrepreneur by offering them different kinds of financial and non-financial services, which is a common feature of microfinance institutions (Yunus, 2003).

Microfinance is a credit tool, which employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs (Hubka and Zaidi, (2005). The level of a country's poverty has long been linked with measures of its economic development by development economist (Khan, 2005). The economies with positive Gross National Product (GNP) growth rate were measured by their poverty alleviation by the World Bank. The emphasis of microfinance is on wealth creation through self-employment as a path for development and assumed that improved lives for all would be the natural consequence (Littlefield, Murduch and Hashemi 2003; Khan, 2005). Microfinance is not a new development in Africa. In Nigeria, the unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the un-sustainability of

government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria. Before the emergence of formal microfinance institutions, informal microfinance activities flourished all over the country (Ojo, 2007). Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural and urban communities in Nigeria (Out *et al.,* 2003). Although, the size of activities covered under the scheme are not easily determined but the non-traditional, formalized microfinance institutions (MFIs), are operating side by side with the informal services. The financial services provided by the MFIs in Nigeria include savings, credit and insurance facilities (Anyanwu, 2005). In 2005, the Microfinance Policy Regulatory and Supervisory framework (MPRSF) was adopted for Nigeria. The objective of the microfinance policy is to make financial services accessible to a large segment of the potentially productive Nigerian population, which have had little or no access to financial services and empower them to contribute to rural transformation. Other objectives include promoting linkage platform among universal/development banks, specialized institutions and microfinance banks and promote synergy and mainstream the informal subsector into the national financial system. The microfinance policy recognizes the existing informal institutions and brings them within the supervisory purview of the Central Bank of Nigeria (CBN). This will enhance monetary stability in the country and expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs) (CBN, 2005). MSMEs neglected by formal financial institutions can now secure credit from Microfinance Banks (MFBs) and other Microfinance Institutions (MFIs) on easy terms. It is on this thrust that this study investigates the impact of microcredit on business performance of MFI finance enterprise. The paper investigates the effect of different loan administration practices in terms of loan size and tenure on several performance criteria of MFI finance microenterprise. The rest of the paper is divided into four sections. In section II, relevant theoretical and empirical studies are reviewed while the methodology of the study is explained in section III. The findings of this study are presented section IV while section V contains the concluding remarks.

## LITERATURE REVIEW

### Definitions and microenterprise performance measure

The Nigerian Industrial Policy (1989), defined Micro, Small and Medium Enterprises (MSMEs) as those with total investment of between $13,000 and $260,000 (₦100,000 and ₦2m) excluding land and working capital, and specifically, define micro enterprises and cottage industries as those with investments not exceeding $13,000 (₦100,000) excluding land

but including working capital. The MSMEs of the World Bank Group prescribes the following definitions Micro Enterprises: Employee 10 or less, Total assets $100,000 or less, and Turnover $100,000 or less. Small Enterprises: Employees 10 – 50, Total Assets $100,000 - $3m, and Turnover $100,000 - $3m. Medium Enterprises: Employees 50 – 300, Total Assets $3m - $15m, and Turnover $3m - $15m.

