An examination of debt financing of growth oriented SMEs in Nigeria

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Declaration of Originality

I hereby declare that this thesis is my original work. The thesis has not been submitted in any previous application for a degree award. The entire work reported in the thesis was undertaken by myself, and all additional sources of information cited in the thesis have been appropriately referenced and dully acknowledged at the appropriate points in the text.

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Abbreviations and Acronyms

ADBG - African Development Bank Group

ATC- Authority to Collect

BEIS - Business Energy and Industrial Strategy

BFP - Business Finance Partnership

BIS - Business Innovation and Skills

BMO - Business Management Organizations

BOFIA - Banks and Other Financial Institutions Act

BOFID - Bank and Other Financial Institutions Decree

BOI - Bank of Industry

CAC - Corporate Affairs Commission

CAMD - Companies and Allied Matters Decree

CBN- Central Bank of Nigeria

CBR - Central Bank Rate

CDF - Community Development Finance

CEEDR - Centre for Enterprise and Economic Development Research

CFF- Contract Financing Facility

CoFund - Business Angel Co-Investment Fund

CTG - Cotton, Textile and Garment Fund

DBT- Discouraged Borrower Theory

ECF - Enterprise Capital Fund

EFG - Enterprise Finance Guarantee

EIP - Entrepreneurship Indicators Programme

EIS - Enterprise Investment Scheme

FCT- Federal Capital Territory

FET- Finance Escalator Theory

FLS - Funding for Lending Scheme

FMF- Federal Ministry of Finance

GFC - Global Financial Crisis

GOSMEs - Growth Oriented SMEs

GPF - Growing Places Fund

HDI - Nations Human Development Index

HNWIs - High Net Worth Individuals

IAT- Information Asymmetry Theory

IFF - Import Financing Facility

IFIs - International Financial Institutions

JEREMIE - Joint European Resources for Micro to Medium Enterprises

KSM- Knight of St Mulumba

LEPs – Local Enterprise Partnerships

LPOFF - Local Purchase Order Financing Facility

MAN - Manufacturing Association of Nigeria

MDA - Ministries, Departments and Agencies

MFBs - Microfinance Banks

MSMEDF - Micro Small and Medium Enterprises Development Fund

MSMEs - Micro, Small and Medium Enterprises

NACRDB - Nigeria Agricultural, Co-operative and Rural Development Bank

NBS – National Bureau of Statistics

NEEDS - National Economic Empowerment and Development Strategy

NERFUND - The National Economic Reconstruction Fund

NESTA- National Endowment for Science, Technology and the Arts

NEXIM - Nigeria Export and Import Bank

NGOs - Non-Governmental Organization

NIDB - Nigeria Infrastructure Development Bank

NIE - New Institutional Economics

NLGS - National Loan Guarantee Scheme

NPB - Nigerian Population Bureau

NPMSME - National Policy on Micro, Small and Medium Enterprises

OECD - Organisation for Economic Co-operation and Development

PFIs - Participating Financial Institutions

POT- Pecking Order Theory

PPP - Public Privates-Private

RFF - Receivables Financing Facility

RGF - Regional Growth Fund

RSA - Regional Selective Assistance

SAP - Structural Adjustment Program

SBRI - Small Business Research Initiative

SEIS - Seed Enterprise Investment Scheme

SMEDAN - Small and Medium Enterprises Development Agency of Nigeria

SMEEIS - Small and Medium Enterprises Equity Investment Scheme

SMEs - Small and Medium Size Enterprises

SMSEGS - Small and Medium Scale Enterprises Guarantee Scheme

TSB - Technology Strategy Board

UDB - Urban Development Bank

UKEF - UK Export Finance

UKIIF - UK Innovation Investment Fund

UKTI - The UK Trade & Investment

USAID - United States Agency for International Development

VBCs - Venture Capitalists

VCT - Venture Capital Trust Scheme

Abstract

This thesis examines the relationship between Small and Medium-sized Enterprise (SMEs) financing and business growth in Nigeria. Specifically, the research examines the external debt financing needs and debt financing gaps experienced by growth oriented SMEs, the role of finance in SMEs growth and the factors that affect SME financing. In so doing, the study focuses on the supply and demand side perspectives of SME financing including public policy support for growth oriented SMEs. Semi-structured interviews were conducted to collect data on the main financing needs of SMEs and to determine whether they were experiencing debt financing gaps and the nature of such gaps. The research provided empirical evidence which shows that growth oriented SMEs are experiencing debt financing gaps in Nigeria, with the demand side gap being more prominent than the supply side gap. It also established the existence of an association between access to bank finance and SME growth, which determines the important role that external finance plays in SMEs growth in a developing country context. This study makes both theoretical and practical contributions to knowledge. Theoretically, it has contributed by developing an analytical model which improves our understanding of SME debt financing and its impact on the growth oriented SMEs in Nigeria and the African context. In terms of contribution to practice, the research yields useful knowledge which could be used to inform the work of policy-makers and business practitioners in developing and advancing SME financing initiatives in Nigeria and improving the overall relationship between SME owner-managers and providers of debt finance.

CHAPTER ONE: INTRODUCTION

1.1 Aims and Objectives

This thesis examines debt financing of growth oriented SMEs in Nigeria. Specifically, the study examines the debt financing needs associated with the development of SMEs in Nigeria, focusing on the supply and demand side perspectives of SME financing and the role of public policy in supporting growth oriented SMEs.

1.2 Rationale for the Research

The interest in SMEs as important economic development agents has increased in Nigeria, particularly since the 1990s (Opara, 2011; Quartey et al., 2017; Anayo et al., 2011; Onyeiwu, 2012; SMEDAN-NBS, 2012; Udofot and Udoidem, 2014). The Nigerian government's commitment to SMEs' development is reflected in the creation of an enabling environment for these firms to grow (NPMSME 2006; SMEDAN-NBS, 2012). The rationale for public policy support for SMEs includes the belief that they are innovative, profitable and drive economic growth.

The contributions of SMEs to economic development and job creation has remained an issue of debate (OECD, 2002). A small cohort of SMEs initially referred to as gazelles (Birch, 1981) and more recently described as high growth SMEs (Brown and Lee, 2014) are argued to be responsible for the creation of most of the net new jobs in most countries (Anyadike-Danes, et al., 2009; 2013; Brown and Lee, 2014). This small cohort of SMEs is regarded as efficient, prolific job creators, and seen as seeds of big businesses and national economic engines (Brown and Lee, 2014). At the core of SMEs' development lay the issues of financing. This issue was initially highlighted in early reports by Macmillan (1931); Bolton (1971); Wilson (1979) and subsequently questions on the demand and supply of financing for high growth SMEs were raised (Anyadike-Danes, et al., 2009; Shane, 2009), in addition to the role of SME financing on SMEs growth (Oyelaran-Oyeyinka, 2007; CBN, 2013; Owen et al., 2016).

There is no universally accepted definition of Growth Oriented SMEs. Most researchers differentiate them based on the characteristics that they exhibit. For instance, the OECD

(2002) discussed growth oriented SMEs in terms of their employment generation and argued that although Birch (1987) highlighted that SMEs collectively create more jobs than large companies, it is the growth oriented SMEs that are responsible for the highest impact on net job creation. The report noted further that growth oriented SMEs are more likely to be R&D intensive and exhibit innovativeness. Moreover, these firms are more likely to be either associates or subsidiaries of other firms or involved in alliances. Growth oriented SMEs are found across a range of sectors and often involves mainly marketing and export oriented firms, but growth oriented status does not necessarily depend on the age of the firm. This all ties in with the UK Nesta Vital 6% report (2009) in which 5.9% of firms produced over half of the total employment and these growth firms could be from a wide range of sectors, ages and sizes.

Growth oriented SMEs have been measured in various ways in the literature (Henrekson and Johansson, 2010; Coad et al., 2014), however, the standard definition adopted by most researchers is the OECD definition (Hart and Anyadike-Danes, 2014). This definition considers a growth oriented firm as 'an enterprise with average annualised growth (in number of employees or turnover) greater than 20% per annum over a three- year period, with a minimum of 10 employees at the beginning of the growth period' (OECD, 2008, p. 61). This definition although recognised by various government bodies in Nigeria, has not been adopted by the Central Bank of Nigeria in their policy formulation. Growth oriented SMEs are also referred to as 'gazelles' (Brown et al., 2014). The SMEs which have not achieved growth oriented status as yet, but have the capacity to grow their businesses to achieve growth oriented status if provided with adequate financial support are regarded as Growth oriented SMEs in this research. Key measures of firm growth include employment and sales turnover in this research, although other growth measures may include assets, earnings and equity, which firms publish in financial reports. These are not considered in this research because growth oriented SMEs are not statutorily required to publish audited financial reports in Nigeria.

This research specifically studies the financing of Growth Oriented Small and Medium Enterprises (SMEs) in Nigeria, particularly examining their external debt financing needs, to understand how these companies, finance their business growth. External debt financing is financing that excludes internal resources of the business or from founders, family and friends – 'the 3Fs' (Deakins and Freel, 2012). Very few studies have explored the financing of SMEs in Nigeria, hence the recent call by the Nigerian Central Bank for researchers to undertake SME studies to enable the government adopt and implement initiatives based on evidence backed by indigenous research (CBN 2010). There is also a major gap in understanding the success and failure of Nigeria's SMEs. This research therefore seeks to address this gap. It is also important to understand the economic behaviours underlying the financing of SMEs. This is because the ability of SMEs to access external debt finance may be linked to the stability of the financial system and institutional arrangements adopted by financial intermediaries and private equity providers.

1.3 Research Questions

The following research questions were addressed in this research:

1. Does a 'debt finance gap' exist among "growth oriented SMEs" in Nigeria?
2. If so, what is the nature of this "debt finance gap"?
3. To what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"?

1.4 Choice of Topic and Research Problems

The topic for this research was chosen for three main reasons. The review of both academic and practitioner literatures revealed a major gap in relation to SME financing, leading to SMEs failure to create jobs and contribute to gross domestic product (GDP) which has adverse effects on the Nigerian economy (CBN, 2013). This suggests a major requirement to advance the existing knowledge on SME financing in Nigeria. The literature in this area has just started to develop after being neglected for a long time in the Nigerian context (Oyelaran-Oyeyinka, 2007; CBN, 2013).

Nigeria as a country lacks an adequate institutional framework for the development of growth oriented SMEs. It has not been clear as to why the few existing SME financing initiatives have not been able to deal with the entrenched financing problems faced by Nigerian growth oriented SMEs (Udofot and Udoidem, 2014). This study seeks thus to provide additional information needed by policy makers and the Central Bank of Nigeria (CBN) for the development of policy initiatives to address the problems faced by the SME sector in Nigeria.

The researcher also aims to raise the profile of SME financing as an area of growing interest for both academics and practitioners in Nigeria and other parts of the world. The topic area fits well with the researcher's academic background, career and future aspirations. The researcher has already made some contributions in this area during his banking career in Nigeria.

