

Economic Benefit of Savings and Credit Cooperative Societies on the Well-being of the Individual: Evidence from Mbeya District, Tanzania

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Abstract

Savings and Credit Cooperative Societies (SACCOS) are registered organization that are formed to impart a saving spirit and extend loans to the members based on individual requirement and society rules and regulations in relation to their savings. They are societies that mobilize savings and speed up investment by allowing its members to access loans and invest for income generation and thereby contributing to poverty reduction. The poor living condition of the people is associated with little or inadequate capital for investment purposes. This paper investigates the economic benefits of SACCOS on the well-being of the individual. The study used regression analysis and descriptive statistics, where collected data were analyzed using ordinary least square (OLS) regression, cross tabulation and independent t-test. In the independent t-test, the means of the investment capitals for both SACCOS members and non-members were compared. The results indicate that the means of the investment capital employed in the business enterprises are not the same between SACCOS members and non-members. The average investment capital was higher for the members and lower for non-members. The results from t-test were supported by Eta squared estimates that show the magnitude of the effect of investment capital on the business enterprises of both SACCOS members and non-members. The results from the cross tabulation reveal that SACCOS members possess a significant higher amount of properties as opposed to non-members. The findings from the regression analysis concluded that SACCOS members own more assets due to acquisition of credit and thus stands in a better position for accumulation of wealth than the non-members. The study recommends that more people should join in SACCOS in order to save in a pool and access loans at low cost and with little or no collateral at all for investment and hence reducing poverty and improves their well-being. As a policy implication, the study calls for the formation of more SACCOS where people can acquire capital for investment purposes and thereby contributing to industrial economy; which is the focus of the Nation of Tanzania today.

Keywords: SACCOS, Economic benefits, well-being of SACCOS members, investment capital.

1. Introduction

Availability of credit to the rural people was seen as a major problem to rural people both in developed and developing countries (see Neifeld, 1931; Emmons and Mueller, 1997; Guinnane, 2001). Credit cooperatives were established to provide access to credit to individual who were inaccessible to formal sources. The reasons associated with lack of opportunity for utilization of

formal credit vary mainly depending on the location and wealth status of the individual. In many rural areas, both in developed and developing economies formal banks were very few or even none existed at all. Wealth affects access to formal bank credit because most of the rural people and the poor in cities could not afford physical collateral demanded by the formal sector such as titled land and buildings. Therefore, lack of collateral significantly exclude the rural and the poor in cities from credit acquisition, limiting the growth and expansion of their business enterprises.

Studies of SACCOS to date have provided evidence that SACCOS can serve many different functions. Their importance has been experienced in durable goods acquisition (Besley and Levenson, 1996); they allow individuals to acquire durable properties earlier than the time through self-saving. SACCOS permits individuals to reap the gains from intertemporal trade, which leads to increased capital (Huppi and Feder, 1990). These studies provide evidence on the importance of SACCOS, even in an economy that has undergone significant modernization such as Germany (Guinnane, 2001), and which is a choice of even relatively wealthy population.

These credit cooperatives did not disappear with the economic development in the industrialized countries, instead they have become among the fastest growing groups of financial institutions in some advanced nations today (Emmons and Mueller, 1997). The findings show that most American credit unions concentrate on consumer lending and do very little business lending (Delbrouck, 1994). The National Credit Union Administration, the body that charters and supervises federal credit unions, reinforces this historical pattern, strongly discouraging business lending. The situation is quite different in developing countries where a large proportion of credit is directed into financing business enterprises.

Understanding the economic benefit of credit from SACCOS is a panacea for not only improving people's participation in SACCOS but also in influencing the formation of more SACCOS; which has a multiplier effect toward employment creation, income generation and improvement in the well-being of the individuals. This is because loan acquisition improves income level and such an income can further be used to create employment and thus contribute to poverty reduction. Aspiration to nurture social and economic progress in the economy motivates the engagement into this specific minute source of credit to allow the dissemination of the valuable significance of participating in SACCOS for imparting positively on the industrial economy; a slogan devoted by the current President of Tanzania Hon. Dr. John Pombe Magufuli.

