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Microfinance Institution (MFIs) and Survival of Micro and Small Enterprises (MSEs): Empirical Evidence of TraderMoni Scheme Beneficiaries in South-Western Nigeria

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ABSTRACT

Deregulation in Microfinance Institution (MFIs) in accordance with regulatory policy architecture since 2005 has not fully stimulated sustainability towards the informal system due to the inability of MFIs to access funds and government to judiciously administer credits to beneficiaries of various schemes; this has led to the partial collapse of some schemes in Nigeria; despite Government good intentions of creating employment and alleviating poverty. In view of this, this study assessed Microfinance Institution (MFIs) and Survival of Micro and Small Enterprises (MSEs): Empirical evidence of tradermoni scheme beneficiaries in South-Western Nigeria. The study adopted Tedeschi model (2006) that examined incentives available for borrowers to repay loans. Furthermore, reference was made to Markov Chain model to investigate the response of individual borrower as an applicant and beneficiary of tradermoni scheme in the context of this study. Eighteen MFIs were sampled from 2009 – 2020. Panel data was adopted for the study. The result showed mixed influences of MFIs on survival of MSEs. We are hopeful that findings of this paper would help to fill the existing gap on the influence of MFIs on the survival of MSEs.

Keywords: Micro-financing, Financial Institutions, Micro and Small Enterprises, TraderMoni, Central Bank of Nigeria.

JEL Classification: C58; G2; M13; O17

INTRODUCTION

The MFIs used to be self-sustaining banking sub-sector institute; mostly managed and controlled by people, identified as financial professionals for efficient deposit mobilization and financial

services provisions to develop the informal sector. The informal system was largely represented by Micro, Small and Medium Enterprises (MSMEs). Microcredits were either mini or small loans provided by MFIs to impoverished people, to alleviate poverty rate, to fund mini businesses survival and to assist low income earners to become self-employed (Akanke, 2005).

Furthermore, Microcredits were tools which promoted economic development to the poor people and could help reduce poverty and malnutrition in the society. The government has introduced various schemes such as Subsidy Reinvestment and Empowerment Programme (SURE-P), Family Support Programme, Conditional Cash Transfer, YouWin, N-Power, Tradermoni, Nigeria Youth Investment Fund, MSME survival fund and so on. This research work captured individuals who were beneficiaries under previous and present schemes and particularly tradermoni. Meanwhile, tradermoni could be regarded as credits meant to assist in the funding of artisans, mini and small business owners in Nigeria. Tradermoni was a credit scheme to assist micro and small enterprises (MSEs) courtesy of the Government Enterprise and Empowerment Programme (GEEP). The GEEP was a scheme of the Federal Government of Nigeria, via Bank of Industry (www.tradermoni.com.ng). In lieu of the similarity in definitions, exiting structures and financial roles of microcredits and tradermoni; therefore, microcredits were not less different from tradermoni.

This study strongly believed that MFIs were responsible for provision of micro credits to petty traders and small business owners and managers. Stakeholders in the MFIs banking subsector were aware of the fact that one of the major challenges confronting the subsector was lack of funds or capital to provide financial services and create savings mobilizations so as to ease the financial intermediation process (channeling funds from the surplus unit to deficit unit). It was no doubt that financial performance of MFIs would be affected if government through its regulatory and supervisory agencies have not adequately provided enabling environment and stable policies to achieve economic sustainability.

LITERATURE REVIEW

The Concept of Microfinance Finance Institutions (MFIs)

Microfinance Finance Institutions (MFIs) comprised of microfinance banks established to provide financial services to mini, small and low-income clients, including petty traders, small business managers and owners, consumers, customers, retired and active individuals and the self-employed (Babajide, 2012; Oladejo, 2013; Ogujiuba, Fadila, and Stiegler). Orodje (2012) claimed that MFIs only specialized in providing petty credits to poor persons and low income group in developing countries. Microfinance Institutions' clients were often living along the poverty, which was often characterized with tiny and small enterprises which consisted of petty retail shops, small kiosks, street vendors, artisans, black smiting, carpentry, vulcanizing, hairdressing salon and welding.

Micro-credits customers most of the time accepted micro loans to start businesses as claimed in these studies, (Wanjohi & Mugure, 2008; Wellen and Mulder, 2008; and Wakaba, 2014). Some studies (Oladejo, 2013; Wakaba, 2014) acclaimed that MFIs clients spent only half of the total loan proceeds on business. It was believed that the accessed credits were spent on different households' needs such as expenses on education, shelter, clothing, food and possibly health – all these were contrary to the purpose of the credit. Evidences from the endogenous literatures have

shown that microfinance institutions (MFIs) remained one of the financial institutions next to the people in the grassroots (Oladejo, 2013).

Microfinance Institutions (MFIs) Performance Indicators

i. Credit Usage

Credit was the money receipt exchanged for not immediate repayment of the principal, plus interest but in the nearest future. Most often the principal could be the larger amount borrowed, and the interest might be the amount (i.e. smaller compared to principal); charged for receiving the credit. But diversion of credits from its primary purpose could endanger the sustenance of firms (Wellen & Mulder, 2008). Ojo (2009) corroborated with the claim that the borrower's purpose for the credit must be justified and satisfactory to the lender. Lenders sometime took risk that borrowers might not repay the credit, but credit savers would expectedly need to offset that risk by charging a fee, which otherwise known as interest. The borrower's ability to use credit as promised by banks built confidence in the credit repayment process by the credit user.

