Effects of Microcredit on Small Scale Enterprises in Osun State, Nigeria

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Abstract

This study examined the effects of micro credit on small scale enterprises in Osun State, Nigeria. Descriptive statistics and econometrics (regression analysis) were employed as tools for the analysis. Results showed that out of the 120 respondents that were sampled, 105 were credit users. The average age of the respondents was 40years and majority was female (about 61 percent). About 85 percent of the respondents were married with an average family size of 6. A very few number of the respondents had tertiary education. The study also revealed that the average monthly income of the respondents that were engaged in farming was ₦ 11,000, that of artisan was ₦19, 500 and that of trader was ₦25, 138.9. The average loan sourced by Artisan was ₦24, 000 that of trader was ₦28, 000 and that of farmer was ₦4, 000. The average loan to all respondents was ₦282, 000. The regression analysis revealed that loan repayment period, family size and years in business were the key determinants of business turn over. On the other hand, volume of credit available to respondents is affected by repayment period, number of sources and interest on loan.

Keywords: Microcredit, Credit users, Repayment period, Business turn over, regression analysis

1. *Introduction*

Small scale enterprise is defined as any enterprise with a maximum assets less than ₦1 million and with the number of staff employed less than or equal to 10. (International Finance Corporation (IFC) publications (2001). Small scale enterprises in Nigeria are characteristically different from other form of enterprises and were relatively few before 1981, representing only 4.5% of enterprises in existence in 1960 and about 16.4% UPTO 1980 (Abumere et al. 1998). The small and medium scale entrepreneurs in rural areas lack the necessary financial services, especially credit from the commercial banks; this is because they are considered not credit worthy. Consequently they depended on families, friends and other informal sources of funds to finance their businesses (Muktar, 2009). .The ownership structure of Small scale enterprises (SSEs) has been found to comprise 83.4% individually owned enterprises, which varies across towns and cities. The eastern part of Nigeria displays a sole ownership rate of 98.5% while for the other parts of the country a sole ownership rate of at least 80% is common (Abumere et al 1998). Other forms of ownership in the SSEs in Nigeria such as partnership, joint ventures, cooperatives and limited liability companies are negligible and sometimes non-existent. With respect to legal status and registration procedures, two approaches are in existence, formal registration with government and second with appropriate association, union or guild.

Owusu (2012) that results of the study indicated that CIAD's microcredit schemes impacted positively on the social and economic lives of SMEs operators. The businesses were able to increase their capital, assets and expanded the MSEs, which reflected in their social lives.

Also, other MSEs were set up to create employment for the unemployed and savings culture of clients was enhanced. In spite of the benefits, there were some challenges which included repayment difficulties, payment of multiple taxes, lack of market for products and services and high interest rates. Recommendations were made to CIAD. Specifically, CIAD was asked to put in measures that could help reduce interest rates, train operators of MSEs on proper business practices and MSEs were asked to adopt effective bookkeeping modalities. Gubert and Paubaut (2011) indicated a positive impact of the project. Taken as a snapshot, the evaluations successively conducted in 2001 and 2004 indicate that the clients' enterprises recorded better average performance than enterprises without funding. With a dynamic perspective however, the results are more nuanced. If the positive effect of the project is clear during growth phases, its effect
during economic recessions appears less certain.

Small scale enterprises play important role in the economy of a country According to Swedish, Ministry for foreign affair (1997), small scale enterprises form an important pillar of a country's economic future and not just a means of livelihood for poor groups in the population. Mead (Opcit) writes that small scale enterprises have been seen as a source of economic salvation. Olowu et al (1995) indicates that the informal sector is often regarded in literature as the "bedrock of indigenous African industrialization" and its increasing size and significance in national economy has been underscored. Ojo (1994) was of the opinion that small scale enterprises provide the greatest opportunities for employment in the developing countries. Charmes (1999) believes that micro enterprises represent a high potential for job creation and are a matter of concern for policy makers and donors.