2. Literature Review

Experience shows that external financing is the preeminent way of easing the financial difficulties encountered by entrepreneurs in their struggle to increase capital for investment. Other sources of finance for investment at the individual level include retained earnings, equity finance, thrift savings, asset based financing and suppliers' credit (Hofstrand, 2013). Financing through suppliers is common in large firms including those with high sales growth and investment (Garcia-Teruel and Martinez-Solano, 2010).

Retained earnings and equity financing could have been an alternative source of capital for individuals. However, a large proportion of poor people fail to invest in big businesses that can yield significant earnings to enable them to re-invest (Chandler, 2009; Vaidya, 2011; Chan and Ghani, 2011; Hernandez-Canovas and Koeter-Kant, 2011). Asset based financing has been

commonly used by entrepreneurs to acquire credit especially from the formal sources, where an individual pledge assets as marketable securities such as inventories, fixed assets (plant, real estate) and account receivable as collateral for long-term loans (Berger and Udell, 2005). However, poor people tend to have limited assets to facilitate acquisition of loans from formal sources (McKernan, 2002; Felsenstein and Fleischer, 2002; Komicha, 2007; Bertocco, 2008; Kahraman *et al.*, 2009)

Thrift saving involves saving where an individual stores part of the disposable income, often practiced by poor individuals in the least developing countries. Even though it has not been easy for the poor people to maintain adequate savings to be able to finance new investment, it is argued that relying on saving destructs potential entrepreneurs from taking part in more productive investment opportunities (Besley, 1995).

Studies (e.g., Kasambala, 2017; Mavimbela *et al.*, 2010 and Neifeld, 1931) have shown that SACCOS as one form of the external sources of finance has significant positive effect on the well-being of the individual. They (SACCOS) influence resource allocation, mobilizes local savings and offers loans with low enforcement and operating costs. The members' confidence is reflected in the cooperative's ability to mobilize savings and encourage loan repayment. The willingness to loan repayment that exists in SACCOS is linked with better credit terms, in particular, the mode of repayment and the use of social sanctions that are typically not available in the conventional banking but are available in the cooperatives (Huppi and Feder, 1990). The cost of processing a loan is relatively low because these organizations can easily assess the creditworthiness of members by relying on the group's collective experience. Hence, they can in most instances quickly and without much paperwork, process a loan application (Miracle *et al.*, 1980). Bearing this advantage, SACCOS have been able to serve even poor members who could never be covered by formal financial institutions such as the banks.

These SACCOS are considered to be a reliable opportunity for entrepreneurs to access investment capital and safe deposit; both of these services do speed up the investment level (Huppi and Feder, 1990). They (SACCOS) are institutions that help members to meet even education and health needs. These institutions are thus seen as essential ingredients for developing business enterprises in many parts of the world (Yankson, 1979; Adenkule and Henson, 2007) because obtaining credit add to investment capital, which imparts positive effect to one's wealth status. When the ability to accumulate wealth is enhanced, it means that even the economic wellbeing of the individual entrepreneur is significantly uplifted. The study concentrates on individual loans taken from SACCOS and makes major contribution to the existing body of literature on the benefits of SACCOS credit. It (the study) uses "wealth" as the outcome variable to measure the effect of SACCOS credit on the individual member. The study uses wealth, which has not, being used before as a proxy for the effect of credit, which is more stable and less likely to be affected by fluctuation of income.

3. Theoretical Framework

The Demand theory is a principle relating to the association between consumer demand for goods and services and price. The Demand theory relates consumer desire to purchase and the ability to pay for goods available. the demand for good is determined by several factors such as

the price of the commodity, the taste and desires of the consumer for a commodity, income of the consumer, future expectations of the consumers and the price of related goods, substitutes or complements (Ahuja and Ahuja, 2011). This paper connects the desire to purchase and hold wealth (wealth status) with independent factors that include investment capital, expected returns, years of schooling, household size, and access to credit. The explained variable is expected to be positively influenced by the amount of capital investment possessed by the individual, expected returns from the business, years of schooling and access to credit. While household size is expected to affect negatively wealth status of the individual entrepreneur. This is because with an increase in household size, the funds available for investment purposes can be utilized into consumption of non-durable goods. The likelihood of income generation and hence possession of wealth is likely to be affected by household size and access to credit. This paper integrates the demand theory to determine the relationship between the identified explanatory variables on the explained variable “the wealth status.”