1.5 Scope of the Research

The boundary of this study is SME debt financing with attention to the demand for and supply of external finance to growth oriented SMEs. The focus of this research on SME debt financing did not preclude discussion or exploration of other aspects of development of the SMEs sector which were considered relevant (Lerner, 2010; Hughes 2009; Hwang & Horowitt, 2012).

The fact that the primary data for this research was collected from Nigeria did not preclude the inclusion of vital information from other business environments during the study for context and comparison. This enabled the researcher obtain as much information and research ideas as possible given the limited availability of SME financing information in Nigeria. This also enhanced the generalizability of the research findings.

1.6 Methodology

The methodology included initial desk review of literature, field work to collect primary research data in Nigeria and analysis of the primary research data. The research covered a purposive sample of forty-eight (48) growth oriented SMEs selected from three sectors (agriculture, manufacturing and oil and gas) and two locations (South West zone and North Central / FCT zone). The owner managers of these SMEs were interviewed using a pre-developed structured interview guide about their main financing needs for the demand side perspectives to SME financing. The data for the supply side perspectives were obtained by pre-developed structured interviewing of finance providers, policy makers and key informants. This in-depth demand and supply-side approach to interviews – which took on average at least one hour in face to face meetings - provided a clear set of topics and questions, enabling uniform and comprehensive collection of quantitative data, whilst also facilitating additional qualitative inquiry to gain explanatory insight.

1.7 Outcomes of the Research

The outcomes of this research were dimensioned in terms of the original contributions that the research made to the theory and practice of SMEs debt financing. The details of these contributions are as follows:

1.7.1 Contributions to theory

Finance gap

This research contributed to the finance gap theory as it sought to empirically determine the existence of financing gaps among SMEs in Nigeria (Cowling et al., 2012; Armstrong et al., 2013; Fraser et al., 2013; Brown and Lee., 2014). The debt financing gaps which are dimensioned into demand side and supply side financing gaps were mathematically modelled and calculated. The research extended the studies by (Deakins et al., 2008) on SMEs financing gap theory, which determined the existence and nature of financing gaps among Scottish SMEs using in-depth interviews. The relevance of modelling debt financing gaps lies in budgeting for public policy financing initiatives to support SMEs for the attainment of optimal resource allocation.

Finance for SMEs growth

This research contributed to theory by empirically establishing the existence of an association between access to finance and SMEs growth. The research also provided evidence of the role of finance in SMEs growth which is in agreement with (Owen et al., 2016).

SMEs finance – Supply and Demand Factors

This research contributed to theory by empirically establishing the existence of an association between access to finance and business characteristics (notably by sector, location and trading age) and the personal characteristics of the owner managers (including age, gender, education and management track record) which agrees with the Resource Based Value theory (Barney, 1991) in the sense that variations in the resources of the firms may lead to different access to finance outcomes among the firms. This research also sought to find out if access to finance is associated with relationship banking. This is a contribution to the theory of information asymmetries as finance providers could rely on relationship banking to obtain information used in making lending decisions.

1.7.2 Implication for practice

Demand side

On the demand side, the research contributed to practice by identifying some key dimensions to "borrower discouragement" (i.e. potentially viable external financing requirements for growth oriented SMEs not being pursued due to various concerns) which may include: i) failure of owner managers to apply for external finance due to fear of losing business secrets or lenders' diversion of submitted business plans to competitors; (ii) fear of loss of prestige by the owner managers due to perception of the business by peers as going to the bank to beg for money to do business; (iii) abandonment of credit applications due to loss of time, cost of loan processing and requirement of additional regulatory approval after bank due diligence; (iv) fear of inability to meet banks' ever changing lending criteria; (v) avoidance of bank charges, leading to incomplete banking of business cashflows; (vi) perception of financial risk associated with weak banks.

Supply side

On the supply side, the research contributed to practice by developing a financing gaps analysis model which is generalizable and can be adopted by the government in the process of budgeting and implementation of SME financing policy support initiatives. The research also has practical implications for the development of SME financial ecosystem as SMEs growth is directly affected by the availability of adequate financial support.

1.8 Structure of the Thesis

The thesis is structured into eight chapters:

Chapter one covers the introduction of the entire thesis. This chapter consists of the aims and objectives, rationale for the research, which provides the contextual background of the study, the research questions and choice of the research topic, scope of the research and outcomes of the research. The second chapter covers a comprehensive review of the literature and establishes the theoretical framework underpinning the research. The chapter also sets out the links between the theory, research questions, and the measurement of research variables to answer the research questions. The third chapter covers a review of the literature on financing of SMEs in Nigeria by examining the Nigerian financial landscape, with emphasis on the institutions that support SMEs financing and the available government financing initiatives. The chapter also reviews financing of SMEs in developed countries focusing on UK and Europe and the possible lessons for SME financing policy makers in Nigeria.

Chapter four of the thesis covers the research methodology, including the procedure adopted in obtaining and analysing the primary research data. The research involved interviews conducted on the purposively selected sample of respondents from three sectors of the economy (agriculture, manufacturing, oil and gas) and two contrasting zones (south west and north central /FCT zones). Four different groups were interviewed (SME owner managers, lenders, policy makers and key informants) using four different sets of interview guides. Chapter five, covers quantitative findings of the research. The quantitative findings include the profiling of the research interviewees, modelling of financing gaps experienced by growth oriented SMEs from both demand side and supply side perspectives. It examines the financing needs of the interviewed SMEs and the financing gaps that the SMEs experience and provides an answer to the research questions on the existence and nature of the financing gaps. The chapter also covers the external financing impact on SMEs growth and establishes the existence of an association between access to finance and SME growth. Chapter six covers the qualitative findings of the research. The chapter develops an in-depth examination of the main debt financing needs of growth oriented SMEs during the period covered in the research from the perspective of the owner-managers. The outcomes of obtaining finance by SMEs and factors that impact on SMEs financing. Chapter seven covers discussion of both the quantitative and qualitative findings of the research reported in chapters five and six. The discussion of the main research findings is presented in three groups: (i) Finance gap (ii) Association of access to finance with Research Variables (iii) Demand-side and Supply–side factors that affect SMEs financing. Chapter eight concludes the research and addresses the reflection, conclusions and contributions of the research to theory and the implications of the findings for policy and practice, limitations of the study and recommendations for further research.

CHAPTER TWO: THEORETICAL PERSPECTIVES ON SME FINANCING

2.1 Introduction

This review of the literature examined growth oriented SMEs financing, the financing needs associated with the growth of SME businesses in Nigeria and the financing landscape including financial institutions. The theoretical assumptions underpinning the review are: (i) finance drives all economic activities the SMEs engage in and is of paramount importance to the survival and growth of SMEs (Owen et al., 2016; Hambayi and Vedanthachari 2017). (ii) finance gaps may exist in Nigeria, a situation where SMEs having viable proposals are unable to execute projects due to lack of finance which impacts negatively on their growth and contribution to economic development. (iii) The effects of financing on SME growth can be explained by certain factors, including commitment of finance providers to SME financing, financing policies that drive financing decisions' making within a cordial SME-lender relationship. Finance providers generate information through relationship banking with SMEs to mitigate information asymmetry risk and limit information gaps and create public awareness of financing sources and public policy support. (iv) that SMEs have the financial management resources to assess and find/access appropriate external finance (the demand failure thesis) and (v) that the supply of finance is adequate and sufficiently promoted – which may be underpinned by government support policies where there is a perceived finance gap (the supply failure thesis). These lead to the review of the key finance theories to guide the empirical study and answer the research questions.

Section 2.2 covered a review of the key theories underpinning the research. The first theory examined is the finance gap theory. The debate on whether a 'finance gap' exists in Nigeria and its dimensions in terms of its nature and size has been on-going for a while (NPMSME, 2006; SMEDAN-NBS, 2012; Opara, 2011; Quartey et al., 2017; Anayo et al., 2011; Onyeiwu, 2012; Udofot and Udoidem, 2014) which calls for origination of relevant policies and institutions to enhance access to finance by SMEs. The answers to the related research questions lie within the supply side and demand side perspectives to this research. Evidence was also drawn from both demand and supply based perspectives in determining the role of financing in the development of growth oriented SMEs. The second theory covered is the 'Theory of Firm Size' in relation to external financing, which examined how the size of the firm impacts SMEs financing and financing gaps. The measures of firm size in this research include employment and sales turnover. The trading age is also relevant as a measure of firm track record in the examination of growth and development stage of the firm. The third theory reviewed is 'Information Asymmetry' which is relevant in the examination of the relationship between the owner managers and the finance providers to obtain information for making financing decisions. The existence of information asymmetry affects access to finance. The financing decisions made by the lenders may be to provide full funding, part funding or no funding for each of the financing applications. Reviewing access to finance by SMEs aids the examination of factors that affect the financing of SMEs in addition to the resources the SMEs require to succeed in obtaining finance. The fourth theory examined is the 'Pecking Order Theory' to understand the financing preferences of the SMEs. The fifth theory examined is the 'Finance Escalator Theory' to determine the level of financing available to meet the financing needs presented by SMEs. The sixth theory reviewed is the 'New Institutional Economies' which underpins the activities and interactions between the various stakeholders and the institutions that support SME financing and SME development. Section 2.3 covered SMEs growth stages and related financing needs while section 2.4 covered access to finance by the SMEs and examines the various financing sources available to SMEs as well as issues affecting the success of SMEs in obtaining adequate finance. Based on desk review of relevant literature, SMEs financing framework applied in this research is covered in section 2.5. The last section summarised the chapter.

2.2 Review of Key Research Theories

2.2.1 SME Finance Gap

The 'finance gap' refers to a situation where a firm has profitable opportunities but does not have adequate financing to enable it take up opportunities (Jarvis, 2006; Jarvis and Schizas, 2012). This is a financial constraint the SMEs which arises because the finance providers are unable to provide all the finance required by SMEs because finance is a scarce resource. Deakins et al., (2008) argue that finance gaps arise due to the existence of mismatches between supply and demand for financing. In theory finance gaps, will arise because SME demand for financing is usually far greater than the willingness of financial institutions to provide the required supply of debt capital. This inability of financial institutions to match demand for debt capital with supply of credit facilities leads providers of finance into allocation of the scarce financial resources to competing projects or transactions, a situation referred to as credit rationing in finance theory (Stiglitz and Weiss, 1981). Various factors determine the allocation efficiency of the finance providers which could include the project viability, availability of relevant information, the finance providers' perception of the risk associated with the transaction, the ability of the SME to provide adequate collateral to secure the finance. The guiding factor for providers of finance in credit rationing to SMEs has remained transaction cost (Williamson, 1985). Due to information asymmetry, providers of finance have started considering other ways to reduce the risks of SME lending and the issue of forming closer relationships become key, leading to the recent interest on deemphasizing the relevance of transaction cost by introducing relationship based approach (Berger and Udell, 2004, Berger and Udell 1995). The equity gap is the vacuum which exists between the funds the owners of the business can provide and the funds they can borrow. Where a business is not able to finance itself, it will then need to be financed by other means. This 'other' means of financing will be explored in this research. This is necessary because the existence of finance gaps for small businesses impairs growth and financial development. The finance gap is widened by the existence of information asymmetry and moral hazards which fuel market imperfections resulting in lenders basing their lending decisions on other criteria apart from the economic viability of the underlying transactions (Jarvis, 2006; Hall, 1995). This idea was asserted by Mason (2009) in his study of business angels and their financing of SMEs. The concept of the finance gap has also been a major concern for various regulators, including the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The whole essence of state interventions aimed at supplying finance for small businesses operations is to close or at least reduce this gap for viable businesses (Lerner, 2010) (BIS, 2012; SMEDAN, 2012; Shane, 2009; Lerner, 2010; Freel et al., 2012; Cowling et al., 2012; Mason, 2009). According to Jarvis (2006) government response to this gap is usually in the form of intervention through the introduction of different economic initiatives and programs. In recent years, mainly after the global financial crisis (from 2008), the financing gap grew and created more problems for both SMEs and large organisations (Mason and Brown, 2013; Brown et al., 2014; Cowling et al., 2012; Armstrong et al., 2013; Lerner, 2010; Shane, 2009).