Akanni, (2007) asserted that many small scale poultry farmers in south western Nigeria complained of limited access to fund and that it is often linked with their low level of farm income and collateral securities which usually leads to low productivity. Asikhia (2009) concluded that every action of the business owners are gauged by the expectations conceived before commencement of banking relationship and these expectations and not present relationship determines their future decision. The study further recommended that effectiveness of microfinance banks as a development strategy is contingent not on conventional banking skills but rather on business management skills that would help in delivering both financial and business counseling to the operators.

In the same vein, Mkandawire (1999) states that small scale enterprise is envisaged as being good in itself because it presumably ensures more employment, greater equity and a more autonomous development process. Short (2000) sees micro enterprises and small businesses as being crucial to the livelihood strategies of poor people and in many societies, they fulfill a social as well as economic role. Adam (1999) shows that the informal sector provide goods and services to marginalized population group and a survival basis for large number of self-employed tradesmen who are unable to find other employment. In addition, the informal sector can foster national economic growth. Maina (2000) wrote that considering the role the SSEs can play in poverty alleviation and economic growth, the central bank of Kenya sees the need to develop the sector and improve the access of micro enterprises to banking services.

Eigbe (2000) insist that availability of adequate finance investment and working capital is one of the problems facing small and medium enterprises in the country. He identified lack of credit as a factor affecting the growth and development of small enterprises in Nigeria and consequently, they are not able to play their roles as catalyst for socio-economic and industrial development. In line with this, Obadan and Akerele (1995) emphasized that lack of working capital and finance to expand investment is the most general constraint affecting the informal sector activities in Nigeria. The objectives of this study are to identify the sources of credit available to the micro entrepreneurs, analyse the effects of credit available on the business performance of the micro entrepreneurs and to determine the factors affecting amount of credit obtained in the study area

2. Methodology

The study was carried out in Irewole Local Government Area of Osun State. The Local Government is bounded on all sides by four Local Government Areas: Ayedire, Ayedaade, Ife North and Isokan Local Government Areas. According to 1991 national population census, the population of the whole Irewole Local Government Area was given as 77,309. The people comprise of different tribes with majority of them being Yoruba. They are of varying vocational and professional skills. The data used in this study are primary one with the use of structured questionnaire.

The sample frame includes traders, farmers and Artisans from eight district areas of the Local Government Area namely: Sango, Sabo, Itamerin, Fatima, Centre, Jolaiye, Olufi and Atenda. Fifteen respondents were sampled from each village. A two stage sampling procedure was used. First, stratified sampling and second, systematic random sampling. Eight strata were used in all and fifteen respondents were sampled from each stratum making a total of 120 small scale entrepreneur.

In line with the theoretical framework, the data collected for the study were analysed using various tools of analysis. The socio economic characteristics of the respondents and sources of credit available were analyzed using descriptive statistics. These include: Frequency table, measures of central tendency and measures of dispersion. Gross margin analysis was adopted to examine the profitability of different micro enterprises. The effects of credit availability on the business performance as well as factors affecting volume of credit were analysed using ordinary least square (OLS) regression method. Both the gross margin and the regression analysis are expatiated below:

Gross Margin Analysis

The turnover from the enterprise was used as the measure of business performance. Turnover $GM = TR - TVC$

$$\prod = GM - TFC$$

TR = Total Revenue $= P \times Q$
P = Output price
Q = Output quantity
$\prod$ = Profit
TVC = Total Variable Cost
TFC = Total Fixed Cost
GM = Gross Margin

Regression Analysis

This was used to analyse the factors affecting the turnover of the respondents as well as the factors affecting the volume of credit obtained by the respondents using ordinary least square (OLS) estimates. Four functional forms were used in the analysis: Linear, Double log, Semilog and Exponential functions.