The National Policy on MSMEs define microenterprises as business activities employing less than ten people and having asset less than N5 million excluding land and buildings. (see National Policy on MSMEs, 2007). However the official definition rarely considers microenterprises on their own but together with small enterprises. For example, in Nigeria , the official definition small enterprises is activities capitalized at not more than 50 million Naira (US $416,667 using 2004 exchange rates) with a labor force of not less than ten and not more than forty nine persons (National Policy on MSMEs, 2007). The importance of micro and small enterprises (MSEs) to the socio-economic development of low and middle-income economies is well documented (Daniels, 2003; UNIDO, 2003; ILO, 2002; King and McGrath, 1999; Daniels and Mead, 1998). In the poorest economies, MSEs, and microenterprises in particular, are a major source of employment and income (Mead and Liedholm, 1998), especially for the poorest members of society. Thus, there is a great deal of interest in the performance of firms in the microenterprise sector and its scope is to generate employment, both through new business start-ups and the expansion of existing businesses. Most microenterprises are characterized with low productive capacity which is manifested in low rates of growth and high mortality rate (ILO, 2002; Daniels and Mead, 1998; Mead and Liedholm, 1998; UNIDO, 2003). In an official document published in 2001, a study of Nigeria's informal sector put the estimated number of non agriculture micro enterprise at 6.49 million with a total employment of 8.97 million.  This group is dominated by wholesale and retail trade which accounts for about 49% of employment and manufacturing (30%). Other numerically significant sectors include repair of vehicles (3.2%), transport (2.9%), hotels and restaurants (2.6%) and building and construction (1.8%). Manufacturing is dominated by food processing (18.7%), textiles, clothing and leather goods (3.8%), wood and wood furniture (3.3%) and metals and metal products (1.1%) (Draft National Policy on MSMEs, 2007).

A typical micro enterprise is operated by a sole proprietor/manager aided mainly by unpaid family workers and/or with occasional paid employee and/or with an apprentice, the output value usually very low (a 2001 survey of informal enterprises put it at an average of N15, 000 ($125) per annum). The levels of technology and skills employ by micro entrepreneur are also very low. However, with the entry of many unemployed school leavers, such as secondary school leavers and graduate of tertiary institutions, there is much scope for upgrading technology and skill level in existing enterprises and for the rise of new high-technology based enterprises. Funding is mainly from individual resources, with a little help from family and traditional mutual fund societies (esusu).   Government interaction with micro enterprises is usually very minimal, except through the occasional cooperative or other officially recognised groups. Bank loans are rarely sought and more rarely obtained. Micro enterprises

have two strong points in their favour, they are numerous and ubiquitous, a small improvement in their productivity and output will result in large improvements in employment, income and productivity in every nook and corner of the country. But dealing with them requires sensitivity, empathy and a community-focused approach (National Policy on MSMEs, 2007). Empirical studies on microenterprise performance identified five key determinants of enterprise profitability, namely enterprise size, enterprise age, use of technology, sector characteristics, and entrepreneurial ability (Masakure, Cranfield and Henson, 2008). It is important to recognize that profits can affect firm growth in opposite ways. Growth may be positive if profits are invested in a manner that expands the enterprise (Aryeetey, 2001; Atieno, 2001; Fafchamps and Gabre-Madhin, 2001). Entrepreneur characteristics and type of labor employed are important determinants of firm profits. Both the theoretical and empirical studies suggested that the differences in the growth path of microenterprises and resulting distributions of firm profits may be due to heterogeneity in the ability, management and/or ambition, and drive of entrepreneurs. For example, more educated/skilled entrepreneurs may have better start-up conditions, such as in the form of capital saved from earlier employment (Cressy, 2006; Salim, 2005; Daniels and Mead, 1998; Goedhuys and Sleuwaegen, 2000; Mitra, 2002; Sleuwaegen and Goedhuys, 2002). With respect to labour use, hired labour is associated with enhanced microenterprise performance. While the family can play an important role in filling social/ familial responsibilities, family labor is often less skilled and motivated than hired labor, and generally works fewer hours (Daniels and Mead, 1998; Fafchamps, 2003; Fafchamps and Gabre-Madhin, 2001).