The stance taken by Harrison and Mason (2009) appears to have been grounded on the studies conducted by Bovaird et al., (1995) and Binks and Enew (1995) which highlighted the ‘information gap’ as key to the widening of the ‘finance gap’. Their studies claimed that small businesses are less successful in raising finance because owner managers are not adequately informed of funding opportunities regarding both equity and debt capital. It is the quality and cost of information that drives and sustains bank lending decisions. Therefore, for the ‘finance gap’ to be narrowed, the difficulties in the demand and supply of financing for SMEs must be fully resolved (Binks and Enew, 1995). In reflection, Deakins et al., (2006) acknowledge that the finance gap has been known to exist for over eighty years. In the UK, the Macmillan report of 1931 provided evidence to what is termed the ‘Macmillan gap’ which represented the finance gap. Since this finance gap has been there in various forms over the years, then there is a need for research to evaluate the gap further and suggest ways of closing the gap especially in a developing country such as Nigeria. Despite all these studies conducted on resolving finance gaps no study has focused on dimensioning and measuring the finance gaps in the context of NIgeria. The first issue that concerns this study is that of size, which leads to review of the firm theory to examine how the size of the firm affects financing gap.

2.2.2 Theory of the Firm Size in relation to External Financing

The determination of the size of a firm may be based either on the value of capital invested by the firm or the number of employees. According to Alam (2002), both the employees and the funds invested are input measures of firm size as they are internal to the firm and determine the forms of capabilities developed. Other schools of thought which include Berger and Udell (2009) and SMEDAN (2012) are of the opinion that the volume of sales or turnover is a main determinant of firm size. They base their arguments on the fact that sales and turnover are important measures of size as it represents an ‘output’ measure and relates to the exchange partners outside the organisation (of the firm). This idea was partly supported by Di Tommaso & Dubbini (2000) who concluded that “in financing organisations, the volume of exchange transactions or sales is an important size characteristic, being determined in financial exchange by different number of customers, but not a reliable measure of size. Di Tommaso & Dubbini (2000, pg. 9) identified four main methods of explaining firm size:

1) The technical efficiency approach based on the concepts of technical and allocative efficiency;

2) The institutional efficiency approach which focuses on the relationship between efficiency and transaction costs;

3) The imperfect competition approach which is based on market power and

4) The dynamic approach which consist of dynamic models of firm life-cycle.

According to Di Tommaso & Dubbini (2000), the technical efficiency approach refers to the traditional analysis of firm size which is conducted in the context of a competitive equilibrium in which economies of scale predominantly determine the optimal size of the firm. This is in line with the conclusion of Viner (1932) who postulated that the size of the firm is mainly determined by economies of scale. The economies of scale include the advantages which aid the firm's business and could be either internal to the firm or external (Baumol, Panzar, & Willig, 1982). Another school of thought argue that, the 'organisation' of the firm has an influence on its size. These organisational factors, such as entrepreneurial and managerial factors intervene in the conduct of the firm's business, which creates organisational diseconomies of scale for instance, in control and communication thereby changing the optimal size of the firm (Knight, 1965; Lucas, 1978). Once a firm starts to increase in size both the degree of control and the immediacy of communication will decrease, which makes the function of coordination unnecessary (Di Tommaso & Dubbini, 2000). This idea is supported by Geanakopolus-Milgrom (1985) who argued that the optimal size of a firm results from a trade-off between the reward of coordination and communication costs.

According to the institutional efficiency approach; the efficient size of the firm rises in the presence of organisational innovations which reduce bureaucratic costs (Majewski, 1997). Thus, the basic explanation for the size of an organization is the minimization of transaction costs (Di Tommaso & Dubbini, 2000) and this transactional approach to determining firm size also works for cases of cooperation between large firms and SMEs when cooperation is seen as an alternative to integration. These conditions of growth are seen by Williamson (1985) as growth in specificity of assets and the frequency of transactions.

The imperfect competition approach to determining firm size is based on the market power controlled by the firms. Unlike the previous approaches, size distribution reflects market power and its competitive structure. By introducing differentiation of costs, tastes and product, a firm's market quota no longer depends on price strategies but on the segment of the market which it serves or occupies.

The dynamic approach is founded on the theories which analyse the processes of dynamic competition such as the firm's life-cycle (Alfirevic & Pavicic, 2005; Hwang & Park, 2007; Noel 2010; Jurga 2013). The dynamic approach relates the size of the firm to its age and growth stage which is relevant to this research since age and maturity are related to the resource -based value theory Barney (1991) and financial escalator theory (NESTA, 2009). It posits that the primary means of increasing 'size' is a commitment to innovation and research as key activities. Others theories of innovation and growth will be discussed in later sections. In pursuing these activities, the larger firms have an advantage over smaller firms, making it difficult for the smaller firms that face greater business risks to grow. The theoretical implications of the size of the firms to SMEs financing include the following which were investigated in this research:

i) SMEs face organizational diseconomies (Wetzel, 1994) arising from the entrepreneur being involved in all aspects of the business including technical, ownership, management and finance which places the SMEs on the path of inefficiency and makes them unattractive to external finance providers.

ii) The issue of replacement of the entrepreneur in terms of the succession plans impacts negatively on their strategic plans and consequently lowers their attractiveness to providers of finance.

iii) SMEs are characterised by 'undercapitalisation' (Evans and Jovanovic, 1989) which consequently limits their capacity to bear business and financial risk and makes them unattractive to finance providers.

iv) SMEs face more difficulty than larger firms in securing external financing and are more sensitive to recession from the liquidity point of view (Evans and Jovanovic, 1989) even though SMEs may be more dynamic and flexible.

2.2.3 Information Asymmetry Theory (IAT)

The information asymmetry theory (IAT) is relevant to this research as it will help to explain the difficulties experienced by SMEs in accessing finance due to the impact of information asymmetry on the finance gap. The main anchor for the theory underlying the financing of SMEs is based on the economics of information which holds that the existence of asymmetric information between finance providers and owners of SMEs produce credit rationing because information held by SMEs is opaque (Deakins and North, 2013). In this situation, the owner-managers know more about the prospects for, and risks facing their business, than do lenders (Berger and Udell, 1998). It represents a situation where the potential lenders possess less information compared to the business managers on the performance of the firm (Deakins et al., 2006; Taylor et al., 1998). This gives rise to adverse selection (Ackerlof, 1970) where lending decisions may not be based on the economic rationale supporting the transaction, and moral hazard where the provider of finance cannot predict with certainty the willingness of the borrower to adhere to the terms of the credit. Because of information asymmetry, providers lack the information to accurately gauge the level of risk involved in lending to SMEs, resulting in refusal or high risk adjusted interest charges. The situation supports development of relationship lending with the lending officers acquiring proprietary information on the SMEs which could lead to dishonest behaviour among the lending officers (Berger and Udell, 1995; 2004). In the last two decades, much progress has been made in advancing the theoretical knowledge on how asymmetric information affects optimal loan contracts (Lean and Tucker, 2001; Berger and Udell, 2009; Bester, 1985; Broecker, 1990; Jaffee and Russell, 1976; Stiglitz and Weiss, 1981). The two fundamental issues are i) that relationship lending can reduce information asymmetry (ii) that relationship lending can be corrupted if not kept in check.

Under perfect market condition, the relationship between SME owner managers and providers of finance will not suffer from information asymmetry. However, in real-world situations, information is neither perfect nor costless. Again, the market for SME financing is heavily characterised by risk and uncertainty regarding growth and development, hence information is distributed asymmetrically between the providers of finance and firms (Lean and Tucker, 2001; Berger and Udell, 2009). Information asymmetry mainly stems from the banks inability to assess the viability of SMEs, either due to their size or volume of operation. Most providers of finance find it uneconomic to invest time and resources in developing an in-depth understanding of SMEs as most of them do not document their transactions and therefore are unable to present financial reports and business track records which increases 'information friction' between borrowers and lenders (Pollard, 2003). As a result of this, providers lack the information to accurately gauge the level of risk involved in lending to SMEs resulting in credit refusal. It is also believed that the SME owner managers are not always willing to divulge all useful and relevant information to the providers of finance due to trust related issues; the entrepreneur's moral hazard (Carpenter and Peterson, 2002; Petersen and Raghuram, 1994). Due to information asymmetry, a provider of finance may decide to play safe by outright refusal of funding or adopt high risk adjusted interest charges.

According to Altman (1968) information asymmetry problems not only result in good lending prospects being rejected but also poor prospects being accepted by the providers. Theory suggests that information asymmetry leads to curtailment of lending, such as through credit rationing, even in situations where the SME is willing to pay a high risk-adjusted cost of capital or where the government is willing to provide some safety-net. This act of raising interest rates and/or curtailing lending has a direct impact on the number of SMEs which will be financed. In order to eliminate information asymmetry, providers of finance can increase their level of screening and monitoring to avail themselves of robust information (Lean and Tucker, 2001). However, this idea was refuted by Lehmann and Neuberger (2001) who claimed that the so-called robust information will come at a cost, which can be very high, hence creating a major problem for SMEs in accessing the much-needed finance. This is because the lender will subsequently strive to recoup these costs, which will consequently increase the cost of borrowing, leading to yet another major financing problem for the firms. The idea presented by Lehmann and Neuberger (2001) above was supported by Berger and Udell (2009). According to them, the idea of increasing the level of information as a way of reducing information asymmetry has been a major contributor to financing problems faced by SMEs. The ongoing debate in this area tend to favour a general view that; providers should recognise the high cost of information gathering and analysis, and therefore should obtain information to the extent that the cost of obtaining the information does not offset the benefits it provides (Lean and Tucker, 2001). A consequence of this would be sophisticated, but standardised centralised bank credit score checking approaches.

