Credit as a financing option for Small and Medium Enterprises in Nigeria a study of Kogi state

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ABSTRACT

This research work has dwelled on some major theories in respect of SMEs financing. The purpose of the study is to find ways and means by which credit as a means of financing the SMEs in Nigeria can be improved upon. The problem of limited access to fund by the small business was highlighted. There was emphasis on the need to properly fund the SMEs as they form hub of any nation industrialisation aspirations. Two hypotheses were postulated to ascertain if current level of institutional credit accessibility by the SMEs in Nigeria is effective, and to also ascertain whether the efforts towards assisting SMEs access institutional credit are productive. Questionnaires were designed and sent out which form the sources of the relevant data to the problem of the study. The data collected via the questionnaires were presented and satisfactorily analysed, such analysis form the basis of the researcher’s deductions. With the two (2) hypotheses stated, the study was supported with the use of simple statistical percentages. When critically tested with the aid of chi-square (\( \chi^2 \)), the following result findings emerged. Credit as a financing option for Small and Medium Enterprises in Nigeria, is not effective. Institutional efforts towards assisting the Small and Medium enterprises access credit are not productive. The result findings include the following: It is relatively easier for SMEs in Nigeria to access short term credit facility (in form of over draft and advances) for working capital need than long term credit facility; The perceived high risk lending to SMEs constitutes a major setback to institutional lending to SMEs in Nigeria; SMEs have easier access to non-formal sources of credit funding than formal sources.

Key words: Small and Medium Enterprises, SMEs, Industries, Banks, Institutional Credit

BACKGROUND OF THE STUDY

The small and Medium enterprises (SMEs) is a business enterprises that could be production, manufacturing, construction or service rendering organization, which employs a small number of people, with limited capital outlay, and whose management revolves around one or two or more individuals, who are responsible for all decisions made in the organization.

It has been identified that lack of good management and inadequate finance has remained the greatest setbacks to the survival and growth of the Small and Medium Enterprises in Nigeria. Finance plays a vital role in the day-to-day operation of any business and the lack of it has been responsible for business failures in recent times among Nigerian industries. To remain in business, the Small and medium enterprises (SMEs) must be able to mobilize fund sufficiently enough.

The small size and the structure of most Small and Medium Enterprises put them at greater disadvantage to accessing institutional credit because the requirements set by the banks for the consideration of firms, are one of the
criteria of Small Business enterprises. What this translates to, is that the Small and medium enterprises grip in an endless problem of finance. In Kogi State and its environs, the research findings indicate that, there is the apparent on clear performance by the state government on the alleviation of funds for the small and medium enterprises.

**Statement of problems**

Direct efforts by the Nigerian Small and Medium Entrepreneurs to have good access to Institutional credit in form of overdraft, advances or loans, have suffered a lot of setbacks over the years.

Apart from the fact that the small entrepreneurs are not better equipped through information, to know the criteria the banks set for the extension of credit. Most projects being floated by them cannot be adjusted on self sustaining ones because these projects were selected out of fiat. The banks on their part show a lot of apathy to lending to the small business entrepreneurs on the ground that they are high risk customers. The fact remains that, the Small and Medium Enterprises (SMEs) still lack adequate access to finance through credit. The result is that, most SMEs who manage to spring up may face untimely death, and new ones cannot be established, thereby leading to economic stagnation.

**The objectives of the study**

The Objectives of this research study is to examine critically, the effectiveness of credit and other financing options that take semblance of credit, as sources of finance for the Small and Medium Enterprises (SMEs) in Nigeria in respect to some selected SMEs in Lokoja.

The researcher is going to emphasize the following statements as the major objectives of the study:

**i.** Appreciate credit as a form of financing source for the SMEs in Nigeria, and to critically look at the extent to which the SMEs have access to institutional credit and other forms of credits.

**ii.** Identification of problems faced by the SMEs in accessing institutional credit.

**iii.** Analysis of the contribution of lending institutions in assisting SMEs access to credit

**iv.** Analysis of the contribution of the various government agencies in enhancing SMEs financing.

**v.** To highlight the benefits the Nigerian economy will derive from enhancing the SMEs access to credit and finance.

**vi.** To recommend ways and means by which the various programmes and schemes aimed at supporting the SMEs access to finance, can be improved upon.