In implicit terms, the functional form is given as:

Y_i = $f(X_1, X_2\text{-------------------}, X_{11}; b_0, b_1, \text{-------------------}, b_{11}, e)$

Where i = 1,2

$X_1\text{------------------------------}X_{11}$ are independent variables.
X_1 = Proportion of loan used by respondents for expansion of business in percentage.
X_2 = Respondents' family size
X_3 = Business experience in years
X_4 = Loan repayment period in months
X_5 = Number of uses of which the loan is being put to.
X_6 = Number of sources of loan
X_7 = Interest on loan in naira
X_8 = Sex Dummy variables   0 = Male
                                               1 = Female
X_9 = Occupation
X_{10} = Level of education   Dummy variable
                                     0 = No formal education
                                     1 = Have formal education
X_{11} = Timeliness of loan.   Dummy variable   0 = Timely
                                                 1 = Untimely
b_0 = Constant or intercept
$b_1 - b_{11}$ are coefficients attached to each of the independent variable.
Y_1 = Turnover
Y_2 = Volume of credit

Choice of Functional Form

In empirical econometric studies, it is important to choose an appropriate functional form. This is because, failure to use appropriate functional forms will result in biased and/or inefficient estimators. In choosing functional forms, the following criteria are usually considered. [Olayemi, 1998]. Economic criterion – This based the selection on a priori theoretical expectation. That is, the choice will depend on what is expected from economic theory. Statistical criterion: This based the selection on goodness of fit. That is the choice will depend on how well the functional form fits the data. It is called comparison of coefficients of determination as verified by F-statistics and t-statistics.

Econometric criterion:- This criterion calls for an examination of the residual errors for possible violations of basic assumptions concerning these errors. It help[s to establish whether the estimate have desirable properties i.e. estimators are BLUE (Best Linear Unbiased Estimates)

On the basis of these criteria, exponential functional form was used for both the factors affecting the turnover as well as factors affecting the volume of credit obtained.

In $Y_1 = b0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11+e}$
In $Y_2 = b0 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11}{}^e$

All the eleven independent variables were used in the analysis of the factors affecting turnover while proportion of loan used by respondents for expansion of business was excluded in the analysis of the factors affecting volume of credit obtained.

The elasticity is given by $\underline{dy} \cdot \underline{x}$ $\underline{dy}$ $\underline{X}$
         Dx Y   dx   Y

Elasticity = bi Xi

3. Results and Discussion

Socioeconomic Characteristics of Respondents

This section presents the socio-economic characteristics of the respondents. The key socio-economic characteristics discussed are age, sex, marital status, educational status, family size, years of experience and income. Each of these items is discussed across occupational status of the respondents.

About 79, 1 percent of the respondents were in their economic active age and the average age of the respondents was 40 years. This showed that an average entrepreneur is young and so there is a great opportunity for expansion which will require credit. The various activities were heavily populated by female except in framing where all the respondents were male. The average age of the males was 38 years while that of the female was 39 years. The result also showed that majority of the respondents was engaged in trading. This indicated that the major occupation of the people in the area is trading. On the other hand, farming recorded the least number of respondents. This showed that the area is gradually becoming an urban set-up in which there is a very limited number of farmers.

The Marital status of the respondents was given in table1. The study showed that most o the respondents in the various activities were marred, indicating that most of them were not dependant. All the respondents under farming activity were married. This contrasts with a sizeable number of people in other activities who were not married. Hence, it can be inferred that young people were not in to farming. Distribution of respondents by size of family is also giving in table1. The average family size was 6 which correlated with the marital status of the respondents. This may have a negative effect on business development because there is high tendency of diverting credit to domestic fused. On the other hand, large family size may have positive effect on business by supplying cheap and free labour which leads to a reduction in cost. The minimum and maximum family size were 1 -3 respectively while the range was 30. Also, the family size may be a determinant of the total amount of loan borrowed and this showed that loan received may not be strictly used on the business alone.

The distribution of respondents by their educational status was giving in table 1. The study showed that about 39 percent of the respondents had primary education and below while those with secondary education had the highest percent. This showed that most of the respondents were averagely literate while few of them can not read and write. The inability of some to read and write may have a negative effect on their managerial skill, credit accessibility and utilization.