Against the backdrop of the issues of information asymmetry affecting the providers, SMEs also suffer considerably from the high cost of information. They struggle to convince the providers of finance of their ability to manage viable businesses effectively (Lean and

Tucker, 2001). This is usually due to their size and their volume of operations. SMEs usually suffer from lack of financial sophistication as they are often product or service specialists, not specialists in finance and mainly not required by government to produce audited financial reports. Hence the issues of information asymmetry sit mainly between effective communication and credibility.

As stated earlier, most SMEs are unable to provide evidence of good financial performance or track record mainly when they are at the early stages of their development. Providers of finance often, rely on past financial performance as an indicator of future profitability. Several studies, including (Watson, 1986; Hoshi, Kashyap, and Scharfstein, 1991; Berger and Udell, 1995) indicate that closer relationship between providers of finance and SMEs reduces information asymmetry. According to them, the firm's understanding of the lending constraints faced by providers of finance help alleviate the information and incentive problems firms face in raising external finance. This idea was argued by Lefilleur (2009) who stated that the acuteness of information asymmetries between providers and firms in Sub Saharan Africa remain acute and cannot be fully mitigated by forming relationships and loan securitization. He concluded that information asymmetry constitutes one of the main stumbling blocks for SME financing. He proposed a decentralized checking approach which develops financial systems that are more adapted to local contexts and narrows the gap between the providers of finance and SMEs. In addition, the institution of sustainable guarantee funds, especially at the microfinance banking sector would be able to provide a risk sharing base which will encourage the lenders to penetrate these markets to give SMEs better access to financing. To summarise, more viable SMEs will be financed if there were no issues of information asymmetry and the finance gap will be closed.

2.2.4 Discouraged Borrower Theory (DBT)

The existence of discouraged borrowers among the SMEs relates to information asymmetries which affects SME financing and reduces the potential demand for external finance. This is a situation where some SMEs that otherwise have genuine needs for financing may not want to apply for external finance because they do not believe that their application will receive a favourable response from the providers of finance (Storey and

Kon, 2003; Fraser, 2005;2009;2014), as global financial crisis caused increased incidence of discouragement. The failure of some SMEs in applying for external finance could also be due to their aversion to control of their business simply because they do not want any external interference in the control of their business by the party providing the external finance (Cressy, 1995). Other issues related to information inadequacy is that of awareness on the side of the owner managers of the available sources of finance as well as the relevant conditions required to access the finance which translates to ‘‘information gap’’. Further to these is the issue of investment readiness on the side of the SMEs which is a situation whereby the SMEs are unable to meet the conditions stipulated by the finance providers for SMEs to access external finance, due to their inability to articulate an acceptable business plan that would meet the due diligence requirements of the investors (Mason and Harrison, 2003; 2004; Mason and Kwok, 2010).

2.2.5 The Pecking Order Theory

The Pecking Order Theory (POT) originated from an examination of the hierarchy of the financing preferences of business owners while sourcing for the finance to be used in financing their business operations (Donaldson, 1961). The original thesis of the Pecking Order Theory was further developed and advanced in Myers (1984) and Myers and Majluf (1984). The theory explores the factors which lead business owner managers to adopt alternative financing sources out of available sources under imperfect market conditions. The theory suggests the possibility of ranking the preferences of owner managers in seeking finance for their firms. SMEs owner managers commonly, prefer to utilize their available internal financing sources fully first before they seek to obtain financial assistance from available external sources, which usually come to them at a cost (Cosh and Hughes, 1994; 1997; 2003; Myers and Maljuf, 1984). The theory presupposes an overriding objective to maximize returns on their investments through reduction of transaction costs incurred in financing their borrowings. POT suggests that SME owner managers may show preference for the utilization of internal finance to debt finance or may more likely prefer debt financing to equity financing provided the alternative sources of financing are readily available. This ensures that they maintain control of their businesses by minimizing debts (Cressy, 1995).

Cosh and Hughes (1994) argue that although SME owner managers may have their financing preferences, in terms of the source of finance that they apply for, they could equally maintain targeted levels of financial leverage which sets their optimum debt to equity ratios. This is to assist them in managing their profitability in relation to available investment options. To maximize profitability the firm would endeavour to minimize the use of debt financing. The price of debt could be high. In addition, debt financing come with inherent obligations for timely payment of principal and interests. SME owner managers are usually perceived to be ‘control averse’ particularly ‘equity averse’ (Cressy, 1995), leading to unwillingness to cede ownership rights and consequently control of their firm. This is because of the time and resources invested in establishing the business. They must have put a lot of time and resources to establish. Acceptance of external finance usually require compulsory disclosure of information to the finance provider to facilitate decision making as to whether to provide the finance or not in case of debit finance. Some of the information could be proprietary to the SME owner manager or repository of the business competitive secret. Again some forms of debit finance may require giving some opportunity to control the firm by the finance provider (e.g. mezzanine finance with convertible loan to equity arrangements) which could take the form of restricting the firm from engaging in additional borrowings without approval of the finance provider, adherence to some covenant or mandatory provision of financial statements of accounts to the finance provider at predetermined times in the future provided the debit obligation subsists. Acceptance of equity finance into the business automatically dilutes the ownership rights in the business and consequently control will be ceded to the new owner depending on the new shareholding structure after the investment. For these reasons, SME owner managers may decide not to opt for equity finance choosing to first exhaust all available internal sources of finance in the business, then they would seek for debt financing and finally for equity finance (Myers, 1984; Myers and Majluf 1984; Shyam-Sunder and Myers, 1999). However, Norton (1991) made a key point in which he stated that the entrepreneur’s preference is a key factor in selection of finance within small businesses. This idea has been extended recently by the addition of ‘management influencers’ e.g. existing financiers, business angels, venture capitalists and the potential for path dependency – determining future financing decisions (Eisenhardt and Martin, 2000; Teece, 2007).

The supply side perspective, suggests that due to information asymmetries arising from market imperfections, SMEs are unable to assess adequate finance from investors, especially during the start-up and early stages. Cosh and Hughes (1994) argue that SMEs that are unable to provide required collateral to secure their borrowing often rely on retained earnings and founder's personal finance to finance their business operations. Internal sources the firm could rely on in financing its business operations may include but may not be limited to: owners' equity in the business, internally generated cashflow and grants, or personal credit card finance. The next sought after source of finance for SME businesses is bank borrowing. SMEs also access borrowed finance from other sources apart from bank borrowing which include: (i) invoice discounting (ii) factoring (iii) hire purchase (iv) leasing (v) franchising and more latterly non-bank peer to peer lending. This leads to the examination of the capital structure of the firm in the research.

The theory of 'Firm capital Structure' examines the level of financial resources available to the firms to mitigate the associated business risks in the ordinary course of business. Capital connotes finance available to the firm on a long-term basis and in this context, would include the firm's long-term borrowings and equity capital. The firm tries to maintain appropriate ratio of debts to equity in the long-term capital structure. The theory argues that a firm should maintain an optimum level of debt to equity ratio in its business. While the assumption of debt in a business may be desirable, it could become counterproductive above certain levels. The firm acquires debt servicing obligations when it borrows from finance providers and the higher the debt servicing obligations the less profitable the firm's business operations will be in the long run. The firm could lose the financial capacity to pay dividends to its owners if the debt servicing obligation becomes excessive.

Growth oriented SMEs in high risk businesses, possessing indeterminate cash flows and intangible assets would find it more difficult to obtain debt financing and invariably would have to depend more on equity finance and less debt in its capital structure. A firm placing reliance more on equity capital in its capital structure could imply higher profitability due to the low cost of finance. In this situation, internally generated funds will play a more prominent role in financing the firm's business operations and there will be little need for external finance. The attitude of SME owner managers to the firm's transaction cost would also play prominent role in determining the capital structure. The 'Resource Based View' theory has been discussed earlier in this chapter (Barney 1991; Mac an Bhaird, 2010). For instance, when owner managers are averse to payment of high finance costs, they usually consider using debt finance minimally in financing the firm's business. A firm's capital structure depends on the availability of the various forms of finance (Esperance, 2003) as well as the ease with which firms can access the finance.

In accessing any form of finance, the SME owner manager would have to consider the time the firm needs to wait between application for the finance and disbursement. Accessing equity finance could take a long time to conclude due the extensive need for due diligence by both parties (North et al. 2013). The SME owner manager would prefer to accept equity investment from a party that would be able to bring to the table qualities that complement the skill already available to the firm to advance the business. Venture capitalists and business angels provide added value to SMEs and influence their business activities (Gompers and Lerner, 2001; Mason and Pierrakis, 2013; Mason and Harrison, 2010; 2012). In the case of debt finance the finance provider would need time to conduct relevant credit analysis aimed at determining whether the potential borrower would be able to repay the credit facility promptly. The capital structure of the SME would in most cases reveal the attitude, financing preferences and business strategy employed by the owner managers in relation to the financial constraints associated with the financing sources. This leads to 'Finance Escalator Theory' to examine the scope of financing available to the SMEs.

2.2.6 Finance Escalator Theory (FET)

Small and Medium Enterprises (SMEs) demand for financing depends on operational needs, business transaction and stage of development. As the enterprise advances and becomes less opaque to financiers and less risky to finance, the scope of financing available to it increases (Berger and Udell, 1998). The wide variety of financing available reflects the diversity of SME characteristics at different stages of their development and their unique needs. The finance escalator reflects different types of financing available at different stages of business development in each location (NESTA, 2009; BIS, 2012) – it is therefore dynamic and changes in place and over time (Mason, 2017). Finance Escalator Theory is also important to this research as it explains the relevance of different sources of finance at different stages of SME development (NESTA, 2009). For instance, at commencement of business the SME may only be able to obtain finance from the founder, family and friends.

When the business has successfully started, it could then attract finance from formal sources such as banks and eventually equity finance from equity investors and business angels. Accessing finance is increasingly becoming a more problematic issue for SMEs particularly since the global financial crisis (North et al, 2013), although the difficulties have been easing in the UK since 2014 due to growth in the economy, other countries are still being impacted by the GFC, for example in Southern Europe such as Spain, Greece, Italy, Portugal and Cyprus where some banks have failed stress tests.

The Nigerian problem could be far greater as business angels do not exist formally and where they exist informally, they are not legally regulated. After successfully using the first round of finance from business angels and banks, the business may be able to attract finance from venture capitalists and private equity investors. The new post GFC escalator in the UK recognises that there are new emerging seed venture capitalists, accelerators and seed crowd equity sources of finance at earlier stages. The main current financing gap is between seed and later stage private venture capital as discussed earlier. This is referred to as the 'Series A' venture capital gap which governments around Europe are trying to address (GLA, 2013). Recently the venture capitalists in the United Kingdom have moved up their financing threshold preferring to put money into businesses requiring up to £10 million which effectively creates a finance gap between £2million and £10 million. This makes it important for government to intervene in SME financing by providing financing initiatives to ensure SMEs are well funded to enable them contribute to the economy, create jobs and alleviate poverty. This theory is relevant to the research and will assist in the investigation into the role of policy makers in SME financing, particularly in addressing the shifting finance gap (Gompers and Lerner, 2001; Murray, 2007; Mason and Pierrakis, 2013), these researchers discussed the rise of government venture capital schemes in recent times to address this in the UK and US.