4. Research Methodology

The study population comprises SACCOS members and nonmembers in Mbeya District. The district was chosen due to enormous number of economic activities undertaken in the area. The area is located at the border of Zambia and Malawi, this prompts majority of the people to be involved in business activities. The motive of conducting business has increased the desire of acquiring sufficient funds for investment purposes and that have resulted into increasing number of sources of finance in search for investment capital.

Simple random sampling was used to select the study units, where 480 respondents were collected during the first stage of data collection of a longitudinal research design. Out of 480 respondents, 239 were SACCOS members and 241 non-members obtained from the areas where the sampled SACCOS are located. Based on the purpose of the study data were collected using pre-coded structured questionnaire. A comparison of the benefits accrued due to investment undertaken by the SACCOS members and the nonmembers was done via cross tabulation. The study used cross tabulation, where a chi- square test is normally used to study whether the distribution of categorical variables differ from one another.

To compare the means of investment capital recorded for SACCOS members and non-members, an independent t-test was used. The independent t-test compares the means of the two groups, which are not related in some known or meaningful way. The t-test is applicable when there is a dichotomous independent variable and interval / ratio scaled dependent variable. Eta squared was computed in order to determine the magnitude of the mean difference in terms of the capital invested in the business for both SACCOS members and non-members in the study area. The Eta squared was computed by employing Cohen (1988) formula, which ranges from 0 to 1 measure the magnitude of the explanatory variable on the dependent variable, where a value of Eta squared of 0.14 indicates large effect, 0.06 moderate and 0.01 small effect (Cohen, 1988).

$$Eta\ Square = \frac{t^2}{t^2 + (N_1 + N_2 - 2)} \dots\dots\dots (1)$$

Where;

t = calculated t –statistics

N₁ and N₂ = number of sampled SACCOS members and non-members

The following model was employed to analyse the economic benefit of SACCOS at the individual level using the outcome variable of wealth status “ **LNwealth1**” to determine the well-being of the entrepreneurs. The model has been built and embedded in the light of the theory of demand.

$$Y_{ij} = \alpha X_{ij} + \delta LM_{ij} + bC_{ij} + v_{ij} \dots\dots\dots (2)$$

Where, *Y_{ij}* is the wealth status that reflect the desire and ability to possess assets for individual *i* in village *j* in accordance to the theory of demand and *v_{ij}* is the error term. **LM_{ij}** is the variable that measures the effect of SACCOS credit. *X_{ij}* is the vector of demographic characteristics, which encompass household size, years of schooling, business returns from investment per month. In addition, *C_{ij}* is the amount of investment capital used in the business enterprise.

Table 1: Variables used in the OLS regression

Variable name	Definition
Dependent variable	
LNwealth1	wealth status for individual <i>i</i> in village <i>j</i> ; Calculated based on the deflated price of assets to get the real wealth status
Independent variables	
Years of schooling	Number of years spent in schooling
<i>C_i</i>	capital invested in the business
Initial earnings	Earnings per month
LMij	Membership dummy variable; 1 for members and 0 for non members
Household Size	Number of individuals living in a given house

5. Results and Discussion

4.1 Investment Capital

The findings (Table 2) show that the t-value of 3.775 was significant at P<0.01, providing substantial evidence that the means of the investment capital employed into the business enterprises are not the same between SACCOS members and non-members. The average investment capital was higher (1312900) for members and lower (379000) for non-members.

Table 2: Comparison of Means Using Independent t-test Statistics

Investment capital	N	Mean	Standard deviation
Members	239	1312900	3743770
Non members	241	379000	855000
t-value = 3.775 Df = 478 significance = 0.000			

Source: own survey, 2012

The results from the independent t-test were supported by the value of Eta Square of 0.03, which indicates moderate effect of investment capital on the business enterprises of members and nonmembers of SACCOS. The results from the t- test and Eta square enable us to confirm that the level of investment between the SACCOS members and non-members differ significantly.