The artisans form the least part of the total percentage of respondents that have primary education and below. However, the artisans had the largest proportion of those with secondary education. This showed that some degree of literacy aids the development of artisans. The years of experience of respondents can have effect on their attitude to risk and utilization of credit. The distribution of respondents by their years in business was indicated in table 1. Form the table, about 60 percent of the respondents had less than 10years of business experience. This indicated that majority of them were relatively new in the business. The modal year of experience was 10years. The minimum year in business was 1 year while the maximum years of experience was 38. The mean was 37 years.

Table1 also showed the distribution of respondents by their income. About 48 percent of the respondents earned of ₦ 20,000 and below as their monthly income. The average monthly income for an artisan is ₦19,500, that of a farmer is ₦11,000 and a trader earns ₦25,138:9 on the average per month. It is observed that trading yields the highest income while farming yields the least. Table 1 further showed the source of credit available to the respondents. It must be noted that all respondent claimed to have personally contributed finance [owner's equity] to their business activities. The study showed that the respondents made use of one source of credit. This may be due to the fact that the amount of loan granted by each source was limited compared to the financial requirement. The cooperative associations recorded the highest patronage while the formal financial institutions had the least patronage. The low patronage in the formal financial institutions may be due to their being involved in the informal sector of the economy, cumbersome transaction process, and unaffordable collateral securities.

Table 1: Frequency Distribution of Respondents by Socioeconomic Characteristics

Age	Artisan	Farming	Trading	Total	% of Total
< 30	15	-	8	23	21.9
30-39	12	-	16	28	26.7
40-49	7	8	17	32	30.5
= 50	4	-	18	22	21.0
Total	**38**	**8**	**56**	**105**	**100.00**
Sex					
Male	15	8	18	41	39.0
Female	23	-	41	64	61.0
Total	**28**	**8**	**59**	**105**	**100.00**
Marital Status					
Married	25	8	52	85	81
Single	13	-	7	20	19
Total	**38**	**8**	**59**	**105**	**100.00**
Family size					
<4	10	1	17	12	11.4
4-5	3	1	8	29	27.6
6-7	16	-	12	40	38.1
8-9	2	2	6	13	12.4
$\geq$10	7	4	16	11	10.5
Total	**38**	**8**	**59**	**105**	**100.00**
Level of Education					
No. Formal Education	2	3	10	15	14.3
Primary Education	6	5	15	26	24.8
Secondary Education	26	-	18	44	41.9
Tertiary Education	4	-	16	20	19.0
Total	**38**	8	**59**	**105**	**100.00**
Experience					
<5	13	3	27	43	41.0
5-9	13	-	7	20	19.0
10-19	7	5	10	22	21.0
$\geq$20	5	-	15	20	19.0
Total	38	8	**59**	**105**	**100.00**
Monthly Income					
<10,000	3	2	6	11	10.5
10,001-20,000	14	6	19	39	37.1
20,001-40,000	18	-	23	41	39.1
$\geq$40,000	3	-	11	14	13.3
Average monthly income	₦19500	₦ 11,000	₦25,138.9		
Total	**38**	**8**	**59**	105	**100.00**
Sources of Microcredit					
Relatives and friends	8	-	-	8	7.6
Savings and revolving credit	10	5	8	23	21.9
Cooperative association	20	3	49	72	68.6
Daily savings and credit	-	-	2	2	1.9
Total	**38**	**8**	**59**	**105**	**100.00**

Source: Field survey, 2012

Amount of Loan Received from Each Source

Table2 presented the amount of loan received from each source ranges from ₦3000 obtained from daily saving to ₦55,000 obtained from cooperative association. The ₦3000 was obtainable by farmers while thee maximum of ₦55,000 is obtainable the artisans. On the average, farmer receive only ₦4000 per source per annum while artisans received ₦24, 000 per source per annum of ₦28,400 which was 18.3 percent higher than what artisans receive and 610 percent higher than what farmers receive. The study showed that about 50.4 percent of the Total loan received goes into trading while only 7.1 percent goes into farming. This may be due to the fact that more cash is needed for smooth running of trading business compare to other activities. Also, in order to sustain the business, there must be continuous cash flow.