**LITERATURE REVIEW**

Several studies have been carried out by many researchers, and views expressed by others in several forms on the issues of institutional credit as a financing sources for the small and medium enterprises in Nigeria. It is only proper to look at the views and ideas of some of these people.

According to Odubano (2006) he identified two major ingredients which must be present before a small business can be started. These he said are entrepreneurial motivation and capitals, are the two ingredients. Capital carries a heavier weight. He stressed further that the absence of capital could frustrate the take-off of any business no-matter the level of entrepreneurial motivation.

Thus, Ayeni (2006) reported that Dr. Joseph Nnana the Director of research CBN presented a paper recently to reflect the fact that the proportion for bank’s loans to SMEs in Nigeria between 1992 and 2000 was on the decline. The report has it hat despite the place of SMEs in the country’s realization of sustainable industrials growth they have limited access to institutional credit facilities, owing to their risky nature, high mortality rate, small size, relatively low profitability, poor accounting practice, and poor collateral base.

According to Okafor (2008) in his view, said that the efforts of the various credit schemes and specialized programmes of supporting SMEs financing had made significant impact directly on the aggregate amount of loan disbursed and the number of projects promoted; and indirectly in terms of the gross investments made and employment generated by promoted projects.

According to Deinde (2002), he accepts the fact that access to finance is still a major limiting factor for small and medium size Enterprises in most countries, and particularly developing nations like ours.

He itemized the four (4) main challenges facing micro/small and medium enterprises as:

(i) Loan payment
(ii) Cost of recovery
(iii) Accessing commercial Funding
(iv) CBN unstable monetary policies

Odubanjo (2000), was of the opinion that though data may readily not be available to assess the success of the various efforts of the government to support the SMEs in Nigeria, but that the handwriting on the wall, was enough to say that what has been on ground, is a far-cry from the expectation of the government.

According to Ogoegbulem (2003) reported that Mr. Femi Ekundayo had called on the banks to embrace the challenge of the Scheme (SMEIEIS) to reanimate the nation’s industrials sector.

Akintunde and Adeleye (2003) reported that Mr. Gamaliel Onosode has called for a review of the guidelines on SMEIEIS toward enhancing its impact and effectiveness in
the economy. He emphasized the removal of the recipient SMIEIS to equity funding.

Fagunjade (2003) reported that Chief Joseph Sanusi had announced the decision of the Central Bank of Nigeria (CBN) to engage the International Finance Corporation (IFC) in the operation of SMIEIS.

RESEARCH METHODOLOGY

This research work involves the use of data collected primarily through questionnaire designed and distributed to some selected SMEs basically in Kogi State with strong emphasis to cover variety of industries. In effect the research instrument applied to collect information for this study is structured questionnaire consisting of twenty-three (23) questions. The questions therein, were framed in such a way as to enable the postulated hypotheses for the study to be aptly tested and conclusion drawn accordingly.

Information were also collected through interviews conducted with some Small and Medium Scale Entrepreneurs and banks, staff, seminar paper, Newspapers, journals were also used.

A questionnaire as a research instrument for this study was adopted due to the fact that it is one of the best methods of “obtaining specific information about a definite problem so that the data offer for the analysis and interpretation results in a better appreciation of the problem”. The questionnaire design for this study was done in such a way as to enable the respondent have idea of the purpose of the study.

Random sampling was adopted, and it involves handpicking the subjects. The random sampling was done consciously so as to cover as many industries that constitute Small and Medium Enterprises in Nigeria, ranging from agriculture, manufacturing, marketing and services. With this, the researcher believes that the outcome of the study will be representative of the entire population, more so when one considers the similarity of the problems and identical parameters shared by SMEs in Nigeria.

The sample size of the population was influenced by the number of respondents who actually filled and returned their questionnaires. A total number 300 questionnaires were administered to subjects for the study within which 276 copies were filled and returned. And among those returned; only 260 were correctly filled. This represents 86.7 percent of the original population intended for this study. It is believed that this sample size is sufficient for a study of this nature, and will not negatively affect the validity of the findings.

Method of data analysis

The analysis of this study will be content based, which includes the use of Chi-Square ($\chi^2$) statistical techniques to aid the testing of hypotheses. Chi-Square will be used to test the following hypotheses.

**Hypothesis I**: Credit as a financing option for Small and Medium Enterprises in Nigeria, is effective.

**Hypothesis II**: Institutional efforts towards assisting the Small and Medium Enterprises access credit, is productive.