Capital and liquidity constraints are critical for microenterprise development especially in an environment with imperfect capital markets. Credit is critical in two ways depending on the conditions under which it is used. If credit is accessible and reasonably priced, it allows firms to address liquidity constraints, thus aiding profitability and growth (Masakure, Cranfield and Henson, 2008). However, credit may negatively affect profits and survival if firms are captive borrowers (Fisman and Raturi, 2004) or operate under poor economic conditions and high interest rates (Atieno, 2001; Bigsten et al., 2003; Beck, Demirguc-Kunt, and Maksimovic, 2002; Steel and Andah, 2004). Because formal bank credit is often costly for microenterprises, it generally does not significantly leverage performance relative to cheaper informal sources, especially friends and relatives (Daniels and Mead, 1998). There is a substantial literature relating social networks to the market participation, productivity, growth, and profitability of enterprises. The returns to networks come through reductions in transaction costs, development of trust, and/or contract enforcement mechanisms in networks. There is a long-term strategic benefit in financing today's small enterprises through appropriate support strategy. The findings by Allen, Marco, Frame and Nathan (2006) on the utilisation of social capital and the efficiency of small firms show that there is a statistically significant positive relationship between access to social capital and viability in small businesses and enterprises. Therefore social capital seems to enhance efficiency and long term survival in small firms through the alleviation of financial and non-financial constraints of small firms (Bekele and Zekele, 2008). However, networks can

have undesirable effects on competition, equity, and efficiency. While network ''insiders'' gain advantages from network externalities, non-member ''outsiders'' can be excluded from essential business transactions, such as credit, with detrimental impacts on enterprise performance (Barrett, 2003; Biggs and Shah, 2006). Finally, the effects of firm registration on performance tend to be sector and scale-specific. In large firms, registration enhances credibility, opens up access to rationed resources (e.g., credit) and reduces transaction costs when dealing with other firms, thus aiding performance and growth (see Goedhuys and Sleuwaegen, 2000; Sleuwaegen and Goedhuys, 2002). Yet in microenterprises, registration may not affect performance appreciably (Mead and Liedholm, 1998). For example, operating outside the regulated environment affords firms more flexibility in input use as local conditions change. Conversely, Mitullah (2003) showed how the unregulated and unprotected environment in cities is not conducive to business, with entrepreneurs being constantly disrupted by municipal authorities in conflicts over licensing, taxation, site of operation, sanitation, and working conditions. Fasoroti, Akinrinola and Ajibefun (2006) examined the impact of microcredit and training on efficiency of small scale entrepreneurs and found that well structured entrepreneurship training programmes complemented with easy credit access can facilitate the desired improvement in the efficiencies of small scale businesses people. Ogunrinola and Alege (2007), found operation of UNDP sponsored MFI to be beneficial to micro businesses. Barnes *et. al.* (2001) also found that Zambuko loan (a type of a microloan) had a positive impact on the inflation-adjusted value of the monthly sales revenue of the matched enterprise of repeat continuing clients( they define continuing client as individuals who have stayed on with the program from 1997 till date and have taken at least one loan). Though literature abounds on the relationship between microcredit and microenterprise none have linked the performance of microenterprise to microcredit. A cross-sectional data obtained through survey method allowed us to bridge this apparent gap, thereby examining the contribution of microcredit to micro enterprise performance in Nigeria.

**Theoretical framework**

The financial theory found most suitable for this study is the financial growth theory. The financial growth theory was pioneer by Berger and Udell (1998), they explained that the financial needs and financing options available to entrepreneurs' changes as the business grows, becomes more experienced and less informational opaque. Most micro and small firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and /or angel finance. Based on the aforementioned theoretical framework, the paper is of the opinion that availability of microcredit would result in improved firm's performance. Olutunla and Obamuyi (2008) defined improved firm performance as evidence in higher profits, higher growth in sales and employment.

## RESEARCH METHODOLOGY

**Research design**

In an attempt to obtain the data for this study a simple random sampling technique was adopted. According to the United

