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CONTENTS

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Informal Financing, Micro Small Enterprises and Achievement of Vision 2020 in Nigeria: Challenges and Opportunities

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Abstract
Inability to access the credit and services of formal financial institutions due to some stringent conditions such as high interest rates, provision of collateral security and guarantors has been identified as major constraints to Micro and Small Enterprises (MSEs) development towards achieving Vision 2020 in Nigeria. Promotion of the informal financing for economic advancement has a correlation with MSEs development. This paper therefore focuses on examining the relationship between informal financing and MSEs towards achieving Vision 2020 in Nigeria. Primary and secondary data were used in conducting this study. It was discovered that the major challenge confronting the informal financing schemes (IFS) is the issue of non repayment of the loan borrowed by the IFS customers. This affects their capital base and the amount of loan they can give out. Based on this, the study recommends that the government should endeavour to support the informal financial institutions financially and make an effort to incorporate their activities under the supervision of the Central Bank of Nigeria so as to reduce the risks associated with their operations.

Key Words: Informal Finance, Small and Medium Enterprises, Vision 2020, Challenges and Opportunities

Introduction
Nigeria as the biggest country in West Africa in terms of population and endowment of mineral resources has the potential for economic development and growth if adequate attention is paid to the macroeconomic variables usually used for measuring growth and development. In this regard, all the economic sectors are embraced as important for the actualization of their development towards achievement of vision 2020 objective. Among these sectors, Micro and Small Enterprises (MSEs) have been recognized as one the most important sectors for attaining Nigerian economic vision 2020 goals. Their contributions to the economic development has been recorded to be more than 60% of the Nation's Gross Domestic Product (GDP) in the areas of employment generation,

wealth creation, poverty alleviation and economic vitality (COWAD, 2004). The development of MSEs in Nigeria has been constrained by many challenges which include lack of finance, ailing infrastructures, political instability, managerial incapability, unethical practices, lack of power supply, socio-ethnic issues to mention but few.

Among these challenges, finance has been identified as the major challenge affecting MSEs. To solve this problem, Nigerian successive administrations having realized MSEs as a key success factor to macro economic development have experimented with disparate intervention mechanisms in order to prop up this sub sector through different government initiatives. In spite of the government efforts in ensuring improvement in the MSEs financial base, (through several credit schemes) their peculiar risky characteristics, such as small size, high acclaimed morbidity rate and complex nature has resulted to negative effect on their financial accessibility to formal financial institutions and this poses a major challenge to their development. Even the recent reforms in the banking sector (recapitalization and consolidation exercise, conversion of the community banks to microfinance banks) failed to make available investment finance to the needy MSEs operators. As Ebetaleye (2004) rightly observed a credit guarantee scheme ostensibly to be championed by the monetary authorities as a possible panacea to assuage these apprehensions has widely been touted at several points. As the researcher has carefully observed, the emergence trend of the informal financial institutions as an alternative way of financing the MSEs development is gradually becoming a 'moral suasion' mechanism as regards to provision of funds to MSEs operators. The question now is, what are the challenges and possible opportunities resulted from using informal finance in financing MSEs? To address these questions, this study is structured into five sections. Section two is the conceptual framework/literature review, section three is the methodology, section four is the data analysis and results while section five is the discussion, conclusion and recommendations.

2.0 Conceptual Framework/Literature Review

2.1 The Concept of Vision 2020

The Financial System Strategy 2020 is a vision which emanated from some studies conducted by Goldman Sachs in United State which posited that Nigeria should be one of the top 25 global economies by the year 2020 (Fasua, 2008). The concept of Vision 2020 emphasized that "by the year 2020, Nigeria will be one of the 20 largest economics by GDP in the world, able to consolidate its