According to Orodje (2012), credit usage was just a term that depicted the main reason an applicant was seeking a loan or credit. The objective of the credit was used by the lender to make decisions on the risk and might even impact the interest rate offered. Credit usage remained very important to the process of accessing business loans because it was connected with a typical business activities; to the extent that the reason for obtaining credit would automatically not be contrary to its primary and expected intentions.

ii. Loan Disbursement

Loan disbursement constituted the act of paying out or disbursing money, but such money could either be paid out to run a business or the amounts that might have to be paid out on behalf of a person's in connection with a transaction; and such that interest rate would be charged on the fund disbursed (Pearson and Greef, 2006). Furthermore, according to Ogujiuba, et al, (2013), one of the fundamental objectives of MFIs was ability to absolutely disburse loans with minimum risk, which relied heavily on MFIs' credit policies. Consequently, Oni, Paiko and Ormin, (2012) asserted that loan disbursement was a cash outflow or payment of money process to settle debt obligations such as interest payments on loans and accounts receivables to complete business activities via the use of electronic payment system (plastic money, electronic fund transfers) and other sources of debt settlement. Slight contrast, Warue (2012) believed that there was need to abreast with process associated with loan disbursement. He started by carefully evaluating the credit-worthiness of the customer vis-a-vis the business viability and feasibility. This was particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. More so, loan disbursement required setting either specific criteria or standard, which a customer of bank must satisfy before receiving the proposed credit arrangement; and credit lines would be extended to loan default-less customers (Shabbir, 2016).

In view of the aforementioned, there was need for MFI management to thoroughly supervise credit officers by properly assessing risks associated with the credit disbursement.

iii. Loan size

The process of lending of money from one entity to another, such that the disbursement approach varied could be regarded as loan size (Odongo, 2014). According to Rosenberg (2009), financial

institutions most especially banks preferred to disburse large credit to borrowers due to the reduction in administrative costs, which was directly proportionate to the loan size. Studies (Makorere, 2014; Laetitia, Shukla and Luvanda, 2015) reflected that MSEs considered micro and small loans amount to meet immediate needs, since handling of large sums of funds could lead to mismanagement thereby causing business collapse.

One of MFIs conditions for providing credits depended on the saving capacity of the customers and tendency of not being a credit defaulter. The loans extended to customers relied on payment flexibility and collection convenience.

TraderMoni and other Social Investment Schemes

Trader Moni

TraderMoni was a credit programme of Nigerian Government, established mainly for petty traders and artisans all over the country. The federal government claimed that the scheme was a part of the Government Enterprise and Empowerment Programme (GEEP) implemented with the assistance of Bank of Industry (BOI). The scheme proved that interested participants who were potential petty traders would enjoy period of moratorium ranging from ₦10,000 to ₦100,000 as long as the participants did not default. Participants were expected to receive ₦10,000 as the first credit. At maturity borrowers, who did not default in repaying the first loan, such borrower would automatically qualify to receive next credit of ₦15,000 in sequence till the borrower received ₦100,000. Therefore, the inflow of credits would serve as a continuous source of funding for the purpose of growing micro, petty and small businesses in Nigeria (www.tradermoni.com.ng). The authors however believed that the average of ₦55,000 was expected to be paid to beneficiary, the payment process would have been distorted seriously due to effect of virus outbreak –COVID-19, exchange rate volatility and reduction in the price of crude oil on the economy, since major revenue of government was crude oil. Therefore, some of the borrowers might find it extremely difficult to pay back the capital, thereby disqualifying potential borrowers to have access to the next phase of the loan.

Meanwhile, government does not have business in business but to create enabling environment for institutions to thrive, (Osinbajo, 2020). Ayogu, Abasi and Ecoma (2019) and Arikewuyo & Akanbi (2020) argued that tradermoni credit scheme was meant to target mini traders and did not require collateral/ security before credit disbursement to the poor Nigerians. They commended the government on the social investment initiatives but concluded that tradermoni credit initiatives might ameliorate the problem of the petty traders. Murtala, (2016) and Ayogu et al, (2019) and Odiase (2020) have explained that tradermoni was an empowerment scheme to provide credits for petty traders and small business owners in order to become self –employed and be moved-out from abject poverty. More so, the intervention of tradermoni as social investment fund, would continue to improve the potential of accessing credits despite zero-collateral / security by borrowers in order to become self-employed as well as towards poverty alleviation (Osinbajo, 2019; Ifeanyi, 2019; Afolabi, 2019; Arikewuyo & Akanbi, 2020).

The authors were of the view that government has provided palliatives to citizens to serve as a cushion to the effect of pandemic. Some of the incentives were reduction in pump price of petroleum motor spirit (PMS), providing millions of Nigerians with prepaid meters, recent

increase in salaries and wages of workers particularly teachers, conversion of some vehicles using petrol to electric in order to reduce cost of transportation, non-increase in electricity tariff etc.

Some Recent Social Investment Schemes by Government

There were many social investment schemes to financially assist the low income earners, poorest of the poor people, micro and small entrepreneurs, managers and petty traders. These schemes included but not limited to;

i. Micro Credit Scheme: It was introduced by government to capture more than one million artisans that comprised of carpentering, vulcanizing, painting and market traders. The government however earmarked the sum of sixty billion naira for the project. Under the scheme, the sum of five hundred thousand naira credits were provided by Bank of Industry to market traders.

ii. N-Power: It involved both Teach Nigeria Scheme (TNS) and Youth Employment Agency (YEA). The former scheme occurred where Federal Government specifically engaged in direct labour where at least five hundred thousand university graduates were directly hired, trained and deployed as primary and secondary schools teachers in order to improve the standard of education in Nigeria; while the latter scheme captured average number of four hundred thousand of ungraduated Nigerian youths to go through skill acquisition and vocational training for about few months and stipends would be paid during the training.

iii. Conditional Cash Transfer (CCT): It was another programme of the government. The scheme ensured that the sum of five thousand naira only was directly paid to one million extremely poor people in Nigeria; since poor people's children and wards were enrolled in public schools.

iv. Nigeria Youth Investment Fund. This was another social investment scheme introduced by federal government via Central Bank of Nigeria. The total of seventy-five billion naira was earmarked for the scheme, to target five hundred thousand youths annually. Furthermore, the start-up sum for the remaining financial year of 2020 would be twelve billion, five hundred thousand naira.

v. Micro, Small and Medium Enterprises (MSME) Survival Fund and Support Initiatives. This scheme has also earmarked the sum of seventy-five billion naira to fund different scale categories of enterprises (Micro, Small and Medium) and help to reduce poverty level. The seventy-five billion naira was part of two trillion and three billion naira stimulus package of Nigerian Economic Sustainability Plan (NESP).

