FINANCE SCHEMES IN RURAL NIGERIA AND SMALL BUSINESS DEVELOPMENT

EFOBI Uchenna, *Covenant University, Nigeria*

MOTIVATION

- Non-farm businesses help households overcome vulnerability from exogenous events like weather variability, input price shocks, poor market access
- Non-farm businesses in rural areas require massive finance input for growth – 70% lack such capital input
- In Nigeria, 74 and 82 percent of MSMBs are either un-served or underserved credit for their operations
- Financing rural ventures is dynamic since households' demand for credit depends on many factors including cost of finance, the shocks they experience, collateral, etc.

KEY QUESTION

This paper gauges the importance of formal, informal, and social network finance (credit from family, friends) sources for non-farm venture development in rural Nigeria.

DATA

The World Bank Living Standards Measurement Survey – Integrated Surveys on Agriculture (LSMS-ISA) for the periods 2010/2011 (wave 1) and 2012/2013 (wave 2)

QUASI-EXPERIMENTATION GROUPS

Arm 1: Sample without access to informal finance credit and social network credit in wave 1 and 2

Formal credit access - FC

Comparison: HH adult without access to FC in both wave 1 and 2

Treatment: HH adult without access to FC in wave 1, but not in wave 2

Arm 2: Sample without access to formal finance credit and social network credit in wave 1 and 2

Informal credit access - IFC

Comparison: HH adult without access to IFC in both wave 1 and 2

Comparison: HH adult without access to IFC in wave 1, but not in wave 2

Arm 3: Sample without access to Informal finance credit and formal finance credit in wave 1 and 2

Social network credit- SNC

Comparison: HH adult without access to SNC in both wave 1 and 2

Comparison: HH adult without access to SNC in wave 1, but not wave 2

REGRESSION MODEL

$$\gamma^*_{i,t} = \alpha + \delta Credit_{i,t} + \phi time_{i,t} + \varphi(Credit \times time)_{i,t} + \sigma\chi'_{i,t} + \varepsilon_{i,t}$$

Note: Each regression adjusts for household and time fixed effects

RESULTS

Result 1 – Impact on business operations – i.e. Months during the past years did the Venture Operate

	FC	IFC	SNC
Estimated impact	-1.428*** (0.489)	0.287 (0.213)`	0.365** (0.135)

Result 2 – Impact on log of current value of physical capital stock

	FC	IFC	SNC
Estimated impact	0.308 (0.592)	0.443* (0.268)	0.265 (0.162)

Result 3 – Performance of the venture – i.e. total sales in past month

	FC	IFC	SN
Estimated impact	0.212 (0.376)	-0.197 (0.163)	-0.212** (0.101)

Result is consistent even when controlling for business characteristics, or the sector of the primary employment of the household head.

DISCUSSIONS

- ✧ The result confirms the importance of low cost and easy accessible finance for continuity of small businesses.
- ▪ We find credit from IFC and SN to consistently have a positive impact on the continuity of non-farm enterprises.
- ✧ Finance from IFC and SN (for agricultural household) also enhance capital expenditures for the non-farm businesses.
- ✧ These groups' grants low cost credit and have a form of self-regulatory framework based on the intensity of the social connection among members.
- ✧ FC in Nigeria hurts the continuity of non-farm ventures
- ✧ SNC hurts performance of non-farm businesses.
- ▪ Because SN credit tend to create informal allegiance to individuals of such social networks or those who are connected to individuals within such network, and hence increases credit sales and bad debts that could affect performance.