



Informal Sector's Structural and Demographic Fundamentals against the Efficacy of Monetary Policy in Nigeria

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Authors' contributions

This work was carried out in collaboration between both authors. Author EO designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Author SEN managed the analyses of the study and managed the literature searches. Both authors read and approved the final manuscript.

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ABSTRACT

The informal sector is globally significant because it accounts for much of the job placements, especially in the developing economies. About 99 per cent of the 37million enterprises in Nigeria are microenterprises, most of which are financially excluded. This study examined the structural and demographic features of Nigeria's MSMEs, from the stand point of the efficacy of monetary policy. The study employed survey research design using structured questionnaire administered on 282 microenterprises in Lagos. The results indicated that the MSME sector suffers significantly from limited access to finance and banking services. Operators in the sector placed little or no reliance on commercial banks for both start-up and additional working capital. They, therefore, operated largely outside the banking system thereby acting, at best, as passive observers of government's monetary policy actions. The study recommended the vigorous pursuit of financial inclusion, as a strategy for enhanced monetary policy effectiveness.

Keywords: Capital; informal sector; interest rate; microenterprises; monetary policy.

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1. INTRODUCTION

The Nigerian economy is currently the largest in Africa. It is also one of the economies in the world that are heavily dominated by the informal sector. By recent estimates and according to the International Monetary Fund (IMF), the informal sector contributed 65 per cent of Nigeria's GDP in 2017 [1]. The sector is globally recognized as a critical contributor to economic activity. It is noted to currently account for more than half of the global job placements, and as much as 90 per cent of the employment in certain economies, especially the poorer developing countries [2; 3; 4]. This makes the sector a very significant, if not the most important, part of the economy of many nations, including Nigeria. For a country like Nigeria, which is seriously pursuing economic diversification and growth agenda, a sector of the economy contributing as much as the informal sector cannot be regarded lightly.

Accordingly, the Nigerian government has made several efforts and is still continuing to find ways and means of improving informal sector activities, and by extension, helping its members to formalize their operations. One of these ways is through monetary policy implementation. Monetary policy influences informal sector output and employment capacities through credit availability and interest rate [5; 6]. Conventional monetary policy under fixed exchange rate regime helps cushion the loss in output, employment and consumption when the size of informal sector is significantly large [7]. Further, through monetary policy action, there has been a plethora of funding initiatives meant to reduce the funding challenges of the sector. Unfortunately, these financing opportunities have not been properly harnessed by operators in the Small and Medium Enterprises (SME) sector. Much of the funds provided for them to access have remained in the vaults of the funding agents, including the Central Bank and the commercial banks.

This paper seeks to understand the dominant characteristics of the operators in the Nigerian informal sector; relate these features to current developments in the sector in response to monetary policy interest targeting variable, especially their inability to properly respond to policies aimed at improving their operating environment, including financing incentives, and to propose ways to improve the contributions of the informal sector to national economic objectives.

The paper has the following structure: section one introduces the study; section two presents an overview of the informal sector and monetary policy operations while section three reviews relevant literatures. Section four is on theoretical framework and research methods. Section five discusses the results of data analysis while section six concludes the work.

2. OVERVIEW OF NIGERIA'S INFORMAL SECTOR AND MONETARY POLICY OPERATIONS

The best way to understand the informal sector in Nigeria is to look at its key features. The economy has different categories of institutions operating in it. The first category ranges from the well-documented big corporate organizations, including the oil companies and the SMEs, government and its Ministries, Departments and Agencies (MDAs). The second category includes the medium-level players such as consultants and other professional service providers and smaller registered companies. The rest are the largely unregistered one-man business including petty traders, small personal service providers such as barbers and tailors, transporters and such. The last category essentially constitutes the informal sector. The members include street traders, commercial motorcycle riders, hairdressers and domestic activities like security guards and drivers.

The main features of the informal sector revolve around the absence of a proper legal framework for its operations. [8] notes that the informal sector has acquired the image of an illegal sector, which is not regulated or guided by the proper laws of business relationship. Activities in the sector, according to [9] are carried out by entities that are not known to the law. Advancing the positions of [8; 9; 10], posit that the informal sector is dominated by illegal businesses. This is because they are not properly registered and therefore operate below the radar of regulation. Record-keeping is the exception rather than the rule in this sector. It is a sector of the economy in which the Hobbesian spirit is very much alive. Survival is still a preserve of the fittest. Operators do not like to comply with legislation and do not have the capacity for properly address important government relationship issues, such as tax records and returns on company activates, as a matter of rule. Indeed, avoiding government and its regulations appears to be part of the criteria for survival. This, partly reinforces the lack of

interest in record-keeping. Most agreements are oral and are mostly entered in order to be breached.

The love for self-employment and independence appear to be the major driving forces behind many operators in the sector, whether they are accidental entrepreneurs (forced by circumstances and lack of opportunities in the formal sector) or deliberately entered the sector. This implies that by way of training and education, many operators are not adequately prepared. Operating outside the law has made the informal sector one of the key economic variables to be reined in and properly controlled if government policy is to be effective. The low level of financial inclusion in the sector has made it impossible for government to bring their activities in line with monetary and fiscal policies. Government is often legislating on the fringes of the informal sector.

Policy and stakeholder effort to support the informal sector have largely focused on regulation and integration - to integrate operators with the formal economy through discretionary strategies. Monetary policy is a construct that us associated with discretionary action of the monetary authorities through interest targeting or inflation targeting to achieve desired level of inflation and exchange rate volatility [11].

Essentially, through interest and inflation rates, the capacity of SMEs to access credit facility is determined. Therefore, under a tight monetary policy where money supply is reduced and interest rate is high, SMEs are further excluded from accessing facilities for business supports. However, when the monetary authorities implement expansionary monetary policy with falling interest rate and rising money supply, SMEs are better positioned to access more funds for expansion purposes, provided there is credibility in the monetary policy processes [12]. Also, [11] document the role of monetary policy credibility in exchange rate stability and inflation targeting in emerging economies. These monetary policy target variables have great implications for SMEs performance in terms of employment, output, access to credit and growth [13; 14].

Not much has been done to identify the drivers of its growth, especially in a disaggregated sub-sectoral fashion, and the challenges pulling down the participants. Undoubtedly, operators in the Nigerian Informal sector face a myriad of

challenges that mirror the problems facing the global national economy. These include low literacy, inexperience, poor technology, markets and marketing capacity, poor physical infrastructure, lack of bankable assets and by extension, inadequate access to finance, and limited opportunity for skill acquisition and development.

It is evident that appropriate steps need to be taken to overcome these challenges, beginning with clear policy interventions to expand the economy and create more formal jobs. These jobs will help to draw workers out of the informal to the formal sector. Secondly, policies should be introduced to address identified challenges in the informal sector towards improving productivity and incomes of informal sector players. Given the size of the informal sector in Nigeria, it would be a policy error to allow it to continue to operate outside the regime of laws and regulations available in the country. Understanding its characteristics will help the government to provide appropriate incentives to operators, improve its operating environment, ease of doing business and opportunities. It will also help government to harness the revenue generation opportunities through taxation.