Some of the reasons for the failure of previous schemes of government included the poor and weak credit administration strategies used by government agencies and unduly political interference on the part of government on the scheme.

Micro and Small Enterprises (MSEs) and Micro Credit

Enterprises differed with sizes, capitalization, assets, net worth, profit, returns and employment categorization. Studies (Bolton Committee, 1971; CBN, 2003; IFC, 2012; SMEDAN, 2013) believed that there was no specific definition for enterprises. Enterprise has since been moving along the common spectrum of a scale, which was known as either, micro, small or medium. The spectrum scale has persistently been identified to be informal system with general effect on wellbeing of the people and society. The informality phenomenon was associated with absence of thorough regulation of the sector compared to the formal sector. Though, the Micro and Small Enterprises

(MSEs) formed the large number of businesses majorly in emerging markets and could be regarded as 'life -wire' of most nations' economies.

According to Ogunrinola and Alege (2007) and Taiwo, Onasanya, Agwu and Benson, (2015), micro credits ranged in different sizes and could be used to fund mini-enterprises such as hairdressing salon, tailoring, food vending and small level of agro-allied activities. Studies (Oni et al, 2012; SMEDAN, 2013; Ugochukwu and Onochie, 2017) believed that microcredits were financial credits provided to micro and small scale enterprises including cottage industries, mini business owners, farmers (i.e. fishing, citrus plantation, piggery etc.), petty traders and all other artisans to help create wealth, to create employment and mitigate poverty.

The dynamism of funding MSEs in Nigeria through different government schemes was a good sustainability initiative but less attention has since been giving to prudent credit administration approach to be handled by financial institution (MFIs) saddled with responsibilities of efficiently managing funds and financial intermediation statutory functions. This was because countries that formed BRICS (Brazil, Russia, India, China and South Africa) knew that the source of any emerging market would be the transformation of the industrial sector with informal sector constituting larger proportion.

Enterprise Survival Analysis

According to Coleman, Cotei and Farhat, (2010) and Babajide (2012), micro and small enterprises were expected to play a crucial role in the development process of a country through employment creation, increasing income and poverty alleviation. However, if the growth and survival of the newly established firms were not ensured, the expected positive results could be replaced with negative outcomes of unemployment, wastage of resources and time in the part of the owner and economic loss in general. Empirical literatures have shown that there were determining factors to the emergence and success of enterprises.

According to studies (Storey, 1994; Disney, Haskel and Heden, 2003; Dayanandan, 2012) have shown that owner and firm related characteristics were the basic factors that determined the success of a firm, this assertion was further supported by these studies (Coleman et al. 2010; Fadahunsi, 2012; Yu Cao, 2012). Mata and Portugal (2002) analyzed the survival of new domestic and foreign owned firms. Moreover, Pérez, Amparo and Juan, (2004) concluded that a newly established firm survival was more likely to depend on initial financial endowment, their human capital, risk aversion, the wish for independence, and the support of their social and family networks. Studies (Dada & Salisu, 2006; Coleman et al, 2010; Yu Cao, 2012) focused on developing economies and emerging markets consistently highlighted, imperfection in the credit and financial markets, a non-transparent regulatory environment, lack of infrastructure, and bureaucracy burden as the pervasive challenges to enhance an improvement and survival of small firms in emerging markets.

The survival of MSEs could be affected by economic recession, high inflation rate, high cost of funds, cash crunch, financial market uncertainties, virus outbreak / COVID-19, dwindling stock prices, exchange rate volatility, weak regulatory policy; others were porous infrastructure development, education, entrepreneurial skill, training and experience, size of the firm, information technology.

Factors that Influence the Survival of Firms

Sales Growth

Sales growth could be explained as the amount of the average sales volume of a company's products that has increased tremendously from a particular period to another, that is, yearly. Hansen and Mowen (2012) argued that sales growth was an increase in sales from a particular year to another. Companies with increase in sales growth volume would require additional investment in the different composition of assets that is, fixed or current asset. Though, the sales growth could easily assist the company to predict the expected profit in the future. Venkatraman and Ramanujam (1987) examined the extent of convergence among techniques measuring business performance and concluded that profit growth and sales growth, remained different measures of dimensions of business enterprise performance. Sales growth would be represented by the percentage change in sales for each company in the sample over a single year, adjusted for the industry average.

Profitability

Profitability could be regarded as the degree at which a business realized financial gain. Furthermore, a strong financial sector could be attained via increase in banks profitability performance, availability of funds and ensuring quality service delivery to customers (Saona, 2011). It was also a special difference between the amount earned and the amount spent in producing and distributing goods and services. Profitability referred to the operating efficiency of the enterprise; and better still, could be described as the ability of the enterprise to make profit on sales. One of the objectives of MFI was to achieve profitability in order to achieve a stable economic growth.

Microfinance and MSE's Performance

The microfinance practice could be traced to 1970s, but yet to attain the desired level of global best practice and performance. This might be as a result of lack of access of credit by the MSEs operators, large discrepancies between the mode of operation by financial institutions and the economic characteristics and financing needs of low-income households. Therefore, it was believed that Microfinance Institutions (MFIs) worldwide have shown that micro enterprises loans were profitable for borrowers and lenders alike, making microfinance one of the most effective poverty reducing strategies and providing platform to becoming self-employed. Despite the revocation exercise of operating licenses of 224 MFIs after the Target Examination conducted on 820 MFIs in 2010 by Central Bank of Nigeria (CBN); two-third of it was skewed more to the South-West (CBN, 2011 & 2014). Performance of MFIs has improved significantly as a result of the growth in deposits generated over the period of evaluation by petty traders, micro and small business operators who operated accounts with the banks (Abraham & Balogun, 2012).