States Agency for International Development (USAID) funded project on Promoting Improved Sustainable Microfinance Services (PRISMS) (2004), the statistics on the number, size, geographical distribution, and activities of the microenterprise and SME sub-sectors are partial and defective in Nigeria because most microenterprise in Nigeria are unregistered; however, the report suggested that the MSME sub-sector may comprise as much as 87 percent of all firms operating in Nigeria. This percentage excludes the informal microenterprise sub-sector, which remains the main source of income and employment for most Nigerians. The assessment study suggested that there are about 8.4 million MSMEs in operation in Nigeria today. Given the paucity of available statistics, it is impossible to gauge the exact numbers of MSMEs segregated by size, but it is plausible to suggest that the number of microenterprises may comprise 80 percent of the total number of estimated MSMEs (approximately 6.7 million); that small businesses may account for 15 percent of the total (about 1.3 million); and that medium enterprises may comprise 5 percent of the total MSMEs (around 420,000) (USAID, 2004). For this reason, 6.7million was used as our sample frame. Applying Taro Yamane sample size determination formula reviewed by Glenn (2009) 400 microenterprises was obtained but 500 microenterprises were randomly selected for the study to allow for mailing error. From 500 copies of questionnaire sent out only 317 were usable from the questionnaires returned. The questionnaires were filled by the respondents themselves.

**Questionnaire design**

The main research instrument used to elicit data in this study was a well structured questionnaire designed by the researchers. The questionnaire has five main sections and a section on personal data of the respondents. The first section was on characteristic of the business since all the respondents are small business operators. The second section is on membership of a group and social capital issues, the third section is on loan utilization, the fourth section is on loan size, tenure and business performance of the respondents, while the fifth is on problems with the loan and loan administration. To ensure the reliability of the instrument used, the split-halves method was used. The data obtained were analysed using descriptive statistic and multiple regression analysis technique.

**Model Specification**

In measuring business performance and impact analysis of micro credit, banking and finance have registered divergent conclusions (Masakure et al, 2008; Ogunrinola and Alege, 2007; Olutunla and Obamuyi, 2008; Hartarska and Nadolnyak, 2008). For this study we adapted the model used by Olutunla and Obamuyi (2008) specified as follows, PROFITjt =a1LOANSjt+a2SALESjt+a3BIZAGEjt+a4BUSIZEjt+a5INT ERESTjt+bj+λt+ejt. Where Profit is profit before tax for firm j at time t, Loans is the amount of loan obtained by firm j at time t, sales is the level of sales by firm j at time t, Bizage is the age of business by firm j at time t and Bussize is the size of the firm measure by number of employees at time t, Interest is the interest rate at time t, $\beta_k$ and $\lambda_t$ are intercept coefficients, which allow for different unobserved firm specific factors and vectors of time series dummies, while ejt is the error component that varies over both individual firms and time.

Apriori, *a1 > 0; a2 > 0; a 3 > 0; a4 > 0; a5 < 0*

With a modification on the above equation using multiple regression analysis of the ordinary least squared (OLS) we specified as follows;

$$\pi = f(MC, CC, Edu, BizAge, Biz\ Size) \ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

We then re-specified in mathematical form as;

$$\pi = \beta_0 + \beta_1 MC + \beta_2 CC + \beta_3 Educ + \beta_4 BizAge + \beta_5 Biz\ Size + U \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Apriori, we expect $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 > 0$, and $\beta_5 > 0$

Where,

$\pi$ = Profit define as average profit per week
MC = MicroCredit – Total amount of micro loan received by the Microentrepreneur
CC = Current Capital employed in the business
Educ = Level of education of the micro enterprise owner/operator
Biz Age = Age of Business
Biz Size = Size of the microenterprise measured by number of employee in the business
$\beta_0$, = intercept coefficients, which allow for different unobserved firm specific factor .
U= is the error component that varies over both individual microenterprise.
$\beta_1, \beta_2, \ldots\ldots \beta_5$ are parameters to be estimated.

Theoretically, our apriori expectations concerning the coefficient of the variables is that Micro credit utilized in the business, Current Capital employed in the business, level of education of the entrepreneur, age of the business and size of the business which is measured by number of hired employee in the business will all carry a positive sign. The data used in the analysis is a primary data obtained from field survey.

## RESULTS AND DISCUSSION

This section provides the empirical findings from the study. It provides demographic information of the respondents and the statistical analysis of the information collected from them. This is followed by the interpretation and discussion about findings.