leadership role in Africa and establish itself as a significant player in the global economic and political arena" (Ebetaleye, 2004). According to The Nigerian Economic Summit Group (NESG) (2007), the specific goals must be achieved if vision 2020 is to be a reality are;
(i) polity-the country will be peaceful, harmonious and a stable democracy by 2020; (ii) macro-economy- a sound, stable and globally competitive economy with a GDP of not less $900 billion and a per capita income of not less than $4000 per annum; (iii) infrastructure-adequate infrastructure services that support the full mobilization of all economic sectors; (iv) education-modern and vibrant education system which provides for every Nigerian the opportunity and facility to achieve his maximum potential and provides the country with adequate and competent manpower; (v) health-a health sector that supports and sustains a life expectancy of not less than 70years and reduces to the barest minimum the burden of infectious diseases such as malaria, HIV/AIDS and other debilitating diseases; (vi) agriculture- a modern technologically enabled agricultural sector that fully exploits the vast agricultural resources of the country ensures national food security and contributes significantly to foreign exchange earnings; (vii) manufacturing –a vibrant and globally competitive manufacturing sector that contributes significantly to GDP with a manufacturing value added of not less than 40%.

These specific goals are only feasible if their implications on the different macro economic variables for developmental measure including MSEs are considered in defining the critical success factors for achieving vision 2020 objective. The critical success factors which include leadership commitment, shared ownership, integrated strategy, effective strategic plan and framework, inclusive development and resources must be considered in relation with MSEs development.

2.2 MSEs and Achievement of Vision 2020

MSEs is any business or enterprise that involves in trade, agricultural, manufacturing or service activities, employs fewer than ten (10) people and often operates from semi-permanent location either in the urban or rural area (COWAD, 2004). The importance of MSEs particularly towards achieving Vision 2020 includes income generation, wealth creation and job creation, motivation of youth and women to start up their own business and economic growth (Richarson and Hartshorn, 1993; Mac Isaac, 1996). The size and employment potential of MSEs in industrialized nations justified the program, policy and attention channeled towards alleviating their constraints and improve their potentials for the achievement of vision 2020 objective (Kantor, 1999). In support of this, Kantor (1999) opined that "this is a good reason for formulating policies that will improve the financial accessibility of MSEs for their development towards achieving Vision 2020". Its peculiar characteristics such as small size, labour intensive and easily prone to failure act as a blessing in disguise for attracting local and international agencies aids. In support of this, Fonjong and Endeley (2004) argued that "there is growing predominance of informal financing activities in developing countries in the fight against poverty and use of local raw materials.

2.3 Informal Financing and MSEs

The importance of finance (formal and informal) to the development and management of MSEs can not be overemphasized. Commenting on this, COWAD (2004) emphasized that "the existence of financial services and their accessibility in relation to MSEs operators income security is considered important for three main reasons; self-insurançe, the role of stabilizing women in situations of income functions and a means for funding investments and expanding life chance. Informal finance according to Asia Development Bank is the finance sector that is not restricted by the government in capital, reserve, liquidity, interest rate of deposit and loan, target of compelling credit and requirement of audit report, etc (Zhang, 2005). In Nigeria, the most commonly type of this informal savings are "ESUSU", "AJO", "Adacha", "utu"or rotating savings and credit associations (ROSCAs). These words are used to describe means of contributing something together for particular usage. Beside Nigeria, informal savings is worldly recognized in other countries. For instance, in Ghana, it is called "susu", 'chilemba' or 'chiperegani' in Malawi, 'upatu' or 'mchezo' in Tanzania, and 'tontiniers' in francophone countries.

2.4 Challenges of Financing MSEs through Informal Finance

Financing MSEs through informal financial market has associated challenges. Most of these challenges resulted from the peculiar characteristics of MSEs (Kantor, 1999). Yaron (1997) viewed these challenges from three perspective; their operating methods, common features and relationship with formal financial institutions. These challenges were complicated by lack of financial skills and managerial abilities of the MSEs operators which counts for more than 60% of the total problem of the informal financial operators (COWAD, 2004). Management deficiencies, lack of knowledge and skills on services and marketing strategies were attributed to MSEs operators' low level of literacy (Fonjong and Endeley, 2004). Education was recognized as one of the