The study attributed deposit growth to improved financial inclusion approach - grass root banking habit, increase in number of borrowers and savers. This further underscored the need to increase the credit service delivery capacity of these MFIs amid the enormous potentials in the market. However, to improve the performance of MFIs towards the survival of MSEs, it was expedient to reduce costs, increase outreach, and boost overall profitability.

Theoretical Literature

Microfinance Development Theory

The theory of microfinance development was propounded in 1976 in Bangladesh through establishment of Grameen Bank by Mohammad Yunus. During the period, mini credits were disbursed to low income earners in order to assist the people to become self-employed and to reduce poverty among the people particularly without the provision of security / collateral facilities in the rural areas. The creation of Grameen bank created platform for micro and small businesses to easily source for micro credits from financial institution so that business and socio – economic lives of the rural people could be meaningfully empowered and developed. To this extent, financial institutional framework was adopted and accepted to provide micro credits for the development of investment opportunities to be enjoyed by the people. Most of the countries adopting microfinance development theory was more common in Africa, part of Asia and Latin America. This was because these developing economies could be associated with poverty, malnutrition and unavailability of credits, high unemployment and poor institutional structures. In addition, the theory corroborated the needs for regulatory agencies to ensure conducive environment to thrive and provision of loans to small business operators and owners.

Empirical Literature

According to Gumel (2012) in the studies of evaluation of credit availability in Microfinance Institutions (MFIs): Evidence from Northern Nigeria; the study revealed that micro-financing covered more than just providing credits to low income business operators and earners but needed to assist more in insurance and payment transfers. The study concluded that MFIs have continuously played a significant role in providing credits to business enterprises to survive. Babajide (2012) studied the effects of micro financing on micro and small enterprises (MSEs) in South-West Nigeria adopting Diagnostic Test Kaplan-Meier Estimate and Multiple Regression Analysis. The study revealed that microfinance promoted survival of small business in South West Nigeria; and concluded that microfinance did not enhance growth and expansion capacity of MSEs in Nigeria. Some studies (Ojo, 2009; Ogujiuba, Fadila and Stiegler, 2013) in the field of microfinance have approved the importance of non-financial services on the clients' households and their micro and small enterprises' performance. The importance of non-financial services (e.g. entrepreneurial training and business development) provided people with business knowledge. Ojo, (2009) and Ogujiuba et al, (2013) further opined that the entrepreneurship training has a potential to enhance the capacity of micro and small enterprises for jobs creation and growth. They also asserted that the entrepreneurial trainings could be more effective when combined with microcredit service.

Arikewuyo and Akanbi (2020) studied on the assessment of 'tradermoni' empowerment scheme in Nigeria from the Islamic perspective; with a case study of women beneficiaries at the Mandate market, Ilorin. Findings from their study revealed that tradermoni scheme empowered the petty traders and micro business actors. But the study focused only on one state and failed to capture the relevance between MFIs and provision of micro credits. Ayogu et al, (2019) examined tradermoni micro-credit scheme and poverty reduction in Nigeria. They claimed that the introduction of tradermoni scheme was timing, amidst the high rate of poverty among the citizens. They concluded that tradermoni could also fail like previous schemes due to weak loan administration process, poor records of beneficiaries of previous schemes and lack of institutional

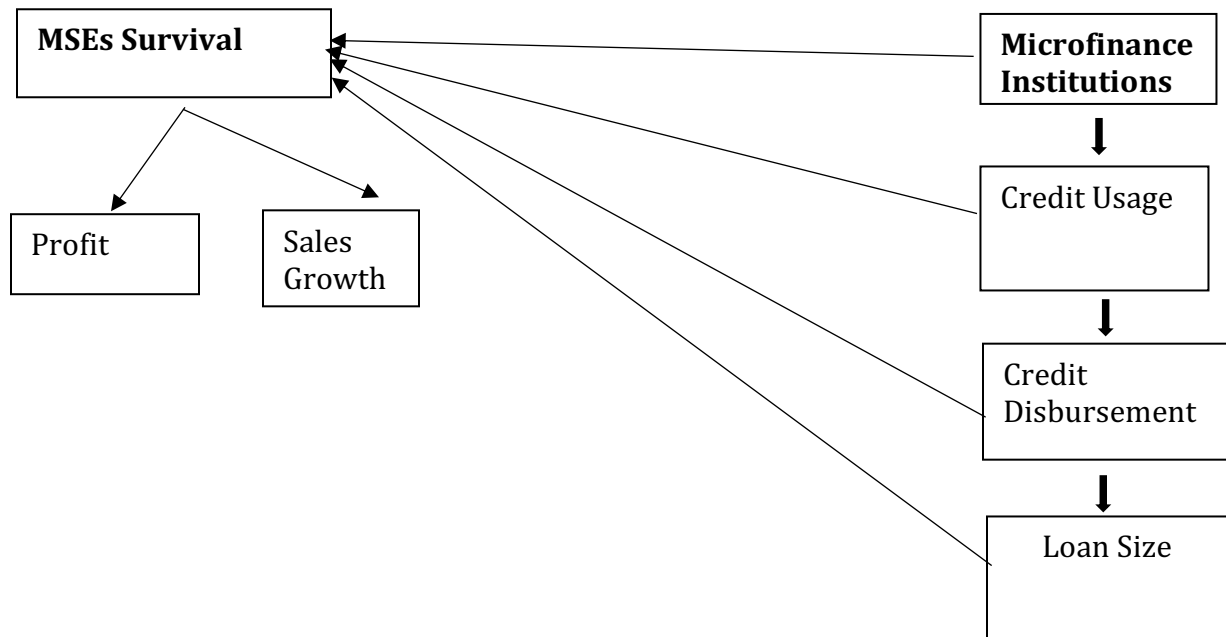
structures and frameworks. But the study failed to examine in-depth financial roles and effective credit administration performance of MFIs.