**Profile of Respondents**

Table 1 below provides information on socio economic profile of the correspondents. As seen in the Table 274 (86.4%) of the respondents are female whereas 43 (13.6%) are males. The result obtained is a confirmation that most beneficiaries of microfinance are female. With respect to age distribution of the respondents, the table shows that 58 (18.2%) of the respondents are within the age group 20 – 29 years. 156 (49.2%) are within the age group of 30-39 years, 83 (26.1%) are within the age group of 40 - 49 years, while the remaining 20 (6.3%) are above 50 years of age. This is an indication that most of the respondent are within the economic active age group. We also classified the respondents in terms of their level of education, because this could affect the way they live

and manage their businesses (Makasure et al., 2008). The result obtained revealed that 20 (representing 6.3%) had no formal education, 94(29.7%) had basic primary education, majority of the respondents 151(47.6%) had secondary education, 27(8.5%) had ordinary diploma certificate while the remaining 25(7.9%) are university graduates. The implication of this is that the respondents mature and majority of them have requisite educational background to be able to provide logical answers to questions asked in the questionnaire.

**Table 1. Socio - economic profile of respondents**

| Variables | Measuring Group | Frequency | Percentage(%) |
|---|---|---|---|
| | Male | 43 | 13.6 |
| Gender | Female | 274 | 86.4 |
| | Total | 317 | 100 |
| | 20 – 29 | 58 | 18.3 |
| | 20 – 39 | 156 | 49.2 |
| Age (Years) | 40 – 49 | 83 | 26.2 |
| | Above 50 years | 20 | 6.3 |
| | Total | 317 | 100 |
| | No formal Education | 20 | 6.3 |
| | Primary | 94 | 29.7 |
| | Secondary | 151 | 47.6 |
| Education Level | OND | 27 | 8.5 |
| | B.Sc | 25 | 7.9 |
| | Total | 317 | 100 |
| | Single | 26 | 8.2 |
| | Married | 255 | 80.4 |
| Marital Status | Divorced/Seperated | 24 | 7.6 |
| | Widow | 12 | 3.8 |
| | Total | 317 | 100 |
| | None | 31 | 9.8 |
| | 1 – 3 | 180 | 56.8 |
| No. of Children | 4 and above | 106 | 33.4 |
| | Total | 317 | 100 |

Source: Field Survey 2010

The table also goes further to reveal that out of the three hundred and seventeen respondents 26 (8.2%) are single, 255 (80.4%) married, 24 (7.6%) divorced or separated and 12 (3.8%) widowed. The implication of the result obtained is that majority of the respondents also has family to manage apart from enterprise business. One hundred and eighty (56.8%) had between 1 to 3 children and 106 (33.4%) had at least four children and above. With this analysis we tried to find out how many family member(s) each respondent had to cater for because a large family size usually has higher expenses than a smaller family and where income is lower than expenses, this signifies poverty. Table 2 revealed that 132(41.6%) of the businesses had been in existence for at least a year, 103(32.5%) are newly established business, 62(19.6%) had been in existence for at least four years while 20(6.3%) had been in existence for more than five year. This indicates MFIs contribution to business start-up as well as the expansion of old business. Further analysis revealed that most of the businesses were established around the same time the respondents joined the MFI. On the type of business the respondents are engaged in, the result obtained revealed that 148 (46.7%) are involved in retail trading, that is, buying and selling, this confirmed the 2001 country survey (Draft National Policy on SME, 2007) where wholesale and retail trading accounted for 49% of non agriculture microenterprise in Nigeria. 59 (28.1%) are artisans, that is people involved hands on craft. Fifty one (16.1%) are involved in service industry majority of people in this category are people involved in business centres, printing and sale of telephone recharge cards and restaurant business. Only 28 (8.8%) and 31

