ARGUMENTA OECONOMICA
No 1 (36) 2016
PL ISSN 1233-5835

*Emmanuel O. Nwosu**, *Anthony Orji**

ACCESS TO FORMAL CREDIT AND ENTERPRISE PERFORMANCE IN NIGERIA: A GENDER PERSPECTIVE

The main focus of this study is to ascertain the impact of access to formal credit on enterprise performance. The study uses Nigerian Enterprise Surveys data for 2010 to construct a direct measure of credit constraint. From propensity score estimations, the results show that access to formal credit matters and has a significant impact on enterprise performance indicators. Firms that are credit constrained have significantly lower output per worker, capital per worker, employment of labour and investment in fixed assets for expansion compared to firms that are not credit constrained. This is more pronounced for women-owned enterprises after adjusting for bias in the estimations and controlling for sampling weights. This suggests that one way to support the growth of enterprises in Nigeria is to make access to formal credit less stringent. Also, government and monetary authorities should support credit expansion policies for medium and small enterprises in Nigeria.

Keywords: entrepreneurs, gender, credit, constraint, access, performance, propensity score matching

JEL Classification: O16, O17, P27

DOI: 10.15611/aoe.2016.1.08

1. INTRODUCTION

The importance of women entrepreneurs and access to finance in national development have been well documented in the literature, both in developed and developing economies (Asiedu et al., 2013; Aterido et al., 2011 and Ayyagariet al., 2007). Thus, in the last two decades, the Nigerian economy has seen the increasing participation of female entrepreneurs operating at the small and medium enterprise (SME) level. For example, a survey carried out by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2010, shows that the total number of enterprises in Nigeria stood at 17,284,671 (micro – 17,261,753, small – 21,264 and medium – 1,654). The total number of persons employed by the Micro, Small and Medium Enterprises (MSME) sector stood at 32,414,884 as of December, 2010. Of this number, female entrepreneurs account for 42.1 percent of the owners of micro enterprises, and 13.6 percent of the

* Department of Economics, University of Nigeria, Nsukka, Enugu State, Nigeria

owners of small and medium enterprises. The SMEDAN survey shows that MSMEs contribution to the nation's gross domestic product in nominal terms stood at 46.5 percent as at the period under review. The survey also highlighted that access to finance in formal credit markets in Nigeria is one of the priority areas where MSMEs need assistance.

The Nigerian credit market can be broadly categorized into formal and informal sectors, based on how structured the lending process is. The better-organized and formal sector of the credit market is driven largely by the deposit money banks (DMBs). Although the capital market and other financial markets like micro finance banks are also part of the formal credit market, the DMBs dominate the market. Most of the credit granted by deposit money banks is of a short term nature (CBN, 2010). The informal credit market in Nigeria includes money lenders, Self-Help Groups (SHGs), Rotating Savings and Credit Associations (ROSCAs), relatives and friends. In order to enhance the flow of financial services to micro, small and medium enterprises in the country, the Federal Government of Nigeria launched the new Microfinance Policy, Regulatory and Supervisory Framework in 2005. This policy document was subsequently reviewed in 2011 (CBN, 2012). Despite the recent policy review, a few problems still plague the sector. The key ones include the location of Micro Finance Banks (MFBs), financing and the rates of interest charged. Some studies like Abiola (2011) and Orodje (2012), suggest that the levels of interest rates charged by the MFBs in Nigeria are too high, ranging from 20% to over 50%. This makes it very difficult for many micro and medium scale business owners to seek for or access loans from the MFBs.

That notwithstanding, where the entrepreneurs are able to access lines of credit, it is still not clear if such access has any significant impact on the performance of such enterprises in Nigeria. Thus, access to credit and enterprise performance in Nigeria and other Sub-Saharan African countries has really been an issue of serious concern. Several other constraints identified to exist among the MSMEs and the formal credit markets in Nigeria and other Sub-Saharan African countries include among others: poor credit penetration, issue of collateral, complex application procedure, asymmetric information (Asiedu et al., 2013).

This study therefore contributes to the empirical literature by investigating and analyzing the impact of credit on enterprise performance in Nigeria using a gender perspective. This study is important to Nigeria and other developing/developed countries seeking to give women entrepreneurs the required support to enable them to access credit more easily and also