This aids the development of the business unlike in farming where substantial amount of money is only needed at the initial state. About 41.5 percent of the total loan received came from cooperative associations. This may be due to timeliness and reduced transactional process. Although only a few number of the respondents received loan from banks yet it is next to cooperative association in terms of amount of loan received. This is due to the fact that a substantially large amount of loan is usually granted by banks.

Table 2: Distribution of Respondents by Amount of Loan Received from Each Source Per Annum

Microfinance Source	Amount received (N)		
	Artisan	Farming	Trading
Relatives and friends	40,000	-	-
Savings and revolving	15,000	7,000	25,000
Cooperative association	55,000	10,000	52,000
Daily saving and credit	10,000	3,000	15,000
Formal financial institution	-	-	50,000
Average Loan	24,000	4,000	28,400

Source; Field Survey, 2012

Effects of Microcredit on Business Performance

The following subsections document the impact of microcredit on business performance. Issues discussed include working capital, monthly turnover, capital base, and the impact of credit on business performance.

Distribution of Respondents by their Working Capital

Table 4: showed the distribution of respondents by their working capital. From table3, about 44.8 percent of the respondents have their working capital below N10, 000 while only 26.7 percent have their working capital ₦20, 000 and above. The minimum working capital of the micro entrepreneurs is ₦1,000 and the maximum is ₦150,000. The range is calculated to be ₦149, 000. About 42.4 percent of the traders have working capital of ₦15, 000 and above. This shows that more capital is needed for smooth operation in trading and so more credit will be needed. On the other hand, none of the farmers has his working capital above ₦10, 000. This shows that less cash is needed in operating a farm and so less credit will be required. Table3 further showed the frequency distribution of monthly turnover of the respondents. The average monthly turnover of the micro entrepreneurs was approximately ₦21, 030 and about 50.4 percent of the respondents had the monthly turnover below ₦20, 000. Majority of the traders had their monthly turnover above ₦20, 000. This showed that business activities took place in trading compare to those engage in other activities. The Capital base of the respondents was as shown on table3. The average capital base of the micro entrepreneurs was approximately ₦132, 966. About 60.5 percent of the artisans had their capital base above ₦150, 000 while 35.6 percent of the traders have their capital base above ₦150, 000. This showed that more cash was needed by the artisans to start up compared to farming and trading. This may be due to the fact that equipment must be put in place before an artisan can operate efficiently. Therefore, more credit will be required at the initial stage by an artisan.

Table 3: Distribution of Respondents by Their Working Capital, Monthly Turnover and Capital Base

Working Capital (₦)	Artisan	Farming	Trading	Total	% Total
< 5000	5	3	7	15	14.3
5000-9999	9	5	18	3.2	30.5
10,000-14999	9	-	9	18	17.1
15,000-19,999	3	-	9	12	11.4
20,000-24,999	7	-	6	13	12.4
≥25,000	5	-	10	15	14.3
Monthly Turnover (₦)	**Artisan**	**Farming**	**Trading**	**Total**	**% of Total**
< 10,000	5	4	3	12	11.4
10,000-19,999	16	4	21	41	39.0
20,000-29,999	6	-	14	20	19.0
30,000-39,999	7	-	13	20	19.0
≥40,000	4	-	8	12	11.4
Total	**38**	**8**	**59**	**105**	**100**
Monthly Turnover (₦)	**Artisan**	**Farming**	**Trading**	**Total**	**% of Total**
< 100,000	10	8	13	31	29.5
10,000-149,999	5	-	25	30	28.6
150,000-199,999	5	-	8	13	12.4
200,000-249,999	11	-	7	18	17.1
≥250,000	7	-	6	13	12.4
Total	**38**	**8**	**59**	**105**	**100**