3. REVIEW OF RELEVANT LITERATURE

The strength of the informal sector through small and medium enterprises in developing economies abounds in literature. Despite this lofty position of the informal sector, its integration with the formal sector has been continually clamored if the sector would overcome its numerous challenges. In this section, an intercontinental approach to literature review is adopted.

[15] report the importance of SMEs in the Italian business economy. They documented that SMEs account for 99 per cent of all enterprises and generate nearly 70 per cent of total value added and almost 80 per cent of employment. In spite of integral roles of SMEs in the Italian economy, the sector is bedeviled by low productivity of 10 per cent less than continental average, and high rate of infant mortality rate of 36 per cent within the first 24 months of establishment. The result of their pilot study indicated that difficulties in generational passage, family interference, poor education of management, and partial change of ownership are key barriers to survival of SMEs in Italy. The Italian result could be a classic approximation for European countries, where

there is macroeconomic stability, characterized by low inflation, interest and stable exchange rate. Thus, monetary policy could promote growth and development of SMEs through integration with the formal sector.

[16] examines the SMEs within Selangor, Malaysia in the light of innovation and performance. The survey study employed structure questionnaire responses from 150 SMEs. The quantitative analysis was carried out using Partial Least Squares Structural Equation Modelling (PLS-SEM), and the result supports the adoption of innovations for better performance of SMEs. The import of this review shows that SMEs in emerging economies encounter additional barriers in excess of what their counterparts in developed economies experience. Such additional barrier includes technological innovations.

In the case of developing countries with special reference to the African continent, several studies have investigated SMEs and their challenges. Studies such as [17; 18; 19; 20; 21; 9] have discussed the challenges facing SMEs in the continent from varying scope and dimensions.

In an earlier empirical analysis, [9] identified level of education of owner, initial capital sources, access to additional working capital and interest rate as key determinants of the performance of SMEs in Lagos State, Nigeria. His report marked the paradigm shift of empirical linkage of SMEs with the formal sector to monetary policy for SMEs analysis in Lagos.

[17], using regression and correlation analyses evaluated the impact of financial institutions on SMEs performance in Enugu state, south East, Nigeria. From 288 respondents, the empirical results indicate positive effects of microfinance loan and development banks aids, subvention and grants on SMEs growth and development, while commercial bank interest rate (monetary policy variable) had a significant negative impact on SMEs growth and development. Thus, monetary policy variable in the form of high lending rate discourages SMEs from accessing capital and additional cash flow, thereby limiting their survival, growth and development potentials.

Other studies include [18] which found that high interest rate, short repayment period and long

duration for processing commercial bank credit facilities discourages SMEs from accessing finances, thus constraining them for realizing their full potential of value addition, employment creation and growth for SMEs in Nairobi. In a study by [19] in Morogoro municipal of Tanzania, on the barriers to external sources of start-up capital, the study reported that banks and SACCOS imposed barriers such as high interest rate, information asymmetry, absence of acceptable collateral, poor business plan and incomplete business registration are key barriers to SMEs survival, growth and development. For further recent empirics on this research area refer to [22; 23; 20; 21].

4. THEORETICAL FRAMEWORK AND RESEARCH METHODS

4.1 Monetarists Theory

This study is underpinned by the Monetarist theory. The chief proponent of this theory was [24] in his seminar paper entitled 'A Monetary History of the United States, 1867-1960'. The monetarists are of the belief that the rate of growth in output, employment and price level are a function of money supply. Thus, monetary policy objectives are best attainable by targeting the growth rate in money supply. Monetary policy remains one of the tools employed by governments to stimulate the economy. The manipulation of interest rate, monetary policy rates, cash reserve ratio, deposit ratio, liquidity ration and other monetary instruments have direct effects on the structure and demographic features of microenterprises. Thus, the monetarism theory is best suited framework for studies on small scale enterprises and monetary policy efficacies [25].

This study investigates the structural and demographic fundamentals of the informal sector operators against the effectiveness of monetary policy in Nigeria. The study area was Lagos state, specifically, Etiosa and Ibeju-Lekki LGAs that are the hub of SMEs in Lagos. The LGAs accommodate about 900 SMEs out of the 11,663 SMEs across the state. Lagos is the commercial nerve centre of Nigeria where majority of enterprises in Nigeria are located to provide support services to the teeming multinational corporations and population. The study employed the survey research design with the aid of structured questionnaires administered on 282 microenterprises selected using random probability sampling technique. The [26] sample

size determination theory was adopted. The sampling theory produced a sample size of 276 as the suitable sample size at 5% margin of error.

$$n = \frac{N}{1 + N(e)^2}$$

Since N= 900; e = 0.05

$$n = \frac{900}{1 + 900(0.05)^2}$$

n = 276

4.2 The Study

The study examined the challenges confronted by micro and small enterprises in Nigeria.-In this section, we present the data from a limited cross-section study of microenterprises in Etiosa and Ibeju-Lekki LGAs of Lagos, which was conducted in the year 2018. Data was collected through questionnaires administered on 282 SMEs using the random probability sampling technique.

5. RESULTS AND DISCUSSION

5.1 The Entrepreneur

5.1.1 Sex distribution of micro and small entrepreneurs

Fig. 1 depicts the sex distribution of micro and small entrepreneurs in Lagos. While male constitutes a preponderance of the respondents

(156) equivalent to 55% of the sample size, the complimentary proportion of 45% constituting 126 respondents are female. The study did not draw sample from the underaged and children due to its legal implications.

5.1.2 Educational level of micro and small entrepreneurs

The role of education in the growth and survival of business has been established in literature [22; 15; 27]. "Education is a vital tool for empowerment; it could be formal or informal" [9]. Of the 281 respondents, 4.98% had informal education in form of non-formal trainings. The same proportion that had informal training possessed primary education, while 10% attained a maximum of secondary education (WASC/SSCE). The data further revealed that about 80.04% had tertiary education such as NCE, ND, HND or university degrees as represented in Table 1.