This paper was the first to empirically assess the extent of influence of MFIs variables on MSEs survival in South-west Nigeria from tradermoni scheme perspective. The study was able to affirm that the introduction of social empowerment scheme like tradermoni was timing to create employment and to alleviate poverty among lower and daily income earners. But emphasized that the disbursement of credits to beneficiaries of various schemes of government should be managed by MFIs (i.e. with sole responsibility of financial intermediation). The appointment of MFIs would be by government via CBN not via individuals or group of people, who might mismanaged the funds for the scheme. The exclusion of MFIs in credits disbursement, management and control has arguably led to the collapse of some schemes in the past in Nigeria.

Conceptual Framework

Dependent Variables

Independent Variables



Source: Adapted from Goldberg and White, (1999)
Fig 1: Conceptual model

DATA AND METHODOLOGY

Data

The secondary data was sourced from annual financial reports of MFIs. The MSEs owners would have been operating bank accounts with MFIs, might have been a beneficiary of various schemes of government including tradermoni scheme and could also provide financial records. The MFIs and MSEs managers were purposively sampled due to the ability to access their annual financial reports and transaction records respectively.

Theoretical Framework

The study employed Tedeschi model (2006) on the ability of borrowers to repay loans considering proportion of available incentives in order to prevent credit default. Though, there was no highly developed micro lending finance theory unlike the modern Mathematical Finance theory such as Capital Asset Pricing Model (Diener, Diener & Khodar, 2009). In the Tedeschi model, every borrower has the potential of seeking credit of a unit at a particular period of time, t. During this time t, the borrower was expected to repay a unit including interest (1 + r). r was the interest rate charged during the period of time t. The capital strongly depended on interest rate, r and period of t time. Similarly, the borrower would be expected to invest in a feasible business with an amount ω for a period of time t. Suppose $\omega > (1 + r)$, the borrower would be able to meet its debt obligations and could be said to be a success. Consequently, there was an assumption that fixed probability η was associated with a successful borrower. Therefore, the probability α that the project would succeed in a period of time t and fail with probability 1- η . The failure could be as a result of economic recession, dwindling oil prices, exchange rate volatility, virus outbreak / COVID-19 etc. However, the borrower would need to pay 1 + r to the lender and would enjoy the benefit (certainty) of new loan of a unit as long as the borrower does not default.

In a situation where the borrower defaulted, he would not be able to benefit from the new loan at another period of time t (credit exclusion stage). The borrower would only be allowed to apply for a new loan after expiration of credit exclusion phase considering some factors such as number of qualified borrowers, size of loan portfolios, liquidity position of the lenders, new policies associated with loans by regulators etc. During this first period of time t, the borrower could only become beneficiary with probability δ after the expiration of credit exclusion stage and non-beneficiary of loan with probability 1- δ . The probability 1 - δ explained inability of borrower to obtain loan and would need to wait for another one period of time t to either become a beneficiary or not.

Therefore, to either become a beneficiary or not in order to access loan, could easily be summarized in Markov chain $(X_t)_{t \in \mathbb{N}} = X_t \in S$;

$$E := \{B, ET, ET-1, \dots, E1\} \text{ ----- (i)}$$

B is the state of a beneficiary, E1 was the state of an applicant with chances of becoming a beneficiary for the next period of time; while E_i was $i = 2, \dots, T$, the state to be in credit exclusion stage for the upcoming i periods. The set state in equation (i) has been adjusted to accommodate the transition matrix of Markov chain, which was provided as

$$P = \begin{pmatrix} \eta & 1-\eta & 0 & 0 & \dots & 0 & 0 \\ 0 & 0 & 1 & 0 & \dots & 0 & 0 \\ \vdots & \vdots & & & \ddots & & \vdots \\ 0 & 0 & 0 & 0 & \dots & 1 & 0 \\ 0 & 0 & 0 & 0 & \dots & 0 & 1 \\ \delta & 0 & 0 & 0 & \dots & 0 & 1 - \delta \end{pmatrix} \text{ (ii)}$$

It must be noted that Markov chain emphasized that X_{t+1} depended more on X_t but not on X_{t-1} because recent values in a trajectory, automatically influenced next occurrence. Hence, $P(X_{t+1} = E | X_t = E) = \eta$ (a beneficiary that was successful)

$P (X_{t+1} = E1 | X_t = E) = 1 - \eta$ (an unsuccessful beneficiary thereby leading to credit exclusion).
 $P (X_{t+1} = ET-1 | X_t = ET) = 1, i = 2, \dots, T$ (beginning of credit exclusion period)
 $P (X_{t+1} = B | X_t = ET) = \delta$ (loan was obtained by an applicant)
 $P (X_{t+1} = ET | X_t = ET) = 1 - \delta$ (an applicant was unable to obtain loan).

Every potential borrower was expected to obtain loan as long as such person would make profit from the business propositions as indicated in equation (iii).

$$1 + r < \omega \quad \text{----- (iii)}$$

The rate of interest r charged on the loan amount obtained by the borrower must be reasonable in order to achieve the purpose of profit maximization in equation (iv).

$$1 + c \leq \delta (1 + r) \quad \text{----- (iv)}$$

Where c was lending cost associated with administrative cost and operating cost

The borrower of loan should be encouraged to repay, but where the borrower failed; punishment or sanction meted to him / her must be greater than gain(s) derived from defaulting as depicted in equation (v).

$$[\omega - (1 + r)] + \Phi H_v(B) \geq \omega + \Phi H_v(ET) \quad \text{----- (v)}$$

Where $\Phi \in (0, 1)$ was the fixed discount factor in a particular period. $H_v(\kappa)$ was the aggregate expected returns on borrower's business proposition at a state of κ at time frame v (Cinlar, 1975; Diener et al, 2009).