Source: Field Survey, 2012

The effects of credit availability on business performance were examined with the aid of regression analysis. Eleven variables in addition to the amount of credit used for business activities were adopted as explanatory variables for the variations in amount of turnover of the respondents. From the result, it can be observed that family size was significant at 1%, years of experience in business were significant at 1% and also repayment time was significant at 10%. The negative relationship that exists between the family size and the turnover showed that as the family size increases the turnover decreases. This may be due to the fact that a major part of the profit was used to meet domestic need of the family instead of being turned into the business. Also, due to the increase in the dependency ratio within the household which may result from increase in family size, there is high tendency of diverting loan to domestic use and not to business expansion or diversification.

The years of experience in business was positively related to the turnover. This showed that the longer the years of experience in business, the more the turnover and the reverse is also true. This may be due to the fact that as the years of experience increase, the micro entrepreneurs get familiar with the business rudiments which will enhance the business development. The number of use to which loan is put to is negatively related to the turnover. That is, the more the number of uses the loan is put to, the less the turnover. As the number of uses increase, the proportion of the loan used for business development reduces and so also the expected turnover comes down. The positive relationship that exists between the turnover and the repayment period shows that the longer the repayment period, the more the possibility of using the loan effectively to yield more profit. The amount of loan used for expansion is not significant and negatively related to the turnover although it is expected to be positively related. This may be due to the fact that the amount of loan granted is small compare to the financial requirement of the business. Therefore, there is an insignificant effect on the turnover. From the above, it is evident that a one percent change in family size, years of experience and repayment period will lead to 0.09%, 0.12%, 0.06% change in turnover respectively.

Table 4: Regression Analysis of the Effects of Credit Availability on Business Performance

Variables	Coefficient	Standard Error	t-value	P>/t/
Proportion of loan used (X_1)	-5.36e-07	7.55e-07	-0.71	0.479
Family size (X_2)	-0.0135856	0.007985*	-1.70	0.092
Years of Experience (X_3)	-0.0114624	0.0039956***	2.87	0.005
Repayment period (X_4)	-0.0111567	0.0065445*	1.70	0.091
Number of uses of loan(X_5)	-0.017742	0.0239381	-0.74	0.460
Number of sources of loan (X_6)	-0.0684306	0.0626568	-1.09	0.277
Interest on loan (X_7)	4.59e-06	5.48e-06	0.84	0.404
Gender(X_8)	0.0952385	0.0581787	1.64	0.105
Occupation (X_9)	0.0600397	0.0565036	1.06	0.290
Level of education (X_{10})	-0.0449369	0.0675174	-0.67	0.507
Timeliness of loan (X_{11})	0.028216	0.1442051	0.20	0.845
Constant	4.161181	0.201524***	20.65	0.000

Source: Field Survey, 2012 *** Significant at 1%, *Significant at 10%

R^2 = 0.49
   $\overline{R^2}$ = 0.413 , F = 10.41

Factors Affecting the Amount of Credit Obtained by the Respondents

This section is devoted to the factor affecting the volume of credit obtained by the respondents. The model showed moderate level of goodness of fit as indicated by the R^2 of about 50 percent. The model performed well as the F-value showed that the explanatory variables were able to explain the variations in total even at 1% level. From the result, number of sources and gender were significant at 10%. Repayment period and interest on loan were significant at 1%. Out of the four significant variables, only the years of experience and repayment period obey the a priori expectation while the others did not conform to it. The repayment period was positively related to the total loan because the longer the repayment period, the wider the spread of payment and the easier for the borrowers to repay. In other words, if the repayment period was long, the micro entrepreneurs will be willing to take more loans.