**Table 2. Business charactersitic of respondents**

| Variable | Measuring group | Frequency | % |
|---|---|---|---|
| | Less than a year | 103 | 32.5 |
| Year Business Established | 1 – 3 years | 132 | 41.6 |
| | 4-5 years | 62 | 19.6 |
| | More than 5 years | 20 | 6.3 |
| | Total | 317 | 100 |
| | Trading | 148 | 46.7 |
| Type of Business | Artisan | 59 | 28.1 |
| | Manufacturing | 28 | 8.8 |
| | Agriculture | 31 | 9.8 |
| | Service | 51 | 16.1 |
| | Total | 317 | 100 |
| | Sole ownership | 276 | 87.1 |
| Form of Business | Family Business | 23 | 7.3 |
| | Partnership | 8 | 2.5 |
| | Other type | 10 | 3.2 |
| | Total | 317 | 100 |
| | Personal Savings | 203 | 64.0 |
| Source of Initial Capital | Borrowed from friends | 30 | 9.5 |
| | Loan from MFI | 26 | 8.2 |
| | Other Sources | 58 | 18.2 |
| | Total | 317 | 100 |
| Number of Employee when business Started | None | 187 | 58.9 |
| | 1 | 78 | 24.6 |
| | 2-3 | 40 | 12.6 |
| | 5-10 | 12 | 3.9 |
| | Total | 317 | 100 |
| No of Employee now | None | 173 | 54.6 |
| | 1 | 87 | 27.5 |
| | 2-3 | 38 | 11.9 |
| | 5 – 10 | 19 | 6.0 |
| | Total | 317 | 100 |
| When Respondent joined MFI | 2005 | 10 | 3.2 |
| | 2006 | 70 | 22.1 |
| | 2007 | 130 | 41.0 |
| | 2008 | 93 | 29.3 |
| | No response | 14 | 4.4 |
| | Total | 317 | 100 |

**Source: Field Survey 2010**

(9.8) are involved in manufacturing and agricultural business and this call for concern. It means that out of three hundred and seventeen respondents only 59 are involved in production of real product. Most of the business are sole proprietorship 276 (87.1%), 23 (7.3%) are family business, 8 (2.5%) are partnership business, while 10 (3.2%) are other type of formation. The result obtained supported the Corporate Affairs Commission report that 90% of the businesses registered in Nigeria are micro and small businesses. Table 2 also show sources of initial start-up capital of the respondents. The result shows that 203 (64%) started their business with their personal savings, 30 (9.5%) started with borrowed fund from friends and family, 26 (8.2%) started with loan from MFI. The result obtained shows that most microenterprises start – up their business from personal savings. To find out if the businesses are growing after obtaining the micro loan by engaging paid employees in the business. We found out that after taking the loan 173 (54.6%) indicated that that they do not engage paid employees, 87 (27.5%) indicated that they engaged one person, 38(11.9%) indicated that they have engaged between 2 – 3 persons, and 19 (6%) indicated that they have engaged at least 5 person, after taking the loan. The analysis shows that majority of these businesses are still at the subsistence level, engaging only the entrepreneur only.

## Effect of Microcredit on Business Performance of Microenterprise

This section reports the result obtained for the multiple regression analysis when the data obtained was fitted into

equation 2 of the model specified in section 3.3. The regression result presented in table 3 below shows the relationship between the dependent variable and the explanatory variables.

organise and re-invent and repackage their products in order to remain in business. Besides it is not all entrepreneurs particularly micro entrepreneurs desire to grow (Orser *et al*., 2000). Many maintain their microenterprise in other to keep

**Table 3.   Regression Result**

| Dependent Variable – Enterprise Profit | Independent Variable | | | | | |
|---|---|---|---|---|---|---|
| | Constant | micro Credit (CC) | Current Capital (CC) | Education (Educ) | Business Age(BizAge) | Current Employee |
| Coefficient | 3846.222 | 0.217 | 0.225 | -0.045 | -0.045 | 0.112 |
| T-values | 12.151 | 3.851 | 1.557 | -1.815 | -0.818 | 2.003 |
| P- values | 0.003* | 0.000* | 0.048** | 0.016** | 0.414 | 0.046** |

R = 0.226    $R^2$ = 0.171  Adjusted $R^2$ = 0.156; F value = 6.687 (0.000) Observations 317