Figure 2.1 below represents SME 'finance escalator' which presents the developmental stages of a typical SME and corresponding financing in the United Kingdom (NESTA, 2009).

i) At the Concept and Seed stage, the most significant business activity is the generation of the business idea, which also defines the key objective of the business. At this idea generation stage, the most important source of finance is grants accessed from government departments, seed capital provided by the founder of the business, family members and friends.

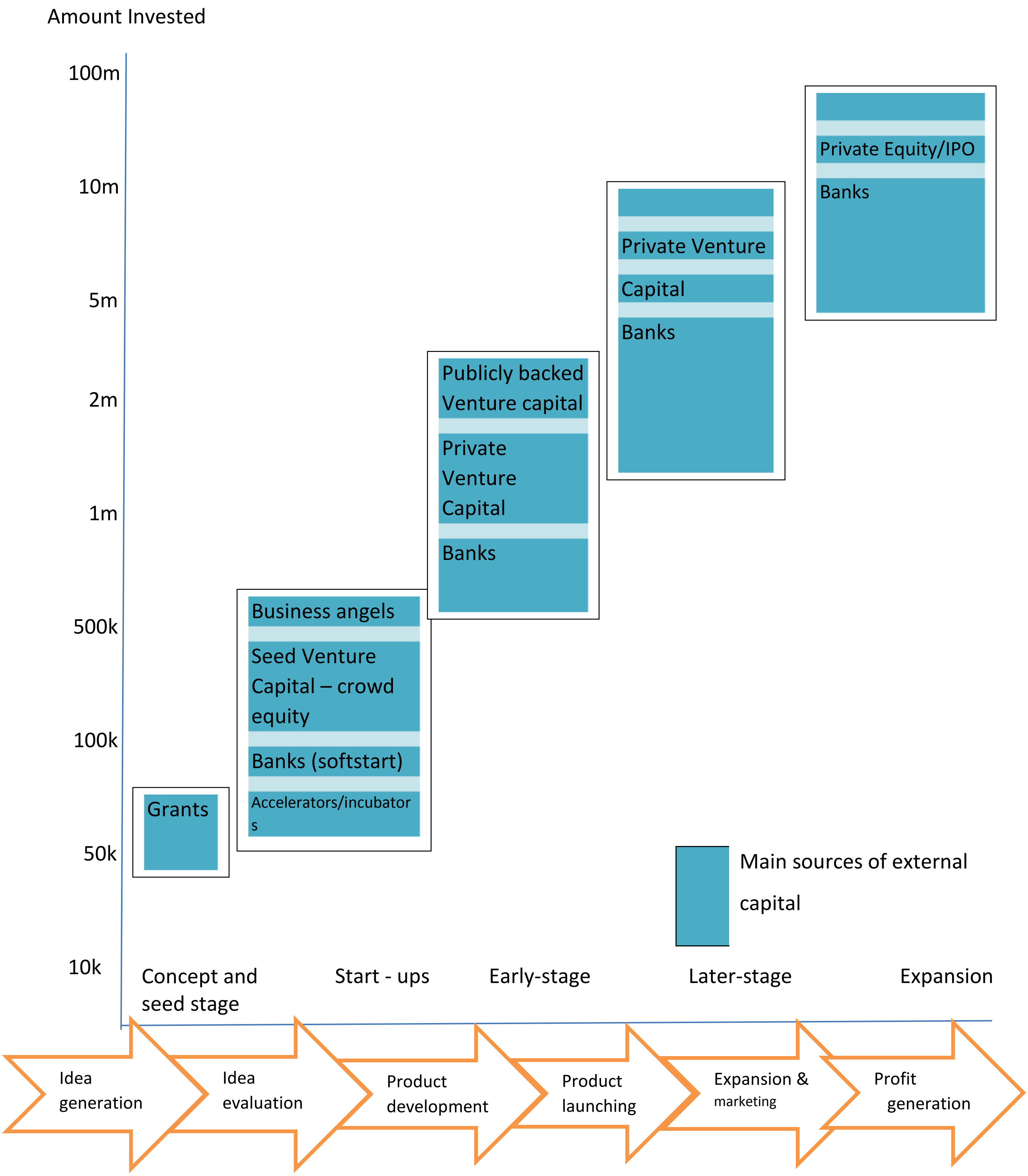
ii) The second stage of the model represents the start-up stage. Here, the business mainly focuses on evaluation of the business ideas and design of the products and services to be offered by the enterprise. The financing needs at this stage are skewed towards long term finance because the business would not have attained the cash-flow generation stage. The prominent or relevant financing source at this stage include: internal finance from the business founders, family members and friends as well as business angles. The possibility of the SME raising additional finance at this stage through venture capitalists and banks may not be ruled out, although the new breed of seed VCs offer an alternative to angel finance – but are usually clustered in advanced digital technology type start-up markets in advance countries such UK and Germany. The need to provide security is underpinned by the preponderance of information opacity as discussed earlier.

iii) At the 'third or early stage' the issues of Information Opacity begins to wane, as SMEs establish their operations in their chosen sectors and advance in information accumulation. The business exigency which determines the financial requirement at this stage is product development. The available sources of finance at this stage include: public-backed venture capital, private venture capital and bank lending once the business has established a trading track record (at least 2 years for most banks in the UK).

iv) The fourth stage represents the 'Later stage' where the most prominent business activity takes place. This includes business expansion and marketing activities and development. At this stage, the focus is mainly on the development of relevant capabilities which will facilitate the development of competitive advantages and strategic positioning. The most prominent sources of finance at this stage include: private venture capital and bank lending. The SMEs that survive to this stage will most likely be able to gain enlistment in the stock exchange which represent the most desirable position for both providers of finance and SMEs. However, this is usually an option for growth oriented SMEs seeking Mergers and Acquisitions.

v) In the final stage or the 'Business Expansion stage' the SMEs are most concerned with profit generation and development of capabilities to attract private equity investments. At this stage, most SMEs will seek enlistment in the capital market. Bank lending is also a prominent source of finance at this stage. The issues of Information Asymmetry and Information Opacity are considerably reduced, reflecting the accumulation of adequate information for assessment by providers. Again, at this stage, banks through prior year's relationship with the SMEs can acquire relevant proprietary information which becomes helpful when the SMEs approach the banks for financial assistance. The possession of such information by the financial intermediaries is a critical source of power for them.

Figure 2.1: SME FINANCE ESCALATOR



Source: NESTA (2009) Reshaping the UK Economy

2.2.7 New Institutional Economics (NIE)

The New Institutional Economic (NIE) thinking is also relevant to this research. NIE explores the relationships between institutions and firms especially in economic exchanges. Institutions are any form of rules (formal and informal) to reduce the uncertainty of human interaction. Formal institutions play a central role in and are designed to, facilitate exchanges and govern human interaction (North, 1990). The theory of institutional economics has recently gained relevance as a theoretical framework in academic studies of SMEs in transitional economies (Aidis, 2005). This relevance is based on the view that formal institutions at the macro-level keep changing during the period of economic transition, which in turn require formal institutions at the micro-level to change continually. Furthermore, informal institutions such as culture, traditions, and routines need to change to keep pace with new policies and regulations, although informal changes may lag formal changes. Hence, it is crucial that studies on SME financing consider changes in both formal and informal institutional arrangements and their interactions. It is worth mentioning here that institutional economics is specifically useful as it provides concepts which help interpret economic behaviours under changing institutional environments and conditions (Williamson, 2000).

The research will draw from the ideas and concepts of NIE in examining the nature of the existing relationships between SME owner managers and finance providers and how this relationship affects SME financing. The review of New Institutional Economics (NIE) theory will provide a framework for the understanding of the institutional arrangements that sustain the relationships between the growth oriented SMEs and finance providers, which will help in advancing the confidence of SMEs in seeking external financing. Institutional changes are vital in creating stability for new forms of SME financing, particularly in less developed countries (Lerner, 2010; Lingelbach, 2015; Mason and Owen, 2016; Lyon, 2017). Again, SMEs execute their business operations based on contractual arrangements which are consummated within a framework of formal and /or informal institutions. Earlier, the key driving force defining SME relationship with providers was transactions cost. However, business relationships from the perspective of providers, such as banks have moved from ‘transactional’ to ‘relational’ basis (Berger and Udell, 1995). Finance providers no longer decide on financing purely based on transaction cost. They decide mainly based on the knowledge which they have or can obtain about the firm. The idea is that firms will be more willing to fulfil their end of the transactions due to the relationship which exist between them and their lenders (Berger and Udell, 1995). The concepts and ideas incorporating NIE studies aim at impacting on business transactions and the related costs of the products and services fundamental to these transactions to determine how these institutions relate with human interactions. The relationship between growth oriented SMEs and their external providers of finance is strongly underpinned by the available formal and informal institutions or contractual arrangements adopted by the parties in a transaction, hence the need for the theory of New Institutional Economics (NIE) to this research. Appendix 6 summarises the theoretical underpinnings of the research which guides the empirical component of the research. This also will provide a framework for the understanding of the institutional arrangements that sustain the relationships between the growth oriented SMEs and finance providers. This institutional arrangement provides a boost to SMEs in developing relationships.

2.3 SMEs Growth Stages and Related Financing Needs

As expressed in the introduction, the overriding questions underpinning this research were hinged on the examination of how growth oriented SMEs meet their financial needs in Nigeria. This is because firms are confronted with varying financing needs at different stages of their growth.

This research categorizes the growth stages of SMEs into four as detailed below. However, SMEs in the first stage which is the start- up stage are unable to provide financial reports for three years, these SMEs are therefore excluded from this research. The other SMEs are categorized based on information obtained from their owner managers which guaranteed objectivity. Descriptions of the four SMEs growth stages are as follows:

Start-up stage: This stage commences from the time the business is incorporated and the products and services are being developed through the opening of its business offices to customers. The initial customers and suppliers of the business are being sourced at this stage and the business is entering into the initial contracts including production, operational, services and supply contracts. The business typically may not be trading at this stage and may not be profitable as well as having not attained cashflow generation stage.

The bulk of the cashflows will be cash outflows for expenditures geared towards setting up of the relevant structures to support the operations of the business. For instance, payments towards meeting the pre-operational expenses. In some exceptional circumstances the business may be profitable at this stage especially where the owners engaged in contracts before the registration of the business or where the owners have been previously in business. Additionally, the SME may initially be able to generate income through other transactions that may not be related to the firms' core business including money market investments. In Nigeria, a business is regarded as a start-up based on Central Bank of Nigeria (CBN) definition until it has completed its first three years of operations and presents its audited financial reports. These SMEs are excluded from this research because banks require minimum of three prior years' financial reports in making their financing decisions.