In specific term, of the 80.04% of the respondents that had tertiary education, only 0.34% and 14.90% attained NCE level and ND/HND respectively, while majority of the entrepreneurs that constituted 64.80% had a university degree. Therefore, we can confidently posit that micro and small entrepreneurs in Lagos are educated, which is a deviation from existing notion that MSEs are owned and managed by the lack of skills to attract formal employment [23; 20]. This position was earlier rationalized by [9] when the study noted that the inability of secondary and tertiary graduates'

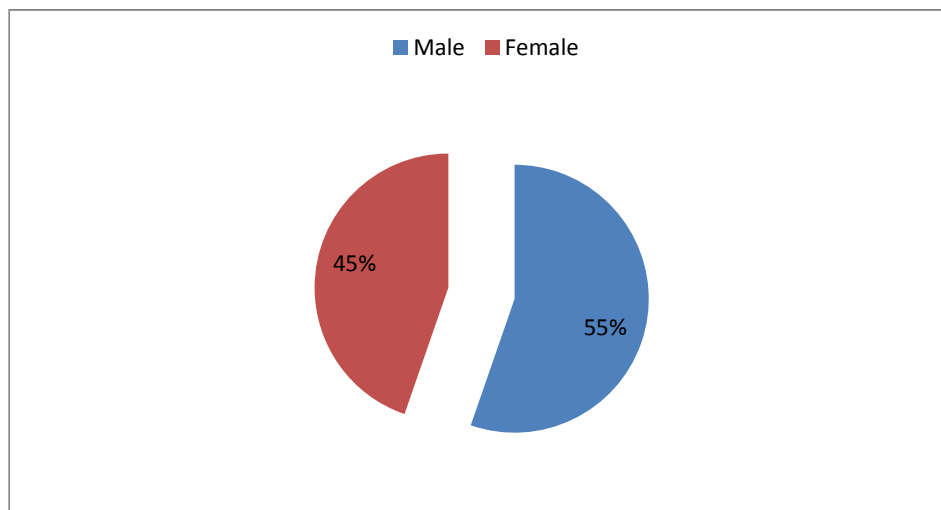


Fig. 1. Sex distribution of sampled micro and small entrepreneurs in Lagos

Source: Survey of micro and small enterprises by author

Table 1. Educational level of micro and small entrepreneurs

Maximum Level of Education	Number of Respondents	Percentage (%)
Informal Training	14	4.98
Primary Six and below	14	4.98
WASC/SSCE	28	10.00
NCE	1	0.34
OND/HND	42	14.90
University Graduate	182	64.80
Total	281	100.00

*n**= 281

Source: Survey of micro and small enterprises by authors

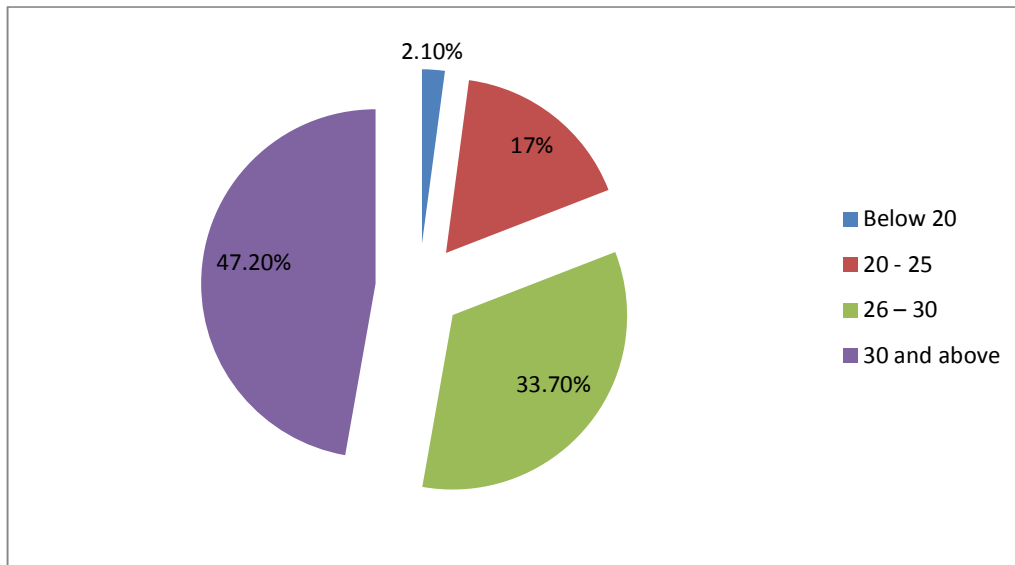


Fig. 2. Age distribution of sampled micro and small entrepreneurs

immigrants to find paid employment usually see them end up in private businesses. Also, the statistical evidence of 64.80% of entrepreneurs with university degrees strengthens the recognition of education as an integral tool for successful management of micro and small businesses.

5.1.3 Age distribution of micro and small entrepreneurs

Fig. 2 depicts the age of the respondents. The statistical evidence revealed that micro and small entrepreneurs in Lagos are predominantly above the age of 25 years. Emphatically, micro entrepreneurs above 25 years of age constituted 80.90% of the entire sampled entrepreneurs by this study. Of this proportion, about 47.20% are above 30 years of age while 33.70% fall within the age bracket of 26 and 30 years. Also, young micro entrepreneurs of age less than or equal to

30 years make up 52.80% of micro and small entrepreneurs in Lagos based data elicited from this study. This implies that very young people constitutes about half of micro and small enterprises owner-managers in Lagos. This current finding for 2018 when compared with 2004 proportion of 58.5% reported by [9] for young entrepreneurs of 30 years and below shows a declining proportion of young people in micro and small enterprises. Young Nigerians do no longer venture into entrepreneurship as such; most are predominantly focused on dubious and illegal money making exercises like cybercrimes, rituals, smuggling and drug peddling.

5.2 The Enterprise

5.2.1 Business focus of micro and small enterprises

The study indicated that micro and small enterprises in Lagos are involved in a multiplicity

of economic activities across various human endeavour. Essentially, retail trading and services such as salon and repairs dominate the activities of micro and small enterprises as revealed by the survey. Both retail trading and services accounted for about 61.30% of the entire micro and small scale business activities in Lagos. In clear terms, retail trading solely constituted 30.80%, while services closely follows with a proportion of 30.50%. Again, of the 279 respondents to this particular question, wholesalers accounted for 16.50%, 14.30% for manufacturers, 6.50% for processing enterprises, 0.70% for management consulting services and 2.40% for other types of businesses engaged in by small and micro entrepreneurs in Lagos.

The result from the occupational distribution of micro and small enterprises reveals an interesting finding when juxtaposed with the 64.80% of the entire micro entrepreneurs who had a university degree. Interestingly, despite the educational level of entrepreneurs in Lagos, the proportion engaged in management consulting is minuscule and insignificant at 0.70%. This is justified by lack of managerial competencies and skills by a significant number of Nigerian graduates. It is a signal of a static and failed educational system in a dynamic and globalized business environment.

5.2.2 Age of micro and small enterprises

Microenterprises are known for their high rate of infant mortality usually before their fifth birthday.

Previous studies [18; 9; 16] affirmed this position with empirical evidences across the globe. In this study, we examined the age distribution of micro and small enterprises in Lagos, so as to refute or validate this assertion. Our result which showed that 66.10% of the respondent microenterprises are within the age bracket of 1 and 5 years is a clear evidence of their infancy and vulnerability. Also, only 27.10% of the respondent microenterprises are within the range of age 6 – 10 years, while just a handful of 6.80% have celebrated tenth anniversary. The age distribution of the respondent microenterprises provided a clear indication of low life expectancy among micro and small businesses as about 7 out of every 100 start-ups existed for 10 years and above based on the sampled SMEs within the given period.