Source: Authors' computations from study sample; Note: * denotes significance at 1% & **5%

## Interpretation of Result

The econometric analysis was used to test the hypothesis of the relationship between micro enterprise profit and micro microcredit and other performance variables measured by Current Capital employed in the business, Level of education of the entrepreneur, Age of the business and size of the business measured by number of hired employee in the business. The coefficient of microcredit is positive and statistically significant at 1%. This confirms our *a priori* expectations of economic theory. It implies that microcredit is positively related to the firm's profitability and that profits of microenterprise tend to increase with increasing amount of loans. This result is consistent with simple economic theory which suggests that access to micro-credit should lead to higher profits and further confirms the assertion of Masakure *et al.* (2008) that if credit is accessible and reasonably priced, it allows firms to address liquidity constraints, thus aiding profitability and growth and the findings is consistent with the findings of Olutunla and Obamuyi (2008).

The coefficient of current capital employed in the business also carries a positive sign, and consistent with our *a priori* expectation of economic theory and it is significant at 5%. This implies that capital employed in the business aid profit generation. As capital employed in the business increase, particularly through profit recapitalized and properly invested, all things being equal the business grows.   Contrary to our *a priori* expectations the level of education attained by the entrepreneur was found to be negatively correlated with profit of the firm and statistically significant at 5%. The inverse relationship between level of education and profit of the enterprise suggests that it is not general education that an individual need to succeed in business but specific education that is directly related to the business. This confirm the assertion of Masakure *et al*. (2008) that general education may help the entrepreneur at start up, in terms of capacity to source initial capital and networking, but an entrepreneur will require specific education to grow and remain in business.  This is consistent with the findings of Ogunrinola and Alege (2008), but they explained desire to gain formal employment may not allow the entrepreneur to be committed to the enterprise development. Age of the business was found to have an inverse relationship with profit. This is contrary to apriori expectation. The negative relationships between the two variables suggest that as firms grows their ability to make profit diminish. That is why most organizations have to re-

busy that is why majority of them remain at their subsistence level. The result is consistent with the findings of Olutunla and Obamuyi (2008). They explained inability of the older business to adapt to changing business environment as the reason for their failure to generate profit. We found the relationship between business size and profit to be positive and statistically significant at 5%. This mean that as the firms get bigger their chances of generating more profit gets brighter. They are less informational opaque so they are free from adverse selection and moral hazard that comes with information asymmetric. Their ability to source fund from other sources to finance the business is enhanced. The F-value which is significant at 5% connotes that the model does not suffer specification bias while the coefficient of determination ($R^2$) points that about 17.1% variation in Microcredit was jointly explained by the explanatory variables. The value appears small yet significant. In studies such as this (cross – sectional survey and multiple regression) emphasis is usually placed on the significant of individual explanatory variables (Gujarati, 1995). This is also because our main focus is to obtain estimates and not necessarily make prediction.

## Conclusion and policy implications

The study has made significant contribution to knowledge by using microfinance data to measure the performance of microenterprises finance by microfinance institution. The results demonstrated that there is a positive significant relationship between profit of the microenterprise and capital employed in the enterprise, as well as business size.  But we found a negative relationship between profit of the enterprise and level of education of the entrepreneur and Age of the enterprise. There is no doubt that microcredit have helped to close finance gap obvious in the Nigerian financial system and the application of the loans have helped to boost the performance of the microenterprise particularly in the area of profit maximization.  We recommend that minimum paid up capital of microfinance banks should be increase so that more micro entrepreneurs can access the micro loan, also, the government should provide modalities for accessing the N50billion ($322.5 million) loan reserve so that the microfinance institutions can access the fund for onward lending to the micro entrepreneurs.  All micro entrepreneurs should be mandated to go through entrepreneurial training and the training should be a prerequisite to accessing the loan. This will help the entrepreneurs to develop necessary managerial skill that will enhance their business performance. The

National policy on MSMEs should be implemented speedily to aid structural growth pattern for Microenterprises in the country.

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