Model Specification

The analytic panel models were divided into pooled regression model; fixed effect model and random effect model. Panel regression combined both cross-section and time series data, with same data behavior over the specified periods. Pooled regression model was similar to OLS, which adopted constant coefficients; intercepts and slopes as shown in equation (vi):

$$Y_{it} = \lambda_1 + \lambda_2 X_{it} + u_{it} \quad \text{----- (vi)}$$

Where i was the i th subject and t was the time period for the variables

λ_1 was the intercept; λ_2 was the coefficient; X was the regressor variable
 u is disturbance or error term; Y was dependent variable

Where T was time periods ($t = 1, 2, 3, 4, \dots, 12$), N was the number of individuals ($i = 1, 2, 3, 4, \dots, 18$). Therefore, total observation units would be $N \times T$.

The pooled regression model assumed that regressor variables were non-stochastic in nature, but where it occurred as stochastic, this meant that the variables were uncorrelated with disturbance or error term, u_{it} . This further explained that error term, $u_{it} \sim iid(0, \sigma^2 u)$ was independently and identically distributed with zero mean and constant variance (Gujarati, 2013).

Secondly, the fixed effect model (FEM) assumed that differences that might have occurred between individuals (cross section) could be accommodated from various intercepts, but also

employed OLS. FEM’s assumption of a model allowed constant intercept for every cross section with an unrealistic time.

The fixed effects model was stated thus:

$$Y_{it} = \lambda_1 i + \lambda_2 X_{it} + u_{it} \quad \text{----- (vii)}$$

The equation (vii) explained that the ‘fixed effect’ was a result of differences in intercepts across subjects, however, each of these entities did not vary over time ($\lambda_1 i$ is time invariant). Furthermore, equation (vii) assumed that coefficients of the explanatory variables did not vary across subjects or over time (Greene, 2008; Gujarati, 2013).

Lastly, Random Effect Model (REM) allowed the difference among intercepts to be accommodated by disturbance or error terms of each subjects. One of the benefits of adopting REM was the ability to eliminate heteroscedasticity. The random effect model was:

$$Y_{it} = \lambda_1 i + \lambda_2 X_{it} + u_{it} \quad \text{----- (viii)}$$

From equation (viii), $\lambda_1 i$ would not be treated as fixed but to be assumed as random variable with mean value of λ_1 (without subscript i). Therefore, an intercept value for each of MFI could be illustrated as

$$\lambda_1 i = \lambda_1 + \epsilon_i \quad \text{----- (ix)}$$

According to Gujarati (2013), ϵ_i was random error term with the value of mean to be zero (0) and variance of $\sigma^2 \epsilon$. The eighteen MFIs in the sample were a drawing from larger population of MFIs in the banking sub-sector with common value of the intercept of λ_1 . It must also be noted that individuality differences as regards values associated with the intercept of each MFIs were indicated in the disturbance or error term (ϵ_i). To substitute equation (ix) in equation (viii); we obtained

$$Y_{it} = \lambda_1 + \lambda_2 X_{it} + \epsilon_i + u_{it} \quad \text{----- (x)}$$

Equation (x) could further be written as

$$Y_{it} = \lambda_1 + \lambda_2 X_{it} + \omega_{it} \quad \text{----- (xi)}$$

But

$$\omega_{it} = \epsilon_i + u_{it} \quad \text{----- (xii)}$$

Where ω_{it} was composite error term that consisted of ϵ_i and u_{it} .

ϵ_i was cross-section or error component; while u_{it} was the combination of cross section error components and time series having varied over subjects and time. The random effect model showed that composite disturbance term consisted of;

$$\begin{aligned} \epsilon_i &\sim N(0, \sigma^2 \epsilon) \\ u_{it} &\sim N(0, \sigma^2 u) \quad \text{----- (xiii)} \\ E(\epsilon_i u_{it}) &= 0; E(\epsilon_i \epsilon_{ij}) = 0; (i \neq j) \\ E(u_{it} u_{is}) &= E(u_{ij} u_{js}) = E(u_{it} u_{is}) = 0; (i \neq j; t \neq s) \end{aligned}$$

Equation (xiii) explained that individual specific error components were uncorrelated with each other and were not auto-correlated between time series and cross-section units. Hence, ω_{it} was not correlated with any of the regressor variables in the model. If this indeed occurred, therefore REM result would remain an inconsistent estimation technique of regression coefficients. But with the adoption of Hausman test in this study, the test would help to find out if ω_{it} was correlated

with the independent variables (that is, to determine whether REM was appropriate). In REM, intercepts represented value of mean of every cross sectional intercepts and error component that indicated random deviation of intercept from value of the mean. Recall, error term component was not directly observed. Therefore, to have considered the assumption in equation (xiii), it could be stated that

$$E(\omega_{it}) = 0 \text{ ----- (xiv)}$$

$$\text{var}(\omega_{it}) = \sigma^2\varepsilon + \sigma^2u \text{ ----- (xv)}$$

Suppose $\sigma^2\varepsilon = 0$, this means that there was similarity between equation (vi) and equation (x). Therefore, all cross sectional and time series observations would be pooled and run with regression as indicated in equation (vi). The similarity situation showed that there was no subject specific and all independent variables were captured. The error term was homoscedastic in nature as expressed in equation (xv).

The explanatory variables were measured in terms of loan size, loan disbursement and credit usage, that influenced the criterion variables measured by MSEs survival (profitability and sales growth). The OLS model used in the study was restated as;

$$Y_{it} = \lambda_1 + \lambda_2 X_{it} + u_{it} \text{ ----- (vi)}$$

Where, MSES = Criterion variable (Micro small enterprises Survival)

x_1, \dots, x_n were slopes / independent variables; Credit Usage, CU; Loan Disbursement, LD; and Loan Size, LS).

Therefore the equation (ii) was newly written as;

$$\text{MSES}_{it} = \lambda_1 + \lambda_2 \text{LS}_{it} + \lambda_3 \text{LD}_{it} + \lambda_4 \text{CU}_{it} + \mu_{it} \text{ ----- (xvi)}$$

Measurement of Variables

All variables identified in the model could easily be measured as:

Dependent Variable: MSEs survival was the criterion variable from the model. The MSEs survival was measured by profitability and sales growth. Profitability was the financial gain realized by business enterprise at a particular period and while sales growth was an increment in the business turnover rate from a period to another (Hansen and Mowen, 2012).