Early growth stage - This stage commences immediately after the start-up stage. Typically, the firm should have completed the first three years of operations and presented audited financial reports. In this research, firms categorized in this growth stage have been in business for between 5 to 10 years. The firms would be stabilizing in their core business and generating verifiable operational cashflows. Some firms may have started exhibiting some trading track record at this stage as well as acquisition of assets that can support external borrowing in terms of serving as collateral for loans. Firms at this stage will likely be producing products and offering services that are not yet generating profits for the business. The profitable firms at this stage may have commenced business with existing customer base and contracts. They may also have leveraged on owner manager's business contacts and professional networks (Xioa, 2007; Xioa and Ritchie, 2009). Other firms that are likely to be profitable at this stage include those that do not have high front end development costs. SMEs typically succeed in obtaining the first round of external finance at their early growth stage.

Later growth stage – At this stage the initial financial constraints would have been addressed and the business is generating adequate cashflows and meeting its financial obligations to third parties as they fall due. The firm may have accumulated retained earnings from prior year's profits. The business would have been well established in its markets, generating profits and providing gainful employment opportunities. It is as well possible for some firms at this stage to be unprofitable particularly in periods of recession, low sales, when the business makes substantial investments or capital expenditure in fixed assets or research and development. At the later growth stage, SMEs would have enjoyed the first round of external financing and successfully repaid. This could serve in signalling (Spence, 1973) to the owner managers' character and willingness to meet financial obligations and the firms' capacity to generate adequate cashflows from operations. In this research, later growth stage firms have been in business between 11 to 15 years.

Mature stage – Mature firms would have well established business structures, management and started formalizing its operations and distinguishing itself in the business activity. The firm would have track record and assets to pledge as collateral to support borrowing requests. The mature firms in this research have been in business for 16 years or more and would have been borrowing and repaying successfully from operational cashflows.

2.4 SME Access to Finance

SME access to finance is a concept used to connote not only ''money'', but all legitimate arrangements SME could make in exchange for the ability to execute its lawful business activities. SMEs need finance and require it in their daily operations, but the critical issue is the source from which SMEs can obtain adequate supply of finance. The sources of funding available to SMEs are limited (Mason, 2009). The SMEs are set up with the objective of making profits from which the owners earn dividends and operate their business. SMEs usually find it difficult to meet the enlistment conditions of the stock exchange hence face exclusions. However, they can play in the alternative investment market which is a second tier/ feeder exchange. Deakins et al., (2008) argue that small businesses present higher risks to financial institutions in loan analysis due to moral hazards which lead to increased monitoring costs. The equity provided by the business owner is often the only capital available to an SME at inception. Theoretically, a variety of sources of finance are potentially available to SMEs which are both internal and external sources (Deakins et al., 2008). Internal sources of finance are funds found within the business. For example, profits can be retained to finance expansion. Alternatively, the business can assets (items it owns) that are no longer needed to free up cash. External sources of finance are obtained outside the business in form of debt (long term or short term), equity and government grants e.g. creditors, bank loans, business angels, venture capital, or government grants and subsidies.

According to Carter et al., (2006) the source of finance considered as internal to SMEs include capital personally provided by the owner of the business which may have been originally accumulated over time as savings from personal earnings, borrowing from friends and family, mortgage re-financing or sale of assets. Deakins et al., (2006) referred to these three sources of internal financing for SMEs as '3Fs' of small firms' start-up finance i.e. family, friends and founders. This financing source is influential for an SME during its pre-conception and start-up periods. In most cases, it accounts for the financial life wire of the SMEs and provides the only avenue for mitigating business risk during this "valley of death" period until the company starts making profits. Within the Nigerian business sector, banks regard SMEs as start-ups in loan consideration until the second stage in their development. The start-up stage of a business is characterised by low activity, low income generation, unprofitability and high pre-operational expenses. Some owner managers of the SMEs with prior industry business networks can commence business through the "soft start" route (North et al., 2013), by continuing with the execution of existing contracts and providing services to existing customers. By so doing, they may start generating income at the onset of the business and may breakeven early in the life of the business. Businesses in this category may attract external finance even at inception because they can overcome their financial constraints. Although some studies such as North et al (2013) have explored the various types of funding available at specific stages of SMEs' development, this type of study is still lacking in Nigeria. A review of fifty active SMEs in Nigeria showed that they were declined loans due to lenders' perception of their abilities to meet the various prescribed lending criteria (CBN, 2012). Some of these criteria will never be met by SMEs at start-up stage or SMEs at decline stage. Therefore, effective funding of SMEs usually considers their developmental stage. This was therefore a perspective which this research took in examining the financing of SMEs in Nigeria to determine the extent to which finance providers consider the SME development stage in making lending decisions.

According to Jarvis (2006) SMEs have broadly five sources of finance which include: (i) Finance provided by the owners of the business (ii) Finance provided by banks in form of bank loans (iii) Government grants, particularly for new businesses and businesses in less privileged or deprived sectors or areas (iv) Finance provided by venture capitalists which are business entities set up with the objective of investing surplus money or by private persons generally known as business angels (sometimes referred to as high net worth individuals (HNWIs)) (v) Cash flow earned by the business through sales. The owner of the business in addition to providing physical cash or cash equivalents to fund the business also often engage in financial bootstrapping which includes all measures taken by the business owner to save costs for the business. For instance, forfeiting salaries, claims, using alternative production methods, materials and doing things personally to save costs. The rationale behind financial bootstrapping is that the owner of the business through making personal sacrifices, makes additional finance available to the firm which can be deployed to other activities ensuring that the firm does not have to seek for external finance (Ekanam, 2002).

The finance sources may be categorized into internal (i.e. founder investment and retained business surplus income) and external financing from other sources which include loans and advances, equity from venture capitalists and short term trade credit. External financing may also be sourced from trade creditors, leasing, hire purchase and factoring. In the United Kingdom, SMEs may qualify for grants or other forms of soft or subsidised loans from loans provided through public and private sector initiatives (include local trust funds and public privates-private (PPP) initiatives where government funding is managed by private lenders including start-up loans and growth loans for SMEs) such as Department for Business, Energy and Industrial Strategy (BEIS), formerly the Department for Business Innovation and Skills (BIS). Historically from Regional Selective Assistance (RSA), but increasingly in recent times from Regional Growth Fund initiatives into the 39 Local Enterprise Partnerships in England (with separate initiatives in the devolved country regions e.g. through Scottish Enterprise), and Innovate UK (formerly known as the Technology Strategy Board (TSB)) for seed/early stage R&D grant. They operate schemes with SME focus (e.g. innovation vouchers and seed funds), but also support businesses of every size, allowing firms to apply for funding and access networking opportunities to boost technology and innovation. Funding covers areas such as research, development and commercialization. Loans and grants may also be obtained in the United Kingdom through funding initiatives originated by the Local Governments through Local Enterprise

Partnerships (LEPs) and national programmes such as the Bank of England's Funding for Lending Scheme to increase bank lending to SMEs and those operating under the auspices of the British Business Bank (established in 2013), such as the Business Finance Partnership to raise non-bank debt finance options such as through peer to peer funding, Start-up Loans Programme, Enterprise Finance Guarantee, Business Angel Co Investment Fund and Enterprise Capital Funds (GLA, 2013) and recent 'Help to Grow' programme of lending and mezzanine finance.

Evidence of policy makers' concern for SMEs in raising external financing for their operations is manifest in the range of financial assistance and programs available for SMEs in the Public sector usually in the form of economic development funding initiatives. This is relevant in the debate on whether a debt gap exists and the ease with which SMEs can obtain external financing. SMEs typically either source finance in the form of debt, equity or grant. Some underlying factors make it imperative that SMEs should source for financing to sustain their business activities. The availability of finance and the cost of obtaining the required finance have always been cited by small business promoters as the main barriers to economic development of SMEs (Mason, 2010; Berger and Udell, 1998; Noel, 2010; Burns, 2011). This leads to businesses soliciting the intervention of the government through the initiation of funding programs aimed at providing equity or debt capital. In 1931, the Macmillan Committee report cited in Burns (2011) stated the difficulty faced by smaller firms in sourcing long-term capital in amounts of less than GBP 200,000. The debate on the existence of the 'financing gap' as previously explained has long been in existence and more recently the debate has been broadened to include the issues of financing sources (Burns, 2011).

For small businesses to optimize their potential, access to finance should be adequate. There is both empirical and practical evidence that owner managers prefer external financing to grow their businesses (Atiyet, 2012; Bharath et al, 2009; Frank and Goyal, 2003; 2007; 2009; Fulghieri et al 2013; Gao et al, 2012; De Jong et al., 2010; Seifert and Gonenc, 2007; 2010; Tong and Green, 2005; Zhang and Kanaz aki, 2008; Alan and Danbolt, 2000; Bancel and Mittoo, 2002; Niu, 2008). However, because the source of financing may determine the purpose to which the funds, will be invested, many business owners avoid using external financing at the early stages of the business. This leads to financial bootstrapping, which is a key source of finance for SMEs.

The SME owner managers relying on personal savings and retained earnings to set up and develop a business is very common. This financing strategy is called financial bootstrapping. The theory behind financial bootstrapping is that the owner manager of the SME would always make do with any available resources to secure the business survival (Stan-Maduka, 2017). Winborg and Landström (2001) argue that small business finance should recognize the owner manager's logic on the use of resources to extend the meaning of finance to include measures used by the owner manager to meet the need for resources in the business, that is, without using external finance. Financial bootstrapping could be a slow means of business financing because the personal resources of the small business owner manager are usually little and incapable of attracting much external finance to the business in terms of financial leveraging. In Nigeria, financial bootstrapping is a very old method and serves as an influential means of building businesses from scratch (Ekanem, 2002). Financial bootstrapping is all about recognizing the personal sacrifices made by the owner manager which requires making do where external finance is unavailable and going the extra mile to ensure the business survives. The SME owner manager could also source initial financing from the family members and friends which may not require parting with either equity or control of the business unlike other financing sources. The disadvantage of financial bootstrapping is that it could result to high risk for the SME owner manager, as it places inordinate financial risks on the owner of the business. Being the owner of the entire business equity, if the business fails, the owner of the business will loss all the resources invested into the business, especially if it is a limited liability company. In a situation where, the business takes the structure of a sole proprietorship, then the financial loss in the event of failure of the business may not be limited to only the resources investment in the business by the owner but may include the entire financial liabilities of the business. Bootstrapping, is a very slow method of developing a business since it may not provide adequate investment funds for the firm to engage in profit-making opportunities that may come its way in order to become financially successful. A business with little capital provided by the owner can hardly leverage sufficiently on the existing little equity to attract external finance from banks.