5.2 Economic Benefit of SACCOS Credit

In order to identify the benefit obtained by the individual entrepreneurs, the respondents were asked to mention the benefits they have obtained as a result of using credit from SACCOS. For non-members the idea was to discover the broad economic changes in the absence of credit. The results are presented in Table 3:-

Table 3: Benefits Experienced by the Sampled Entrepreneurs

Benefits	Members		Non-members		Total	
	N	%	N	%	N	%
Spends in clothing, feeding and educating children	53	22.2	126	52.2	179	37.3
Establish new business and acquire family house	54	22.4	42	17.4	96	20.0
Expand business and returns increases	119	49.7	49	20.4	168	35.0
Purchase new land	6	2.5	8	3.4	14	2.9
Deposits as revolving fund	0	0.0	11	4.6	11	2.3
Purchase a vehicle	7	3.2	5	2.0	12	2.5
Total	239	100.0	241	100.0	480	100.0

$\chi^2 = 107.214$ Significance = 0.000.

Source: own survey, 2012

The survey results (Table 3) reveals that a large proportion of SACCOS members (49.7%) expand their business and business returns increases as a result of participating in SACCOS. Moreover, a substantial higher percent (22.4%) of members as opposed to nonmembers (17.4%) despite investing into other new enterprises were able to build a family house. A smaller percent (2.5%) and (3.2%) of SACCOS members reported that participating in SACCOS has enable them to acquire new plot of land and vehicle respectively. While for the case of non-members a slightly higher percentage of them (SACCOS members) (3.4%) mentioned that they have been able to buy a plot of land. A slightly higher percentage of nonmembers in this category is brought about by the type of business activities undertaken, especially on-farm business which necessitates to own land for farming activities. Other 52.2 percent of nonmembers reported that the only benefit so far they have realized is the ability to pay for children education, clothing, and feeding them and nothing else. Similar observation is reported by few SACCOS members (22.20%). The findings show that SACCOS members are economically better off compared to

non-members. In consistent to these findings, Morduch (1998) also observed that the children of borrowers were substantially better off compared to the children of non-borrowers.

In addition, the results indicate that those who participate in revolving funds were the nonmembers amounting to 4.6 percent of the respondents; have their money kept in revolving funds. The phenomenon, which is widespread to non SACCOS members and commonly, found in urban areas. The finding indicates further that few respondents in particular 3.2 percent of SACCOS members bought vehicles. An additional asset is an indication of the presence of significant returns from their investments.

The results were significant at 1 percent level of significance, implying that the participation in SACCOS has improved the well-being of the members. The results also signify the worth of joining in SACCOS in order to improve the livelihood of the members in terms of wealth status and the level of investment and thereby contributing to poverty reduction in the economy.

3.3 Wealth effect of the respondent under study

From the results (Table 4), the explanatory variables accounted for 51.69 percent of the variation in the outcome variable, the model was significant at $P < 0.001$ level of significance, implying that the explanatory variables have successfully explained the response variable. The Durbin-Watson value of 1.664, which is closer to 2, shows that the stochastic is serially independent meaning that the disturbance occurring at one point of a set of observations is not correlated with any other disturbance occurring at another point of the set of observations. Thus, successive values of the error term are mutually independent. The Breusch-Pagan / Cook-Weisberg test for heteroskedasticity for the fitted values indicates a chi-square of 1.88, which is not significant at a probability level of 0.1698 to allow accepting the null hypothesis of homoskedasticity. This means the estimated variance of the residues from regression does not depend on the values of the independent variables; therefore, there are no traces of the problem of heteroskedasticity in the fitted variables.

The mean variance inflation factor (VIF) was found to be 1.32, which indicates the absence of the problem of multicollinearity in the fitted data. The resultant regression coefficients were as follows

The regression coefficient for investment capital acquired a positive sign as it was predicted; the results were significant at $P < 0.001$ level. This implies an increase in investment capital increases the value of an individual's wealth; and this value of individual wealth is the output variable, which measures the well-being of the beneficiaries. A unit increase in the capital increases the wealth status of the beneficiaries by 13.9 percent. Meanwhile business returns was found to have positive significant influence on the wealth status of the respondent, whereby a unit increase in earnings per month increases the wealth status of the individual by 30.9 percent. Household size acquired negative sign as it was hypothesized; revealing that a unit increase in the household size decreases the wealth status by 31.5 percent and thus the ultimate well-being of the individual. This means a large family utilizes more resources into consumption of non-durable goods instead of durable ones, which can add to wealth status thus affecting their economic wellbeing.