The high mortality rate and its associated low life expectancy of micro businesses have great implications for credit accessibility, survival and expansion. This is because; credit providers are often interested in the historical performance, structure, expertise, goodwill and experience of potential borrowers in order to minimize the tendency of default in credit repayment. Lending conditionality is usually against and above the capacity of micro businesses except for special intervention funds provided for them by the government or donors. Microenterprises funding is an issue of concern even before start-up of business. This leads to the next two questions on initial capitalization and sources of capital for micro and small business start-up.

Table 2. Occupation distribution of micro and small enterprises

Occupation	Number of Respondents	Percentage (%)
Wholesale Trading	46	16.50
Retail Trading	86	30.80
Manufacturing	40	14.30
Processing	18	6.50
Services (e.g. repairs and hairdressing)	85	30.50
Management Consulting	2	0.70
Online retail	1	0.40
Software Development	1	0.40
Taxi Cab	1	0.40
Tax Practitioner	1	0.40
Media	1	0.40
Tourism	1	0.40
Total	279	100.00

*n**= 279

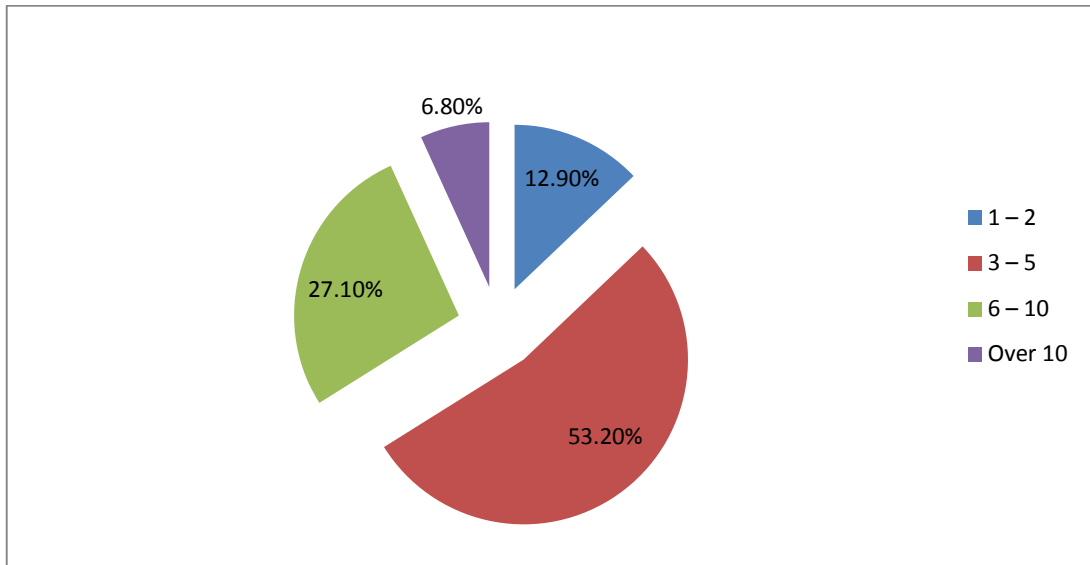


Fig. 3. Age of sampled micro and small enterprises

Table 3. Source of initial capital

Source	Number of Respondents	Percentage (%)
Personal Savings	146	51.77
Gift from relations and friends	108	38.30
Bank Loan	22	7.80
Others only (Esusu, inheritance etc)	6	2.13
Total	282	100

*n**= 282

5.2.3 Source of initial capital

Microenterprises are constrained by poor capital outlay; this constitutes one of the major obstacles that limit their survival and expansion [17; 19]. Microenterprises have variety of sources for initial capital mobilization. Evidences from the respondent microenterprises show that the two major sources of start-up capital for microenterprises are funds from personal savings and gift from friends as well as relations. Thus, from our findings, over 90% of our respondents’ commenced business with initial capital outlay sourced from personal savings through time and supports from friends and family. A further probe into the responses revealed that personal savings has been the dominant source of initial capital for microenterprises. Specifically, over 50% of microenterprises are started with owner’s savings, while about 38% commenced operation with gift and supports from family and friends.

Despite the clamour for financial inclusion and credit to micro and small enterprises in Nigeria

through discretionary monetary and fiscal policies, as well as other interventions by the government at all levels, only about 22% of microenterprises started-up with loan from banks. All other sources such as esusu, inheritance, money lenders accounted for just 2% of business start-up capital in Lagos.

The implication of the findings is that in Lagos, access to start-up capital from the formal financial system is still very much limited. Again, micro entrepreneurs prefer to start their businesses with accumulated savings over the years and seek help from family and friends. These sources do not border the microenterprises as much as the debt repayment and servicing burden would from the financial institutions.

5.2.4 Source of additional funds

The growth and expansion of microenterprises does only depend on the level of expertise and prudence of the owner-manager, but it is also a function of injection of fresh funds for

enhancement of working capital. Therefore, source of additional funds is a significant issue of interest in the success of microenterprises. Out of the 269 responses obtained from this question, 88.11% of the respondents indicated that personal savings and profit plough back are the major sources of additional funds. Also, 6.32% of respondents identified bank loan as the main source of additional funds, while the remaining 5.57% of respondents were of the opinion that gift and others sources (esusu, money lender, inherited money etc) were key sources of additional funds for their business.

One of the obvious findings when comparing the initial capital and additional funding sources is that the formal banking institutions are not the bedrock of microenterprises financing in Lagos. In fact, the proportion of start-ups that got loan from the banks is greater than the number that relied on it for additional source of funds (see Table 3 and Fig. 4).

In the light of the bleak accessibility of formal credit by microenterprises in Lagos, one of the questions that would readily come to fore is, *what*

is the proportion of microenterprises that attempted accessing Bank loan/credit? Do they get the credit facility in the end? What proportion of these microenterprises fails to access bank loan and why?

In an attempt to address these intriguing questions, Figs. 8 through 10 revealed some interesting findings as discussed respectively below.

5.2.5 Attempt at bank credit/loan

From Table 4 the result of response analysis shows that only 21.50% of the overall 270 respondents to this question have attempted application for accessing bank credit for business expansion. This means that a chunk of the microenterprises (over 78%) have never applied for bank loans. Table 4 revealed that of the 21.50% (66 microenterprises) that attempted credit sourcing from banks, only 40.90% (27 microenterprises) successfully got credit facilities, while over 50% (39) were unsuccessful in their attempts at obtaining loan from banks (see Fig. 5).