Independent Variable: These were the regressor variables as indicated in the model. These were MFIs variables such as loan size, loan disbursement and credit usage. Loan size was the proportion of loan that a customer was entitled to; loan disbursement was percentage of loan that was made available to customers, which depended on each bank's credit policy; and credit usage was money receipt in exchange whose repayment would be in future, that consisted of principal and interest.

A priori expectation was that estimation coefficients of variables would be $\lambda_2 > 0$; $\lambda_3 > 0$; $\lambda_4 < 0$. Both $\lambda_2 > 0$ and $\lambda_3 > 0$ have positive influence and $\lambda_4 < 0$ has negative influence. Summarily, there was a mixed influence.

Estimation Procedure

This paper adopted pooled OLS, Fixed Effect Model (FEM) and Random Effect Model (RAM) as estimation technique procedures to analyze cross-section and time series data. These models

helped to examine the extent of influence of predictor variables on criterion variables; and to reconcile the short-run and long-run dynamism that could occur in the behavior of variables.

RESULTS AND DISCUSSIONS

Descriptive Statistics of Study Variables

This was displayed in table 4.1 showing briefly the descriptive statistics of MFIs variables, proxy by loan size, credit usage, loan disbursement and their influence on MSEs' survival proxy by sales growth and profit. The table 4.1 showed the summary of the descriptive statistics for variables. The mean for loan size, credit usage, loan disbursement, sales growth and profitability were 1265404.0, 16.37025, 189, 13.49 and 10.05 respectively. This showed that the variables exhibited insignificant variation in terms of magnitude, implying that estimation in levels might introduce some bias in the results. The Jarque Bera statistics for the variables were not too high and as such, the series were normally distributed. This therefore suggested the use of normal pool OLS or fixed effect estimation in the analysis.

Table 4.1: Descriptive Statistics

Variables	Loan Size	Credit Usage	Loan Disbursement	Sales Growth	Profit
Mean	1265404.	16.37025	189.0000	13.48719	10.05769
Median	56891.00	16.25000	205.0000	14.05540	9.903488
Maximum	9095801.	19.50000	205.0000	15.42224	14.50866
Minimum	9871.000	12.25000	165.0000	11.60824	7.600902
Std. Dev.	2161494.	1.745810	19.71955	1.224375	2.003325
Skewness	1.901860	-0.262434	-0.408248	-0.150264	0.865686
Kurtosis	5.818045	2.304664	1.166667	1.369136	3.438265
Jarque-Bera	73.76517	2.498301	13.42593	9.166779	10.49951
Probability	0.000000	0.286748	0.001215	0.000220	0.005249
Sum	99966902	1293.250	15120.00	1078.975	794.5579
Sum Sq. Dev.	3.64E+14	237.7326	30720.00	118.4285	313.0384
Observations	216	216	216	216	216
Cross sections	18	18	18	18	18

Source: Researchers' Compilation, 2021

MFIs influence on MSEs' Profitability.

This section explained the influence of MFIs predictor variables on MSEs' profitability behaviour. The displayed result in table 4.2 reflected the panel regression of the variables depicting the degree of influence of loan size, loan disbursement and credit usage on profitability performance of MSEs. The pooled OLS result depicted a positive impact of loan-size and loan disbursement with

coefficient values of 7.24 and 0.38 respectively. But credit usage had a negative (-5.19) influence on profitability. This means that for every credit that was provided by MFIs, 7.24 profits would be generated to MSEs owners / managers for business sustainability. Also for every loan disbursed, the profit would increase by 0.4 to micro and small enterprises. The negative influence (-5.2) might be due to ability of MSEs owners to have diverted the major purpose of the loan that is, not using the credit for the purpose it was meant for originally, thereby reducing the expected profit from the business enterprises. Variables (loan size, loan disbursement and credit usage) were statistically significant at ($p < 0.05$). The variables combined accounted for 0.630411 (63%) of the variation in the profitability as shown by the R2 value. While the value of adjusted R2 resulted to 0.622985 (62%). This result was in tandem with Wakaba (2014) and Nguta and Guyo, (2018), they claimed that borrowers often divert primary objective of obtaining credits and clients of banks involved in credits repayment default as a result of inability to realize targeted profit as expected as at when the loan was disbursed. The fixed effect model in column two showed explanatory variables with positive coefficient values, loan-size (7.29), loan disbursement (0.133) and credit usage also had a negative coefficient value (-0.073). Loan size and loan disbursement were statistically significant ($p < 0.05$), but credit usage was statistically significant ($p < 0.1$). 57.4% of the variation experienced in the value of profit was accounted for by the MFIs variables.

Table 4.2: MFIs influence on MSEs' Profitability.

	ALL	ALL
	PLS	FE
LOAN SIZE	7.24E-08*** (1.82E-04)	7.29E-04** (1.21E-07)
LOAN DISBURSEMENT	0.382213** (0.012592)	0.132917** (0.035239)
CREDIT USAGE	-5.194043*** (0.368469)	-0.072912* (0.064861)
CONSTANT	13.18136
R2	0.630411	0.573931
OBSERVATION	215	215
N	18	18

Source: Authors' Compilation, 2021

Note: All explanatory variables were differenced to ensure stationarity and thereby avoiding spurious regression while the criterion variables were in log form. The level of significance was denoted as * $P < 0.1$, ** $P < 0.05$ and *** $P < 0.01$. Figures in the parentheses were (standard error).

MFIs influence on MSEs' Sales Growth.