Five different categories of bootstrapping have been identified in the literature (Winborg and Landström, 2001; Jones and Jayawarna, 2010) which include: (i) Owner-financing methods (e.g. use of manager's credit card, loan from relatives and friends, withholding of the manager's salary, relatives working for non-market salaries) (ii) minimisation of accounts receivable (e.g. cease business relations with late payers, use routines for speeding up invoices) (iii) joint utilisation (e.g. borrow equipment, coordinate purchase with other entrepreneurs, barter instead of buying) (iv) delaying payment (e.g. lease equipment and delay payment to suppliers) and (v) and minimisation of capital invested in stocks (e.g. use routines in order to minimise stocks, bargain best possible conditions with suppliers). Deakins et al., (2008) argued that financial bootstrapping strategy effectively reduces demand for external finance as businesses choose to "bootstrap" rather than applying for more appropriate type of external finance. Ekanem (2002) argued that "bootstrapping'' is an influential part of the investment making process in small firms. In his study of the investment decision making process in small firms, he surveyed eight manufacturing firms in the printing and clothing sectors and concluded that contrary to generally accepted ideas, the owner managers of the surveyed firms were not applying pay back method in their investment decision making but rather appeared to base their decisions on their past experiences and those of their colleagues (bootstrapping) which revolved around practical real life situations. This leads to pecking order theory on the financing preferences of SMEs.

2.5 SMEs Financing Framework

In less developed countries the influence of the informal institutions on firm finance is high and could be much more important than in developed countries because of inadequacies in the functioning rules and regulations. The relationship between growth oriented SMEs and their external providers of finance is strongly underpinned by the available formal and informal institutions or contractual arrangements which are adopted by the parties transacting the businesses. The theory of New Institutional Economics (NIE) offers an adequate interpretive framework upon which this research is based. The SMEs financing framework depicts the influence of adopting formal and informal contractual arrangements on the financial intermediation process, particularly debt finance. It illustrates the influence of formal and informal institutional arrangements on contracts between growth oriented SMEs and their providers of finance as well as the link to the various types of finance available and used. The transactions originate from the government policies which form the basis of the financial environment regulating SMEs financing activities.

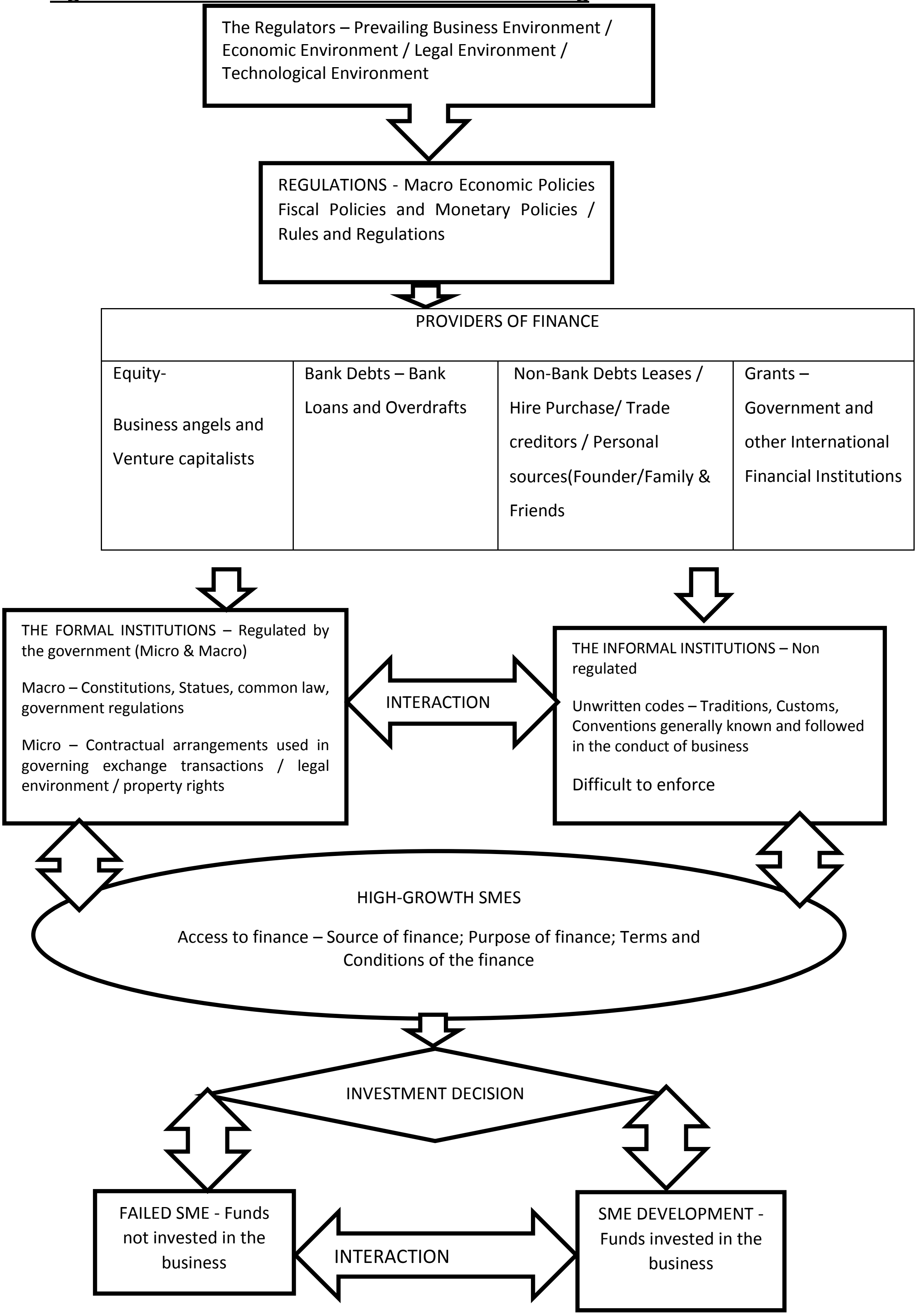
The first consideration is that the framework indicates that macro financial policies and regulations supports the business environment which supports SME financing. The second is that the business environment influences the providers of finance, in terms of their selections of the set of formal and informal conditions that are applied to guide transactions between growth oriented SMEs and providers of finance. The third issue is that the framework details the types of formal and informal institutions relevant to the relationship between the finance providers and growth oriented SMEs. The formal institutional arrangements include ownership structure, physical property, intellectual property, contracts, bank certification, credit records, prudential guidelines for licenced banks, Bank and Other Financial Institutions Decree (BOFID), Companies and Allied Matters Decree (CAMD). The informal institutional arrangements include government interventions, social networks, reward system, reputation, personal information etc. Essentially, the relationship between growth oriented SMEs and providers of finance depend on the set of formal and informal contractual arrangements that are adopted in consummating their financial transactions.

From the supply side perspective- the providers of finance take responsibility for running the financial institutions profitably particularly as these financial institutions are privately owned commercial establishments which are expected to be profitable. This is the reason why banks try to optimize their returns by pricing their loans appropriately. From the demand side perspective- the growth oriented SMEs have to minimize their financing costs and by implication keep their transaction costs to the barest minimum in order to optimize their earnings. The ‘trust’ existing between banks and growth oriented SMEs is the basis of their successful business interactions built on mutual support. This relationship helps to support borrowing (Berger and Udell, 1995) even in some cases when the financials provided were considered not totally reliable and information friction is created (Pollard, 2003). Banks treat lending proposals from familiar firms more favourably, believing that these firms will repay their loans promptly. Firms that leverage on such relationships and social networks in accessing loans are often willing to accept higher priced loans (Berger and Udell, 1995). This perspective was also explored in this research.

The framework on which this research is based shows that the combination of formal and informal institutional arrangements influence the relationship between growth oriented SMEs and the providers of finance and the ability of growth oriented SMEs to meet the requirements and conditions for bank lending. It is not yet clear what the factors are that determine the nature of the relationship between SMEs and providers of finance, which has been explored in this research. This will also be covered in the research. The banking sector is regulated by the central bank and their loan terms are usually policy driven. On the other hand, the non-bank providers of finance operate in the unregulated informal sector which gives them some flexibility in negotiating terms with borrowing SMEs. Loan pricing is an acknowledged financial constraint on the business of SMEs as it reduces the profitability of transactions (Berger and Udell, 1998).

A review of the development in the banking sector and interpretation of the nature of the relationship between growth oriented SMEs and providers of finance utilizing the financing framework discussed above is the subject of the next section. As represented in the SMEs financing framework shown below in figure 2.2, the regulators have oversight responsibilities and regulate the business environment based on existing rules and regulations as well as fiscal and monetary policies. The providers of finance in their relationship with SMEs are duty bound to adhere to these policies, rules and regulations in conducting their lending activities. The financial system in which these providers of finance operate include: the equity market (which includes the business angels and venture capitalists); the banks - the debt market which provides loans, overdrafts and other forms of debt financing, the non-bank financial institutions and grants provided by governments and other international financial institutions. The SMEs gain access to finance based on the interaction between the financial institutions, the formal institutions (regulated) and the informal institutions (non-regulated). Access to finance is determined by the sources of finance, purpose of finance, terms and conditions of the finance and these are related to the financing decisions made by the finance providers. The SMEs that receive finance and invest this in the business can potentially grow their businesses while those SMEs that are unable to obtained finance may likely fail.

Figure 2.2: Theoretical Framework of SME Financing



Source- Adapted with modifications from (Xiao, 2007).

2.6 Summary

The theoretical framework for this research is developed in this chapter based on review of the relevant theories including the theory of the firm size in relation to SME financing, finance gap, information asymmetry, pecking order theory, finance escalator and New Institutional Economics. In reviewing the firm size theory, the role played by size of the firm in weakening SMEs in relation to provision of relevant information needed to facilitate decision making by providers was determined to be the root cause of market imperfection. Closely associated to market imperfection are information asymmetry, adverse selection and moral hazards which add to the financial constraints of the SMEs. The finance providers were seen to adopt certain measures to mitigate the risks of having to transact lending business under the precarious conditions SMEs find themselves in order to maintain the principle of safe lending including credit rationing, monitoring and imposition of covenants and conditions.

A consequence of the dynamic nature of the relationship between SMEs and finance providers is the finance gap arising from insufficient access to financing which links the demand side- with the supply side perspectives to SME financing. The potential existence of finance gap is a cause for concern as it militates against countries in maximizing economic benefits in terms of the contribution of SMEs in economic development. In dimensioning finance gap, it is evident that the finance gap for viable business propositions are the ones perceived as major indicators of market failure, hence creating the rationale for government intervention (North et al., 2010). Examination of the stages of growth of SMEs inform the need for a focused study on financing growth oriented SMEs which are reputed to be important job creators.

The importance of dimensioning and closing the finance gap in any country cannot be overemphasized. Therefore, in studying the financing of growth oriented SMEs this research, dimensioned the finance gap as well as determined the financing needs associated with SMEs growth in Nigeria. The review of the New Institutional Economics theory, provided a framework to the understanding of the institutional arrangements that sustain the relationships between growth oriented SMEs and providers of finance. This is expected to advance the confidence of SMEs in seeking external financing. The growth stages of SMEs were also established which underpinned the examination of the financing needs of the SMEs at different growth stages.