determinant factors for the quality and competitiveness of labour but unfortunately, majority of the MSEs operators have not obtained formal education and this is considered as a serious challenge to their business operation. This adversely affects the activities of the informal finance institutions as in most cases the money borrowed by MSEs operators is being diverted to some other issues other than the purpose for which it was borrowed for. As Isaksson (2002) argues that informal system would have continued to win the patronage of over 70% of Nigerians (mainly the MSEs operators) who for their lack of managerial acumen makes the operation of informal system more problematic. Braverman and Stiglitz (1989) viewed the issue of inequality in the distribution of wealth and significance of reputation in credit relationships with clients as another major challenge facing the informal sector. The informal financial institutions' location and market placement (mainly in the interior areas) which do not expose them to competition in line of their businesses was also seen as a challenge. Another challenge is their narrow activity scope and small scale induce risks which cannot be effectively diversified. This leads to high interlinked risk (Nagarajan, 1999).
H1: MSEs operators do not use the money borrowed from informal savings scheme only for business transactions.

2.5 Opportunities for Developing MSEs through Informal Financing

Emphasizing the importance of MSEs to achieving Vision 2020 goals, Fonjong and Endeley (2004) opined that informal finance gives the MSEs operators the opportunity to generate income to meet up with their basic needs, send children to school and pay hospital bills. Secondly, informal financial acts as a source of empowerment to its beneficiaries. Through informal savings and credit, MSEs operators are empowered financially and otherwise. This helps them to build up their self image to participate in household and societal decision making. Thirdly, MSEs ensure the sufficiency of national food in developing economics. It gives their operators in the real sector the opportunity to participate fully in food production to solve the problem of food insecurity and inadequacy in sub Sahara Africa region towards achievement of Vision 2020.

The importance of the real sector in achieving Vision 2020 goals demands for attention on the MSEs development. Fasua (2008) argues that the objectives of Vision 2020 cannot actually be achieved by solely depending on the formal financial services sector. To achieve this, according to him there must be a link between the formal and informal financial sector. In his word, he emphatically stated that the fact that we have consolidated our banks and much more money has been invested (in them) is not a sufficient condition for achieving six times growth in GDP that will make us to realize the goals of Vision 2020. We cannot wait on the banks to be the ones that will feed liquidity into the system ... No, there are more daunting challenges. Clearly, if the real sector must grow, they must be supported by the informal financial sector. The real sector (through MSEs) has to be the trick behind the six times growth of GDP and invariably the realization of the Vision 2020 (Fasua, 2008).

3.0 Methodology

3.1 Research Design and Instrument

Questionnaire as the research instrument was used to conduct a field survey targeting MSEs operators as the respondents of the study. A sample size of 250 operators of MSEs was randomly selected from list of registered MSEs with different associations in Lagos Metropolis based on judgmental and convenient method (Adedayo, 2000; Otokiti, Oluteju and Adejumo, 2007). The use of judgmental sampling method gave the researcher the opportunity to choose the sample items exclusively based on her own discretion. The questionnaires were mainly administered in eight (8) local government areas in Lagos State. These local government areas include Alimosho, Ikeja, Lagos Mainland, Apapa, Agege, Mushin, Oshodi and Shomolu. The reasons for choosing these local government areas are because; (i) most businesses are situated in these areas; (ii) the issue of proximity was considered and (iii) all the Nigerian tribes are full represented in these areas. Two (2) research assistants were used in administering the questionnaires in these local government areas. The questionnaire includes information on personal bio-data of the respondents, their business activities and their transactions with informal financial institutions. Out of the 250 questionnaire distributed to different MSEs in these Local government areas chose for the research survey, 222 or 89% of the questionnaires were returned.

3.2 Techniques for Data Analysis

Descriptive analysis and regression analysis were used in analyzing the questionnaires. While descriptive method was used in analyzing all the questions that relate to personal bio data of the respondents and other information that relate to the hypothesis, regression analysis was used in testing the hypothesis. Statistical Package for Social Sciences (SPSS) was used in calculating the regression analysis.