The MFIs variables' influence on MSEs' survival adopting sales growth as proxy. Table 4.3 depicted the pooled OLS with positive coefficient values of loan-size, 4.76 ($p < 0.1$) and loan disbursement, 0.18 ($p < 0.05$) on sales growth. But credit usage came out negative, -2.12 ($p < 0.05$). This means that for every credit provided by MFIs, 4.76 sales increase would be generated to business entrepreneurs. Also for every loan disbursed, the sales would further grow by 0.18. The negative (-2.12) influence automatically decreased the level of sales since little proportion of the credit was used for the business. This means that problem of credit diversion and loan mismanagement on

the part of MSEs owners in the informal market needs urgent attention from regulators. The combined variables accounted for 0.551347 (55%) of the variation in sales growth performance as depicted by R2. The value of adjusted R2 was 0.544351 (54%). Random effect model in second column showed loan-size, 5.42 (p>0.05) and loan disbursement, 1.23 (p>0.1) positively influenced sales growth. In contrast, credit usage was negative, -0.27 (p>0.05). 58% of the variation experienced in the value of sales growth only accounted for by MFIs variables.

Table 4.3: MFIs influence on MSEs’ Sales Growth

	ALL	ALL
	PLS	RE
LOAN SIZE	4.76E-02* (1.02E-03)	5.42E-06** (1.62E-06)
LOAN DISBURSEMENT	0.181271** (0.052529)	1.232611* (0.043231)
CREDIT USAGE	-2.120384** (1.845011)	-0.272418** (0.162883)
CONSTANT	11.282344
R2	0.551347	0.578059
OBSERVATION	215	215
N	18	18

Source: Authors’ Compilation, 2021

Note: All explanatory variables were differenced to ensure stationarity and thereby avoiding spurious regression while the criterion variables were in log form. The level of significance was denoted as *P < 0.1, **P < 0.05 and ***P < 0.01. Figures in the parentheses were (standard error).

Unit Root Test

The unit root result was displayed in table 4.4. Table 4.4 depicted the unit root test variables that were examined having adopted Levin, Lin & chu and Lm, Pesaran, test. The result had shown variables I(0) and I(1) that were stationary at first difference only with the exception of credit usage which was at levels.

Table 4.4: Unit Root Test

VARIABLES	Statistics Values		Sig	Conclusion
	Levin ,Lin & chu	Lm, Pesaran,		
Sales growth	-9.3180	-3.6223	0.0000	I(1)
			0.0001	
Profitability	-12.8926	-6.8647	0.0000	I(1)
			0.0000	
Loan-size	-2.7733	-0.4183	0.0028	I(1)
			0.3379	
Loan Disbursement	-5.37121	-0.34627	0.0000	I(1)
			0.3650	
Credit Usage	-5.60239	0.19243	0.0000	(0)
			0.5763	

Source: Authors’ Compilation, 2021

FINDINGS

Findings showed that MFIs had an influence on MSEs' survival in South-West, Nigeria. It depicted a positive impact of loan-size (7.24) and loan disbursement (0.38), while credit usage (-5.19) had negative impact on profitability of MSEs operation. Each loan provided by MFIs considering its size, 7.24 profits realized would assist the sustainability of MSEs business. Each loan disbursed could further increase profitability by 0.4 to micro and small business owners and operators. The gains could decline by -5.2 due to misappropriation of credits by these group of business operators / owners. Approximately 63% showed that variations in the profitability were explained by MFIs variables and all the variables were statistically significant ($0.05 > p < 0.1$).

Findings also showed that loan-size (4.76) and loan disbursement (0.18) positively impacted sales growth, while credit usage negatively (-2.12) affected sales growth. Findings showed that every loan size could generate 4.8 sales increase for MSEs managers. Also for every credit disbursed enjoyed by the MSEs operators, 0.18 of sales increase would be attained, but problem of credit misappropriation could compel decrease in the volume of sales growth. Findings from the OLS showed that 55.13% accounted for the variations in sales growth by MFIs variables.

Findings from the literature showed that tradermoni scheme helped people to become self-employed, create empowerment and reduce poverty, but its relevance could only be in the short-run due to poor credit administration system adopted by some government agencies during loan disbursement to beneficiaries under any scheme. This factor might have been responsible for the failure of other previous schemes introduced by government, despite the fact that government meant well for her citizens.

The weak credit administration approach adopted by the ministries and agencies of government has led to the increase in the number of defaulters.

CONCLUSION AND POLICY RECOMMENDATIONS

Conclusion

The study assessed the impact of MFIs on the survival of MSEs in South-West Nigeria: Tradermoni an alternative? In this study, petty and small traders, and other micro, small enterprise owners, managers and operators in the South-West, Nigeria were beneficiaries of different government schemes, particularly tradermoni as one of the schemes under the Government Enterprise Empowerment Programme (GEEP). GEEP has successfully assisted traders to access soft loans to invest in their petty businesses but not for a very long time, due to porous credits administration process associated with the scheme. Also, there was a mixed impact of MFIs on the survival of MSEs in South-West Nigeria. However, tradermoni could only achieve its objectives in the short-run, while in the long-run it could be difficult due to poor credit administration techniques adopted under different government schemes; except policy makers and regulators review existing institutional frameworks guiding operations in informal sector and MFIs banking sub-sector.

Policy Recommendations

The government should review its regulatory policies such that when disbursing loan to citizens under any scheme, a financial institution (MFIs) should be appointed to administer and manage the credits (i.e. to determine the number of individual citizen that has benefited from the scheme,

number of defaulter and people who have successfully repaid the loan). By this, transparency and accountability of the credits disbursed under the empowerment scheme could be effectively and efficiently managed for future decision making process.

Government needed to create a sustainable structures and policy frameworks to protect the tradermoni scheme so that it would not end like previous schemes.

Limitation of Study

There were many restrictions such as problem of funding, insufficient time and most especially lack of co-operation on some of the MFIs and MSEs to provide annual reports and financial records respectively. The MSEs claimed that their financial records were genuinely audited by an accountant. But our concerned was towards the originality and degree of professionalism of the accountant, who audited their records.

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