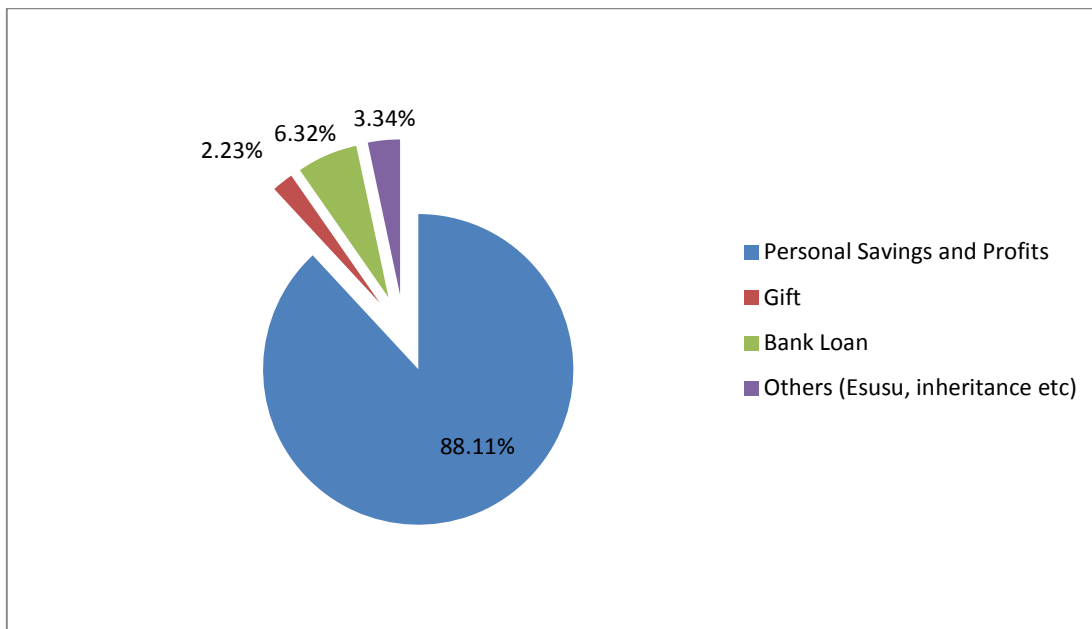


Fig. 4. Source of additional funds

Table 4. Attempt at bank credit/loan

Response	Number of Respondents	Percentage (%)
Yes	58	21.50
No	212	78.50
Total	270	100

n*= 270

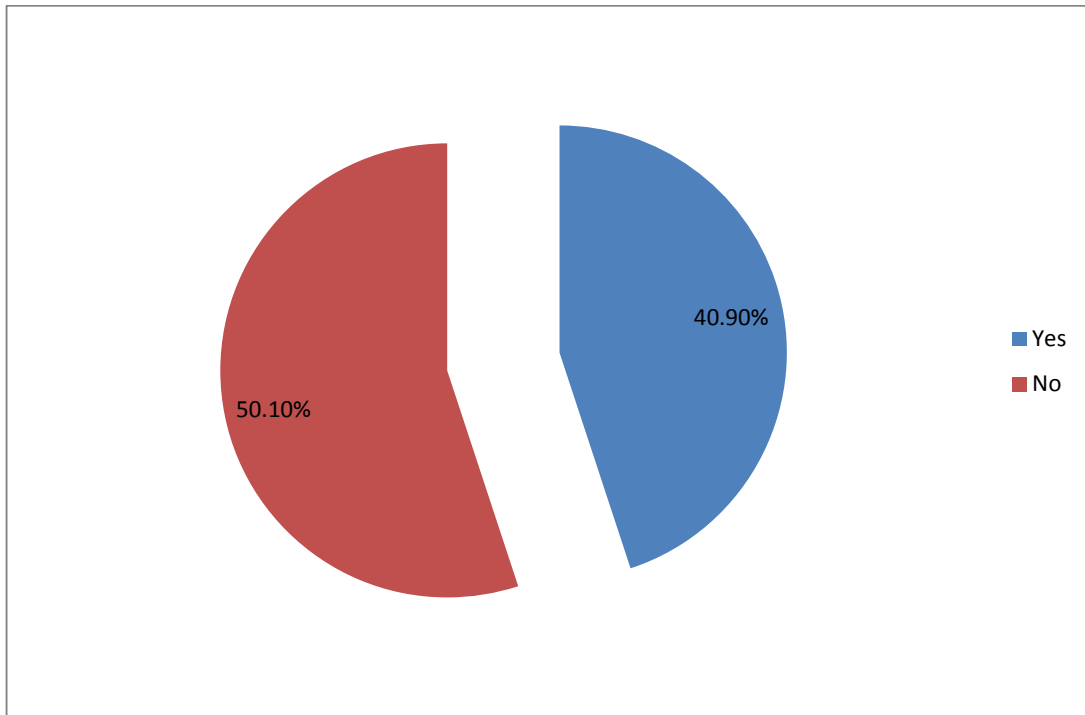


Fig. 5. Successful access to bank loan

Table 5. Reason for unsuccessful access to bank credit/loan

Reason	Number of Respondents	Percentage (%)
No Collateral	22	71.00
Ineligibility	3	9.70
Others	6	19.30
Total	31	100

*n**= 31

5.2.6 Successful access to bank credit/loan

Different reasons have been advanced in entrepreneurship literature as to why microenterprises do not easily obtain credit from Banks. Experts in this research space identified collateral, ineligibility, awareness, book keeping deficiencies, education and lack of credit history as factors hindering microenterprises from credit access from banks [21].

5.2.7 Reasons for unsuccessful attempt at accessing bank credit/loan

On the reasons for unsuccessful attempts at accessing credit from Banks, most of the respondents (about 71%) indicated that lack of collateral security was responsible for their inability to successfully access credit facilities from Banks which is in congruence with theory.

Of the 31 respondents, about 9.70% stated that their lack of successful access to bank credit was due to the ineligibility of their microenterprises. Ineligibility could imply improper registration of business name, absence of tax identification number, absence of corporate account among other reasons.

5.2.8 Willingness to pay higher interest rate

Interest rate is the cost or return on funds. It is one of the key determinants of fund mobilization from surplus to deficit decision unit. Access to credit and loanable funds by microenterprises is chiefly a function of the cost of fund. Evidence from the respondents indicated that microenterprises are unwilling to pay higher interest rate to enable them access scarce funds. Ultimately, of the 276 respondents, 98.20% were indicated their lack of willingness to pay higher

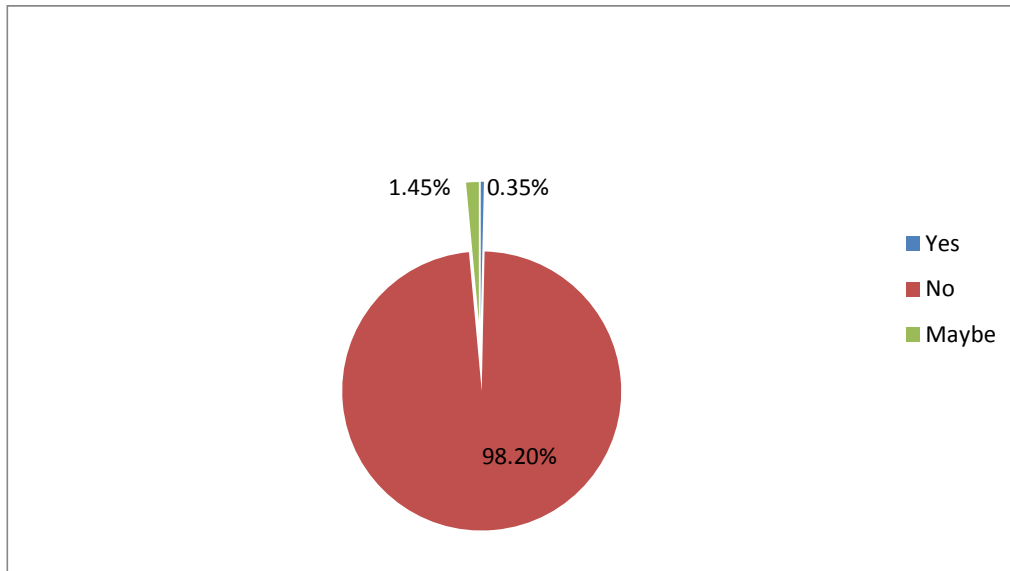


Fig. 6. Willingness to pay higher interest rate
 Source: Survey of micro and small enterprises by author