4.0 Survey Results

4.1 Demographic Variable

Table 1 shows the survey results of the demographic variables that relate to the MSEs operators under the study. Out of the 222 respondents, 51% of them are female while 49% are male. Looking at their age bracket, 58 or 26% of them are in the age bracket of 18-25, 75 or 33.5% are in the age bracket of 26-30, 59 or 26.5% are in the age bracket of 31-35 while 29 or 13% of them are between the ages of 36 - 40. On the basis of their educational background, the table also shows that 83 or 37.2% of the respondents have SSCE, 49 or 22% have OND certificate, 55 or 24.7% are BSc/HND holders, 21 or 9.4% are MSc holders while 3 or 1.3% of them have other degrees. Looking at their type of business, the table shows that 87 or 39% of them are into agriculture, 46 or 20.6% of them are into manufacturing, 24 or 10.8% of them are in the service industries, while 7 or 3.1% of them are in the trade business. 42.6% of the respondents have benefitted a range of loan of N10,000-N49,999, 25.1% of them benefited a range of loan of N50,000-N99,999, 9.0% of them have obtain loan in the range of N100,000-N149,999, while 16.6% have benefited loan of N150,000 and above. 75 or 33.6% of the respondents invested a capital sum of N150,000-N299,999, 83 or 37.2% invested N100,000-N149,999 into their business, 37 or 16.6 invested capital of N50,000-N99,999 while 23 or 10.3% of the respondents invested the sum of 50,000 and below into their business. On the usage of the informal savings loan, 108 or 48.4% invested the loan obtained from the IFS into their business, 66 or 29.6 % of them used it to pay school fees of their children, while 15 or 6.7% of them used it for payment of rent. The Table also revealed that 144 or 64.6% of the respondents agreed that they have defaulted in the repayment of the money they borrowed from the informal financing scheme while 71 or 31% of them disagreed that they have defaulted.

Table 1 Profile of the MSEs operators

S/No	Items	Variables	Frequencies	Percentages
1	Sex	Female Male Total	113 107 221	50.7 48.0 99.1
2	Age	18 – 25 26 - 30 31 - 35 36 - 40 Total	58 75 59 29 221	26.0 33.6 26.5 13.0 99.1
3.	Education qualification	SSCE OND BSc MSc others Total	83 49 55 21 3 211	37.2 22.0 24.7 9.4 1.3 94.6
4	Type of business	Trading Manufacturing Agriculture Service Other Total	87 46 45 24 7 210	39.0 20.6 20.2 10.8 3.1 94.2
5	Capital Invested	N150,000-N299,999 N100,000-N149,999 N50000-N99999 Below N50, 000 Total	75 83 37 23 218	33.6 37.2 16.6 10.3 97.8
6	Max. Loan Borrowed	N10,000-N49,999 N50,000-N99,999 N100,000-N149,999 N150,000 and above Total	95 56 20 37 208	42.6 25.1 9.0 16.6 93.3
7	Purpose for borrowing the money	Financing a business Payment of school Paying of house rent Total	108 66 15 189	48.4 29.6 6.7 84.8
8	Default	Yes No Total	144 71 215	64.6 31.8 96.4

Source: Field Reports, 2008

4.2 Regression Analysis

To test the hypothesis, regression analysis was used. The hypothesis was reduced into independent variables (have you benefited from the loan, and what is the money meant for) and dependent variable (what did you do with the money collected). The two variables were regressed. The result in coefficient table shows that although positive relationship exists between independent variables and dependent variable, one of the independent variables has a significant value of .024 at $p<.05$, while the other independent variable shows a value of .207 which is not significantly correlated with the dependent variable. The result shows that although the respondents benefited from the informal finance scheme, apart from business transactions, the money collected was used for other things such as payment of rent and school fees. As a result, the alternative hypothesis is therefore rejected while the null hypothesis which states that MSEs operators do not use the money borrowed from informal finance scheme only for business transactions is accepted. The model summary table also shows that only 3.9% of the independent variables was able to explain the dependent variable (R^2= 0.39).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.199	.128		9.345	.000
	loanben	.133	.058	.169	2.280	.024
	money	5.363E-02	.042	.094	1.268	.207

a. Dependent Variable: collect

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.196[a]	.039	.028	.6388	2.511

a. Predictors: (Constant), loanben, money

b. Dependent Variable: collect

Source: Field Survey, (2008),
Keys to Abbreviation: Loanben= Have you benefited from the loan, money= What is the money meant for, collect = What did you do with the money collected