Note: As earlier mentioned, Chi-Square ($\chi^2$) statistical method will be applied to test the hypotheses postulated. The Chi-Square is applied when two (2) variables are drawn from independent samples and each of these samples are categorised accordingly. Data are non-metric and are accordingly expressed in frequencies. The formula for calculating the statistics is;

$$X^2 = \frac{\sum (O - E)^2}{E}$$

Where $X^2$ = Chi- Square, $\sum$ = Summation, $O$ = Observed frequencies, $E$ = Expected frequencies

PRESENTATION AND ANALYSIS OF DATA

Both the research question and the hypothesis will be tested by the use of statistical method, such as the use of simple percentages based on the respondents' characteristics. To further test the analysis to determine whether to accept or reject the postulated hypotheses, chi-Square analysis was employed. The variable will be tested at 0.05% level of significance.

1. Ho: Credit as a financing option for the Small and Medium Enterprises (SMEs) in Nigeria is not effective.
   Hi: Credit as a financing option for Small and Medium Enterprises (SMEs) in Nigeria are effective.
2. Ho: Institutional efforts towards assisting the Small and Medium Enterprises (SMEs) access credit in Nigeria are not productive.
   Hi: Institutional efforts towards assisting the Small and Medium Enterprises (SMEs) access credit in Nigeria are productive. Below is the table used for data analysis.

Analysis of data

From the Table 1, it shows that 23.1% of the respondents are from the agricultural sector, 11.5%, 30.8% and 34.6% from manufacturing, sales/Marketing and services respectively.

Hypothesis testing

The hypotheses for the study would be tested using Chi-
Table 1. Option to ascertain the nature of business respondents.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>No of respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>60</td>
<td>23.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>30</td>
<td>11.5</td>
</tr>
<tr>
<td>Sales/Marketing</td>
<td>80</td>
<td>30.8</td>
</tr>
<tr>
<td>Services</td>
<td>90</td>
<td>34.6</td>
</tr>
<tr>
<td>Total</td>
<td>260</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Questionnaire (question 2)

Square ($\chi^2$) statistical method of analysis. In this respect the "null hypothesis" would be received if calculated value of the Chi-Square ($\chi^2$) is greater than the table value and vice-versa.

Hypothesis 1

Hypothesis I was stated as "Credit as a finance option for Small and Medium Enterprises in Nigeria is effective". This can be stated in "null" and "alternative" hypothesis form as follows:

H0: Credit, as a financing option for Small and Medium Enterprises in Nigeria is not effective.

Hypothesis II

The hypothesis was stated as "Institutional efforts towards assisting Small and medium Enterprises in Nigeria access credit facility are sufficient".

This hypothesis was also stated in null and alternative hypothesis form as follows:

H0: Institutional effort towards assisting the Small and Medium Enterprises in Nigeria access credit facility are not productive.

H1: Institutional effort towards assisting the Small and Medium Enterprises in Nigeria access credit facility are productive.

SUMMARY, CONCLUSION AND RECOMMENDATION

This research was carried out basically to look into how effective is credit as a financing option for SMEs and to also look at the effectiveness of the various institutional efforts toward making funds available to the SMEs. It also proffers ways and means to ensure improvement.

The researcher highlighted the roles the Small and Medium Enterprises play in the industrialization aspiration of a developing nation such as Nigeria, and the need for improved institutional funding, particularly bank loan facility and government financial support to SMEs.

The history of government supportive programmes at giving financial support to SMEs was also periscope. This programme cannot be faulted in principles, but their administration and delivery were fraught with government over bearing bureaucracy, inconsistency, professional corruption and starvation of necessary funds.

The role of the banks as providers to SMES should be strengthened particularly through the Small and Medium industries Equity Investment Scheme (SMIEIS). This can be made possible if the banks can fully understand the peculiar circumstances associated with lending to SMEs. They should also invest in capacity development in the areas that have direct bearing to small business lending, such as venture capital etc. It is the researcher’s candid opinion that the level of SMEs accessibility to institutional credit financing can be improved upon. This can be done if all stakeholders in the development of the SMEs and indeed the real sector of the Nigerian economy can exercise sincerity, professionalism, and the right level of commitment in the administration and delivery of the various programmes aimed at addressing the issue of SMEs funding.

REFERENCE


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