Table 6. Needed funds but could not find lenders even at higher interest rate

Response	Number of Respondents	Percentage (%)
Yes	67	24.00
No	212	76.00
Total	279	100

*n**= 279

interest rate, 0.35% were definitely willing to pay higher interest rate while 1.45% were uncertain about their willingness to pay higher interest rate. This portrays avalanche availability of funds from a primal facial perspective.

5.2.9 Scarcity of funds in the market

Stemming from the primal facial evidence established from Fig. 6, statistics corroborates this position. Thus, 76% of microenterprises in Lagos opined that they had never needed fund without accessing it at higher interest rate, while only 24% were of the opinion that scarcity of funds exists in the market. This result is rationalized on the various intervention financing programmes for microenterprises from the government and international organisations.

5.2.10 Bank transactions

Financial inclusion is one of the integral issues in the front burner of sustainable development literature in emerging economies. Financial inclusion is measured by the rate of formal

banking transaction. Available statistical evidence supports high level of financial inclusion among microenterprises in Lagos. Of the 263 respondents, 51.70% of the microenterprises are financially included with the commercial banks, 46.80% are included at the microfinance level while just 1.90% are financially included with mortgage banks. A further inquest into the analysis implies not too strong relationship between microfinance banks and microenterprises in Lagos. Thus, the commercial bank through innovative products development attracts transactions from microenterprises microfinance banks. The attractiveness of commercial banking to microenterprises could also be linked with their wider coverage, spatial dispersion, and customers' confidence.

5.2.11 Knowledge of other microenterprises with access to bank credit

This study further examined the level of awareness of credit accessibility of other microenterprises in the SME space. From Fig. 7, available data support high level of awareness

among respondents that other microenterprises have could access banks facilities. Specifically, 86.60% of microenterprises know other microenterprises that have direct access to

funding, while only 13.40% stated not have any knowledge about other microenterprises that have access to credit financing.

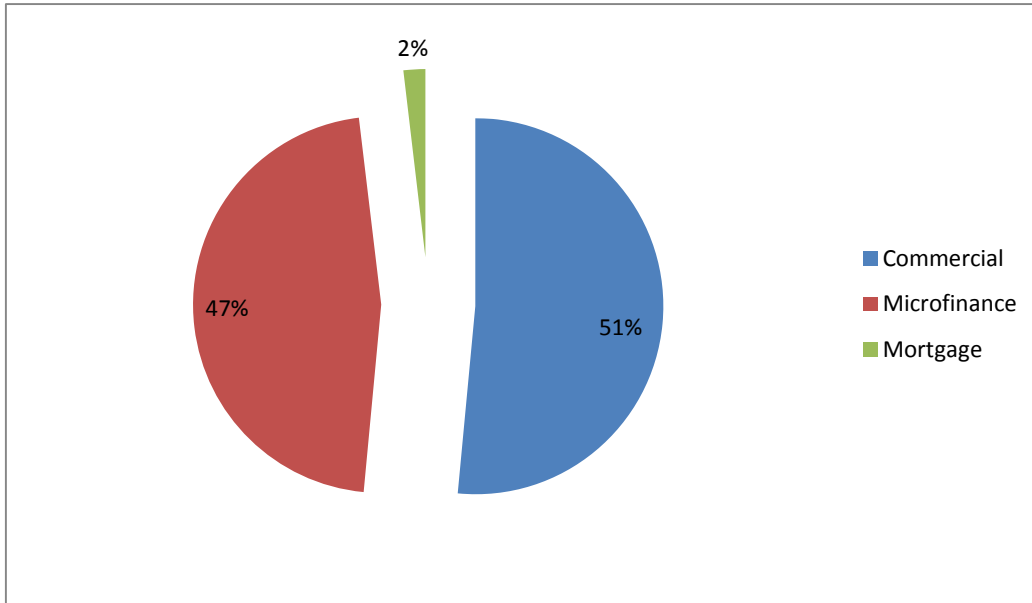


Fig. 7. Bank transactions

Table 7. Aware of microenterprises with access to bank credit

Response	Number of Respondents	Percentage (%)
Yes	227	86.60
No	35	13.40
Total	262	100

*n**= 262

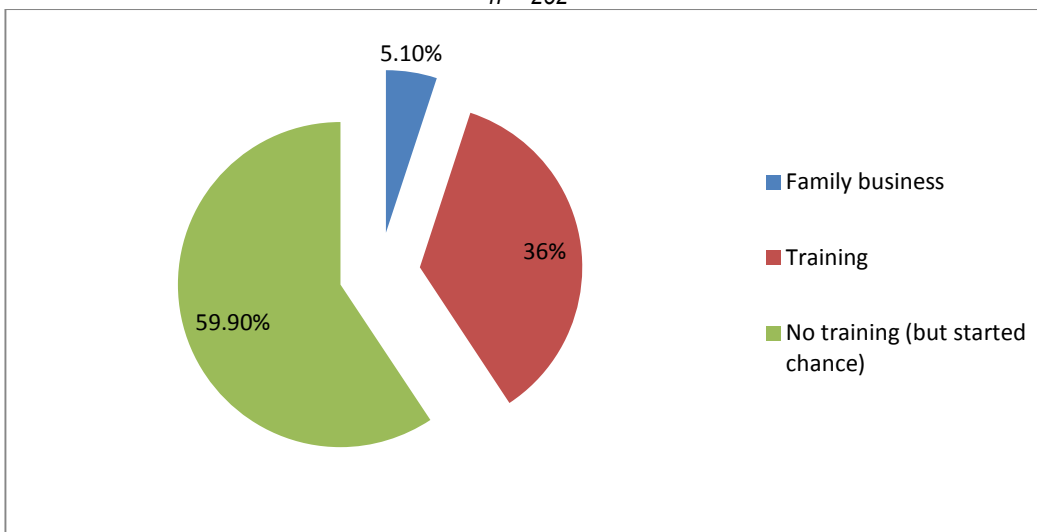


Fig. 8. Source of business idea

Table 8. Served as an apprentice

Response	Number of Respondents	Percentage (%)
Yes	35	13.10
No	232	86.90
Total	267	100

*n**= 267

5.2.12 Source of business idea

Insofar as credit accessibility, training and preparation and financial inclusion are critical in factors that could make or mar the survival of microenterprises, this study considers ideation and its sources as an important variable. To this end, the study revealed how the micro entrepreneurs emerged with their business ideas. Surprisingly, our result showed that approximately 59% of microenterprises were founded by those without prior training or experience. It implies that microenterprises promoters go into such business by chance. In furtherance to this analysis, only 41% of microenterprises are established by those with training and on-hand experience via family business. Specifically, about 36% got business ideas via training, while a few microenterprises were founded based on family business experience.