5.1 Discussion

This paper revealed that the inability of the MSEs operators to meet up with the repayment agreement of the informal financial institutions is seen as the major challenge of this sub-sector. As a result, their prospect as an important agent for the achievement of vision 2020 is adversely affected. This is usually the major problem of the informal financial institutions. This confirms the findings of Isaksson (2002) who opined that due the dishonesty of the borrowers of the users of informal credit, their operators seem to prefer to give credit to their friends, relatives and small firms in groups. To support this, Zhang (2005) argues that informal savings have the advantages of collecting information about the borrowers which make them to have the ability of solving the asymmetric information faced with formal finance institution and avoid the occurrence of adverse select and moral hazard but unfortunately, the lackadaisical attitude of the MSEs operators is frustrating this ample opportunity. Apart from these challenges, as Hogset, (2005) and Ojo (2007) rightly observed "informal savings have the tendency of alleviating poverty incidences among the MSEs operators by their non collection of collateral security, easier formalities and charging of low interest rates from their borrowers".

5.2 Conclusion

This paper has looked at the challenges and opportunities for using informal savings scheme for financing MSEs towards achieving vision 2020. By the year 2020, Nigeria is expected to be among the 20 largest economies in the world. This means that Nigeria would have become a manufacturing economy, capable of producing vehicles, build ships, make small aircrafts at least and take textile production, food processing companies and other light manufactures as a done deal. With this, the Nigerian GDP that is presently $160 billion is expected to be over $900 billion. To be one of the 20 biggest economies by the year 2020 means that Nigeria must be able to do what some of these 20 big economies such as Canada, Austria, Belgium, France, Greece, Italy, Netherlands, Spain, Denmark, Norway, Poland, Russia, Sweden, Switzerland, Turkey, Australia, India, Indonesia, Malaysia and Brazil are presently doing. The reality of this is that it requires the commitment of all the sectors to the economic development of the nation in terms of education, manufacturing, agriculture, health, insurance, financial, transportation, telecommunication, capital market, oil and gas, building and construction and others. However, in as much that the involvement of these sectors in the developmental process is important, more important is the formulation of the strategy for meeting the financial needs of the poor who are predominately MSEs operators and largely neglected by the formal financial intermediaries. This is where informal financial scheme comes into play. Among the challenges of the informal financial institutions identified in this paper are; lack of sufficient funds for investment, default in the repayment of the money borrowed, lack of managerial skills, government stringent measure against their activities and others. Among these challenges, default in the repayment of the loan borrowed by the MSEs operators happened to be more rampart than others.

5.3 Policy Implications

The relevance of the informal financial institutions are subject to their ability to meet up with the financial needs of their customers (MSEs operators) who have important role to play if Nigeria will emerge as one of the world economic giants come the year 2020. For informal financial institutions to make a maximum impact in the Nigerian economy, this paper hereby make the following recommendations; (i) the government should endeavour to be interested in the affairs of the informal financial institutions by incorporating them under the supervision of the Central Bank of Nigeria so as to reduce the risks associated with their operations. (ii) instead of trying to stop the activities of the informal financial institutions, the government should help them to maximize their advantages by widen their investment channels and periodically provide them with information that will enable them to be relevant towards the achievement of Vision 2020 goals. (iii) the operators of the informal institutions should regularly undergo training, attain conferences and workshop programmes, so as to be exposed to the techniques and strategies required for handling the challenges in dealing with their borrowers. (iv) MSEs operators should try and appreciate the benevolent services of the informal financial institutions by repaying the money borrowed from them when due.

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