With respect to education, the results show that years of schooling acquired positive sign as it was hypothesized. The findings show further that a unit increase in education increases the wealth status of the individual entrepreneur by 2.9 percent. The regression coefficient was however not significantly different from zero indicating that education had no statistical influence on the wealth status of the respondent bearing the size of the business enterprises investigated. Probably business returns, investment capital, access to credit and household size are much more important variables that tend to affect the wealth status of the individual entrepreneur.

The regression coefficient for the membership dummy variable was hypothesized to have a positive effect. This implies that SACCOS members own more assets because of the acquisition of credit and thus stands in a better position for wealth accumulation than the non-members stand. The positive impact of credit on the beneficiary livelihood and wellbeing is supported by enormous literature (see for example Mavimbela *et al.*, 2010 and Neifeld, 1931).

Table 4: Economic benefit of SACCOS on the Well-being of the individuals
Dependent variable = Real wealth status (OLS Regression Results)

Explanatory variable	Coefficient	Std Error	t- value	P[Z > z]	Expected sign	VIF	1/VIF
Household size	-0.315	0.026	-12.23	0.000***	-	1.13	0.887
Years of schooling	0.029	0.021	1.31	0.189	+	1.15	0.868
D1member	0.822	0.118	6.96	0.000***	+	1.16	0.861
Business returns	0.309	0.052	5.96	0.000***	+	1.44	0.694
Invested capital	0.139	0.043	3.25	0.001***	+	1.71	0.584
Cons	10.217	0.636	16.06	0.000***			
Mean Variance Inflation Factor (VIF) = 1.32							
Durbin-Watson (DW) = 1.664							
F(5, 474) = 101.42							
Prob > F = 0.0000***							
R-square = 0.5169							
Adjusted R – square = 0.5118							
Number of observations = 480							

Source: own survey, 2012

Breusch – Pagan / Cook – Weisberg test for heteroskedasticity

Ho: constant variance

Variables: fitted values of real wealth at the initial phase of data collection

Chi 2 (1) = 1.88

Prob > chi 2 = 0.1698

Since the value of Prob > chi square is not significant there is no heteroskedasticity problem.

6. Conclusion

The study aimed at investigating the economic benefits of SACCOS on the well-being of the individual. The study has proven vital for lucrative investments and the overall wellbeing of the individuals. The available findings illustrate the capacity of SACCOS credit to expand the ongoing investment. This credit allows proper allocation of resources into new productive ventures by removing capital constraints. This paper reveals that access to SACCOS credit promotes the capacity of engaging in innovative investment opportunities, increase returns, and allows

ownership of assets sooner than otherwise and thereby contributing to increment in wealth status, which is a proxy for the well-being of the beneficiaries.

This implies that for the poor to be liberated from hardship there must be reasonable investment to combat the restrictions around them. The study reveals that acquisition of SACCOS credit is the backbone of the disadvantaged people as it helps them to overcome their liquidity constraints and promote the growth, expansion the firms, and the overall economic well-being of the individual economic agent.

The paper divulges the value of SACCOS to the economy in this way it has unlocked a window for acquiring investment capital for the development of the nation. As a policy implication, the study calls for the formation of more SACCOS where people can acquire capital for investment purposes and thereby contributing to the industrial economy; which is the focus of the Nation of Tanzania today. The worthiness of this study extends to the policy makers in particular, to conduct capacity-building seminars on the importance of joining SACCOS for improving the wellbeing of the people. The study calls for enhancing budget allocation by the Local Government Authorities into the Department of Cooperative to allow the Cooperative officers to disseminate the vital SACCOS for the well-being of the people. Extending the worth of participation in SACCOS to the society will help the majority to utilize the existing opportunities for income generation via accessing loans and thereby uplifting their economic status.

The current study did not cover all sources of finance such as formal credit, informal credit and other sources of semi-formal credit apart from SACCOS. This calls for another study on the economic benefits of formal and informal credit to the wealth status of the individual entrepreneur using time series data in order to capture the changes in the variables and the sources that cause them.

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