Obviously, most the high rate of infant mortality and low life expectancy of microenterprises could be linked to the fact that a preponderance of their promoters do that by chance, thus, a higher probability associated with their infant mortality as shown earlier in Table 6 and Fig. 6.

5.2.13 Undergone apprenticeship training

The traditional business model in Nigeria is the apprenticeship system where intending business promoters work under an actual business owners to gain trading experience. This is common among all kind microenterprises. Our result showed that there is a declining relevance of this business model termed apprenticeship. This is evident in the 13.10% of respondents who agreed to have served as apprentice before founding their businesses, while a huge proportion of about 86.9% never served as apprentice. This finding lend credence to earlier result which indicated that majority of microenterprises promoters lack training and experience but did start their business by chance. This is the bane of microenterprises under performance in Lagos.

Interestingly, microenterprises do not recognize this root cause of their problem, but rather attributes their key challenge to factors other than poor preparation for the business.

5.2.14 Key challenges faced by microenterprises

Microenterprises are bedeviled by multiplicity of challenges which cut across training, skills, interest, capital, market size, patronage among others. A critical evaluation respondents views indicated that low capital outlay and lack of technical skills are the major factors militating against the success of microenterprises in Lagos. Essentially, poor capital base was identified by over 55% of the respondents as the bane of their underdevelopment. Also, limited technical skills and poor managerial capabilities jointly about 41% of their key challenge, while customers, marketing, fraudulent staff and patronage were not recognized by majority of the microenterprises are serious challenges. This result supports our earlier position on poor training and experience by microenterprises owners, this is why issues bordering around managerial and technical skills constituted a large proportion of challenges faced by microenterprises.

5.2.15 Role of family members in microenterprises

From the foregoing, most microenterprises attempt to sort out their managerial and technical problems by either employing none relations or relations. Traditionally, to minimize fraud, cost and for commitment purposes, microenterprises in the past relied on relations for its workforce [28; 29]. In recent time, there is a reversal in this trend, as 69.80% of the respondents indicated that no worker of there is a relation, 21.10% indicated that all their workers are relations. In a hybrid position were 9.10% of respondents with some workers as relations. The declining reliance on relations as workers could be attributed to the fact that most relations tend to be more fraudulent, uncommitted, and careless towards the success of microenterprises.

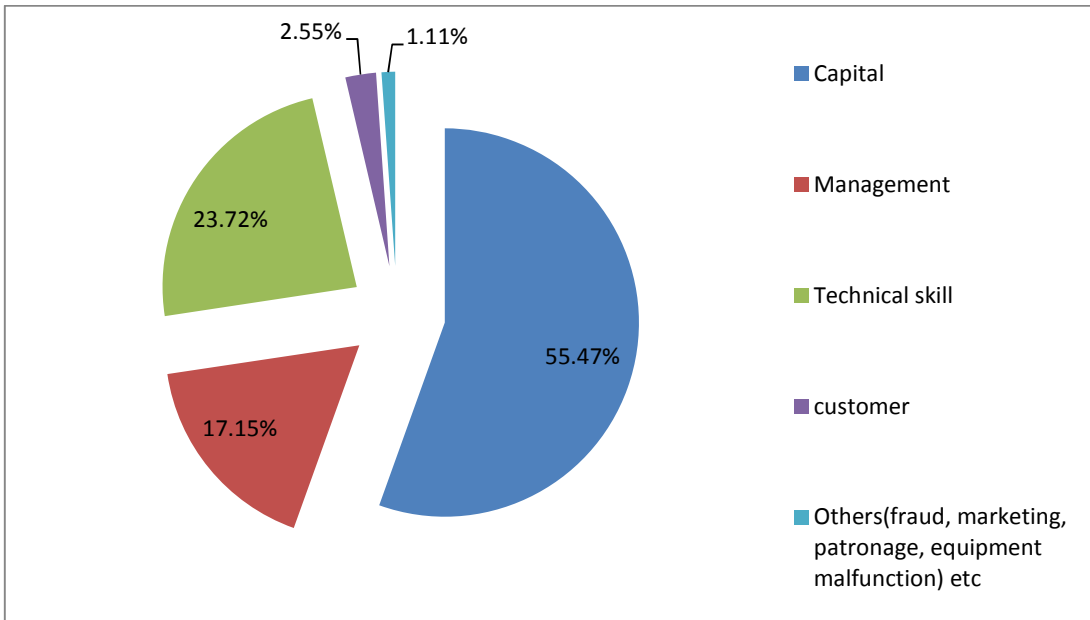


Fig. 9. Key challenges facing microenterprises

Table 9. Workers that are relations

Response	Number of Respondents	Percentage (%)
All workers are relations	58	21.10
Some workers are relations	25	9.10
No worker is a relation	192	69.80
Total	275	100

n* = 275

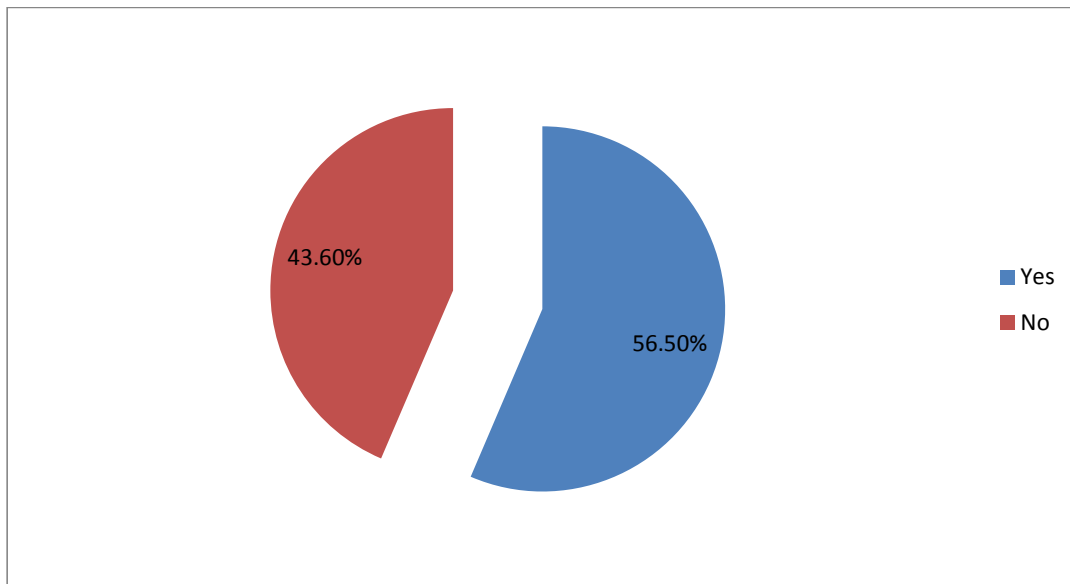


Fig. 10. Savings in bank (s)