The number of sources from which loan can be obtained was significant at 10% and a negative relationship exist between it and the total loan although a positive relationship is expected. This may be an indication of the low amount obtainable from informal sources compared with that from formal sources (Commercial Banks). The interest rate is also significant at 1%. However it has a positive relationship with the total loan instead of the inverse relationship expected. This may be due to the fact that most of the micro entrepreneurs will be willing to take loan at a higher interest rate. Since their main aim is to make profit, as long as they can make profit that will be able to service the loan and also leave some margin of net returns, the micro entrepreneur will be ready to take loan at higher interest rate. From the above, it is evident that a one percent change in repayment period, number of sources, and interest on loan will lead to 0.16%, 0.17% and 0.13% change in total loan obtained respectively.

Table 5: Regression analysis of Factors Affecting the Amount of Credit Obtained by the Respondents

Variables	Coefficient	Standard Error	t-value	P>/t/
Proportion of loan used (X_1)	1.2106495	0.9458124	1.28	0.205
Family size (X_2)	-0.0104697	0.0098006	-1.07	0.288
Years of Experience (X_3)	0.0062755	0.004915	1.28	0.205
Repayment period (X_4)	0.0297987	0.0080134***	3.72	0.000
Number of uses of loan(X_5)	0.0220587	0.0279812	0.79	0.432
Number of sources of loan (X_6)	-0.1339114	0.0770937*	-1.74	0.085
Interest on loan (X_7)	0.000029	5.67e-06***	5.11	0.000
Gender(X_8)	0.1383862	0.0710186*	1.95	0.054
Occupation (X_9)	-0.0595413	0.0694823	-085	0.393
Level of education (X_{10})	0.028322	0.083045	0.34	0.734
Timeliness of loan (X_{11})	-0.2047784	0.1774286	-1.15	0.251
Constant	4.512461	0.2443437***	18.47	0.000

*Source: Field Survey, 2012 *Significant at 1 percent, ***Significant at 10percent*
$R^2 = 0.485$
$\overline{R}^2 = 0.435$, F = 9.70

Conclusion and Recommendation

The study showed that the average age of the respondent was 40 years and were female. Majority were under the trading group while farming recorded the least. About 85 percent were married with average family size of 6 members in a household. The study revealed that majority were literate. In terms of sources of credit, cooperative association was found to have the highest patronage with 59 percent of the total respondents patronizing them. On the other hand, formal financial institutions recorded the lowest patronage. On the whole, the informal sources of finance were the most widely used among the micro entrepreneurs in the study area. All these contributed to the dependency on the informal sources despite the presence of commercial banks and community banks in the area. The study further showed that trading yielded the highest turnover while farming yielded the lowest. The respondents that were engaged in trading had an average monthly income of ₦25, 138.9, artisans ₦19, 500 and farming ₦11, 000. It should be noted that the amount of loans available to most of the respondents is too small when compared with the size of their businesses. As a result, the effect of the loan on their business performance was reduced.

To determine the impact of credit on business performance, the exponential function was used. It was found that the proportion of loan used for business activities did not have significant effect on the turnover. This may be due to the low level of the total loan that was used for the business, untimely release of the loan among others. The factors that were important to business turnover were family size, years of experience in business and repayment period. On the other hand, result of the factors affecting credit obtained showed that four variables were significant; loan repayment period at 1%, number of sources from which loan was taken at 10%, interest on loan at 1% and gender at 10%.

In view of these, the following recommendations are made for the improvement of microcredit on small scale enterprises in the study area,

- Loan repayment period should be long. This will ensure that the end-users have better use of the loan, and increase ease of repayment because payment will be spread over a wide period of time. At the same time, creditors will be able to make more profit.
- Micro entrepreneurs must try and source for loan from more than one sources. This will lead to an increase in the volume of loan obtained and also increase in the proportion of loan used for business activities.
- The interest on loan should be reviewed in such a way that the end-users will be able to service the loan and also have some margin on the net returns.
- Micro entrepreneurs must have a stable occupation. That is, there should not be unnecessary changing of business activities. This will enhance their experience in a particular business which leads to better performance.

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