Source: Survey of micro and small enterprises by author

Table 10. Willingness to save money on a regular basis

Response	Number of Respondents	Percentage (%)
Yes	273	98.2
No	5	1.80
Total	278	100

*n**= 278

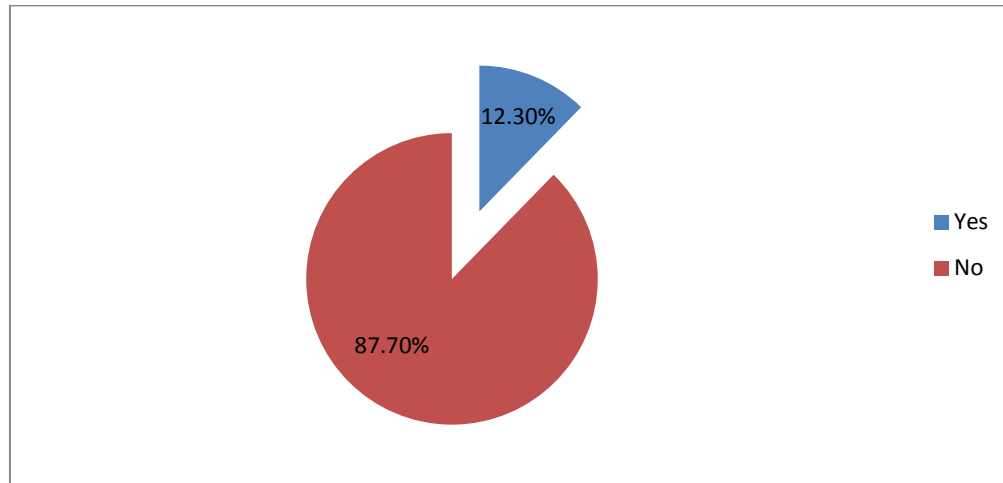


Fig. 11. Membership of local service societies

Table 11. Usefulness of service societies to microenterprises

Response	Number of Respondents	Percentage (%)
Very useful	196	73.40%
Useful	66	24.70%
No Useful	5	1.90%
Total	267	100

*n**= 267

This attitude could be linked to poor or no remuneration to most family members who work for microenterprises.

5.2.16 Savings in bank (s)

To further elicit the level of financial inclusion of microenterprises, the study inquired whether the enterprises have savings in banks. Of the 278 respondents, 56.5% constituting 157 microenterprises have some savings in banks, while about 43.6% do not have savings in banks. This proportion without savings in banks is an indicator that a lot of microenterprises are not registered, as such, does not have corporate accounts in banks and are not eligible to access bank loans.

This finding also revealed that microenterprises prefer saving their money in the informal financial

institutions like the ESUSU and other local societies.

5.2.17 Regularity of savings

Despite the existence of a sizeable proportion of microenterprises not having savings in banks, empirical evidence shows that a chunk of the microenterprises are willing to save some money on a regular basis. Specifically, about 98% of the respondents indicated interest in saving money regularly, while only 2% were uninterested in saving money regularly.

5.2.18 Membership of local service societies

Local societies have been identified as a growing source of finance for microenterprises in economic literature [30]. Cooperative or social societies are established to promote the interest

of members. Recall that capital was identified as the key constraint faced by microenterprises, it therefore expected that microenterprises associate with cooperatives to enable them access to credit and loans which ordinarily could not be obtained from the formal banking institutions. However, evidence from Fig. 10 indicated that 87.70% of microenterprises do not belong to any service or cooperative society why only an insignificant proportion of 12.30% were members of social societies. The question therefore is how useful are cooperative societies to microenterprises?

5.2.19 Usefulness of local service societies to microenterprises

To address the question raised on the usefulness of social societies to microenterprises, 73.40% of the respondents found social enterprises very useful to their business, 24.70% confirmed that social societies are useful but 1.90% of the respondents denied the usefulness of social societies to their business. This result supports earlier findings in literature as reported in [30].

6. CONCLUSION AND POLICY IMPLICATIONS

The paper offers clear evidence on forces inhibiting the effectiveness of monetary policy framework on the survival, growth and development of SMEs in Lagos, Nigeria. The study analyzed responses from 282 SMEs owners using descriptive techniques. Monetary policy variable such as current interest rate, willingness to pay higher interest rate to access funds, source of initial capital and source of additional working capital were found as forces militating against a robust effect of monetary policy on the informal sector.

In furtherance to the discussion, high interest rate discourages microenterprises from accessing credit. Monetary policy rate (MPR) and the discount rates are the ultimate determinants of current interest rate. The former is determined by monetary policy committee, it is also fixed by the monetary authority depending on the policy direction- either contractionary or expansionary policy.

There are some other factors which have emerged in our findings as barriers to the development of the informal sector. In this regard, the owners' level of education, apprenticeship experience and training, poor

financial inclusion, and association with social societies are top blockade on the pass-through effects of monetary policy to informal sector development. Ultimately, the study agreed that owner's experience, education level and collateral security are critical factors to that credit financiers consider when profiling SMEs for either loan.

A comparison of the structural characteristics of the Nigerian SMEs indicates a lot of commonalities with their counterparts in other parts of the world. The following are the obvious features of these ubiquitous enterprises found in the streets corners, market places, roadsides, and unimaginable places in Lagos. These structural characteristic features conform to global trends:

- a. For the period examined and the sampled SMEs, our findings supports the argument that SMEs mainly exist within the first quinquennium of their establishments.
- b. A preponderance of these SMEs which form the kernel of informal sector are engaged in wholesale and retail trading, while a declining proportion are engaged in manufacturing, processing and management consulting.
- c. The start-up capital emerges from personal savings over time and supports from friends and family.
- d. Also, banks remain highly unimportant to the informal sector in terms of funds provision for business start-ups, additional working capital and business expansion. This is where social societies were recognized as very useful in informal sector growth and development.
- e. The micro-entrepreneurs are not as young as their businesses. Majority of the owners are aged 26 years and above. This could be rationalized using the improved educational background of these entrepreneurs in recent years. Obviously, 64% of the entrepreneurs have university education, and as such could not have been as young as their businesses.

The study recommends the need for expansionary monetary policy of interest rate targeting; this would reduce the cost of capital. Since access to initial and additional working capital are the key structural issues faced by SMEs, the suggested expansive monetary policy would help ease access to funds from commercial and microfinance banks for players in the informal sector.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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