CHAPTER THREE: FINANCING LANDSCAPE FOR GROWTH ORIENTED SMEs IN NIGERIA

3.1 Introduction

This chapter examines the financial landscape for growth oriented SMEs in Nigeria. In so doing, the study also draws upon specialised literature on SME financing in international context in order to learn from the experience of some developed countries and reflect on the case of Nigeria.

The chapter begins by examining the definition and main characteristics of growth oriented SMEs and the relationship between these and financing (Section 3.2). The main financing instruments to support Nigerian SMEs, in general, and growth-oriented SMEs in particular. Their performance (from the supply and demand side perspectives), are discussed in Section 3.3. A general perspective on SME financing in international context and finance instruments is presented in Section 3.4. The main ideas and lessons learnt from the issues discussed in the chapter are summarised in Section 3.5.

3.2. Growth oriented SMEs and financing

The nature of growth experienced by growth oriented SMEs has been the subject of several studies (Nightingale and Coad, 2014; Brown et al., 2014). However, these studies have not empirically linked growth of growth oriented SMEs with what brings growth to small firms, such as access to finance. Certainly, the nature of growth oriented SMEs make them different from the rest of the SMEs population (Ghobadian and O'Regan, 2004). SMEs differ in terms of their ability to organize resources, attract new customers, develop or improve innovative products/services, and to obtain financing to grow into larger organizations (Coad, 2009; Nightingale and Coad, 2014). Similarly, not all SMEs aim at attaining growth in their businesses. This distinction arises therefore from the unique capabilities which growth oriented SMEs possess which make them more competitive and also increase their probability to survive and eventual success in the market place. Per Janczak and Bares (2010), in their study of growth oriented SMEs and the evolution of the gazelles concluded that High-Growth SMEs apply distinctive strategies in their businesses which demands attention to their customers' needs, clear procedures, flexibility, and structured human resources management. A key issue among researchers is how to measure growth (Brown et al., 2014; Owen et al., 2016). One of the most important measure of growth is job creation. In defining "growth oriented" many researchers have used a firm's self-perception of growth while others used a mixture of variables, including sales and profitability as well as employee numbers (Smallbone et al., 1995, Davidsson and Delmar, 2003; 2006; Parker et al., 1995; Ntiamoah et al., 2016).

In Nigeria SMEs provide around 70% of all employment provided by the private sector (SMEDAN, 2012). This makes this sector a critical agent in Nigerian effort to combat unemployment and poverty. The key roles played by SMEs in job creation have heightened the interest of governments in financing SMEs and improving their ability to contribute to the economy (NESTA, 2014). Rigby and Jarvis (2011), attribute the huge influence and job generation ability of SMEs to the activities of the very rapidly growing SME businesses which makes growth oriented SMEs paramount to entrepreneurial success. However, it is evident that some firms may not grow for a range of reasons including: failure to achieve the required amount of financing, priority of business stability over firm growth and owner's aspirations to achieve modest earnings. Critically, some SMEs fail to attain their growth projection due to their inability to attract adequate finance (Mitter and Kraus, 2011; BIS, 2013; Vos et al., 2007).

Another key characteristic of growth oriented SMEs is that they tend to be more innovative than the average SME. The Nigerian central bank definition of innovation is aligned with the OECD definition but include the adoption of efficient methods that could reduce the amount of resources required to carry out businesses, thereby providing opportunities for improvement and profitability. Opara (2007) argues that innovation is linked to creativity, and further suggests that SMEs innovate by providing creative solutions to their peculiar business financing needs. Stan-Maduka (2013) highlighted that SMEs creatively seek to mitigate their operational risks, by making do with their available resources to produce innovative outcomes. Being innovative is fundamental to these businesses being able to obtain finance from banks as it is fundamental to policy schemes. At the inception of the SMEEIS initiative, many banks were willing to make equity investments in these companies because they are perceived to be innovative and able to make the best of their available resources. The entrepreneurs behind these SMEs on individual basis are also reputed to be innovative as they always aspire to create new things, improve on existing ones or adapt existing assets to accomplish new tasks. According to Okoya (2013) the innovativeness of these SMEs which is described as the breeding ground for domestic entrepreneurial capabilities and managerial competencies is not contestable. In recognition of their distinctive capability for innovativeness, government policies need to be aligned to provide incentive schemes and implement fiscal policy initiatives including tax benefits and providing guarantees for SMEs borrowing from banks.

Most growth oriented SMEs in Nigeria adopt modern business practices to mitigate their risks and enhance profitability. This again provides a comfort for banks in their willingness and effort to provide the much-needed financing. The unique features of these SMEs make them, in theory attractive for lending and investments under the SMEEIS initiative. They are usually exempt from the group of SMEs referred to as 'non-investment ready' which are SMEs who find it difficult to obtain external finance. Even though these SMEs are said to be growth oriented as well as the unique characteristics discussed above, the issues and difficulties of SME finance in Nigeria still affect them. The preference of banks to invest and lend to them is not without difficulties. The fact that SME financing is still a major concern for the Nigerian government stem from operational bottlenecks (Aladekomo, 2003) and some other pertinent issues which are making it difficult for these SMEs to obtain financing.

A key question remains, which is hinged on whether the problems of financing facing Nigerian growth oriented SMEs is that of lack of finance (i.e. supply side limitation) or a demand side limitation, through perceived or actual lack of investment readiness. There are a range of issues that can be considered in examining the nature of the demand and supply side financing to SMEs in Nigeria including the issues of 'Discouraged Borrower' (Fraser, 2009; Storey and Kon 2003; Han et al., 2009), 'Reluctant Borrower' (Brown and Lee, 2014), 'Control aversion' (Cressy, 1995) and 'Investment Readiness' (Cressy, 1995; Cressy and Olofsson, 1996). SME financing can also be affected by outright market failure due to information opacity and asymmetry (Mason and Harrison, 2004). There is therefore a business case in focusing this research on SMEs on this category of firms, since they have the reputation of being able to utilize the available resources in their environments innovatively to enhance their performance. This is also responsible for the heightened interest from policy makers, banks and other providers of finance on the financing of growth oriented SMEs in developed countries (Janczak and Bares, 2010). They are also known for providing sizable returns for investors (Brown et al., 2014).

3.3. Finance instruments and their performance

A joint report by the NBS and SMEDAN published in 2010 on 'SME support and business prospects' indicated that SMEs in Nigeria mainly rely on their retained earnings and personal resources to finance their operations. Jointly, these two sources of finance account for almost three quarters (70%) of the total capital available to SMEs for their operations. The volume of trade credit is equally low, accounting for only about 12% of SME financing. Other sources of finance available to SMEs include borrowings from family, friends and other informal sources, Venture Capital, bank borrowing and equipment leasing. Government backed financing initiatives are commonly routed to SMEs through banks in form of bank loan though at concessionary pricing and for tenor longer than normal bank loans.

External financing for SMEs is often in the form of short term credit facilities (0-12 months) tied to specific transactions. Nigerian SMEs have not relied much on some of these financing options due to the myriad of controls associated with them. These include, lending criteria, loan conditions, covenants and collaterals. In addition, most banks prefer to offer term loan products to SMEs because term loan is easier to monitor. Some examples of supply side and demand side problems are discussed below:

One would expect SMEs to take advantage of ***Leasing*** as a financing option, given its many benefits, including ease of arrangement and right to claim capital allowance for leased assets. However, the reverse has been the case. This is mainly because the Leasing companies in Nigeria are not regulated by the Central Bank of Nigeria, hence providing equipment leasing at exorbitant prices and these leasing companies usually focus on servicing large firms in oil and gas upstream, marine and construction sectors. These leasing companies are mostly non-financial intuitions that do not accept deposits and are, not regulated by the CBN. The companies typically face high costs of funds, as they borrow at commercial rates from financial institutions at prevailing money market conditions. The cost of this borrowing is generally passed on to SMEs, making their funding costly and creating a deterrent, hence, their over-reliance on public sector funding.

Factoring is another financing option one would expect to flourish in a developing country like Nigeria as a means of funding SME operations. However, the development of 'factoring' has been poor in Nigeria. Factoring is a much less common form of finance in Nigeria. Banks perceive high risk in offering factoring as a product in SMEs Financing. To close the gap, the CBN has encouraged SMEs to utilize the funding provided by Microfinance Banks (MFBs). Although the MFBs have good funding plans for SMEs, they are limited by the availability of 'single obligor limits' which meant that they are obliged to maintain not less than 60% of their risk assets portfolio in individual transactions below N500,000 ($3,200). Many of the MFBs are operated by individuals previously employed in commercial banks and seem to have strength in commercial banking which makes them contest for commercial banking businesses especially SME Financing businesses. Several MFBs have developed relationships with business associations such as the National Association of Small and Medium Enterprises (NASME) and the Manufacturing Association of Nigeria (MAN) to promote their services. Having close resemblance to commercial banks has made it difficult for SMEs to take full advantage of MFBs. This is mainly because the MFBs are not providing good level of funding when required. Most SMEs require financing which go beyond what these MFBs can provide, hence they remain unpopular when it comes to SME financing. The government also does not route any of the SME funding initiatives through MFBs because of their small capital base and limited scope of operations.

The difficulties associated with SME financing through banks, including MFBs, gave rise to the promotion of five development banks in Nigeria. These include: Bank of Industry, Nigeria Infrastructure Development Bank, Urban Development Bank, The Nigeria Agricultural, Co-operative and Rural Development Bank (NACRDB), and Nigeria Export and Import Bank (NEXIM). The NACRDB was established with the objective of providing affordable credit to all qualified Nigerian companies including the big firms and developing a savings culture in rural and poor segments of Nigeria. The bank does not focus on SME businesses and Micro enterprises and lends at less than prevailing commercial interest rates. The Bank of Industry (BOI) supports SMEs with more than 89% of its portfolio committed to SME Financing, including for those SMEs that utilize local raw materials, agricultural sector, firms with capacity to generate employment, export-oriented firms, firms with linkages to larger enterprises, and firms run by women entrepreneurs. The BOI approves loans that are in the range of NGN 10–200 million (US$ 86,000–$1,700,000) with a three to seven-year tenure and one year moratorium. BOI interest rates are capped at 10% per annum. This form of financing has also not been fully taken by SMEs, expectedly due to both lengthy process for loan disbursement and requirement to back SME request for funding with costly commercial bank guarantees. In addition, large firms are also allowed to source finance from BOI which places SMEs at a disadvantaged position.

In response to the identified weaknesses, the CBN has continued to encourage long-term financing at low interest rates to support SME financing. The funding initiatives reported on Table 3.1, have been instituted by the Nigerian government in the past to provide financing for SMEs. Yet, these initiatives have terms and conditions attached to them which often make it impossible for most SMEs to access the available finance.

Table 3.1: Nigerian Financing Schemes for SMEs

S/N	FINANCE SOURCE / PURPOSE / DATE ESTABLISHED
1.	**Small and Medium Enterprises Equity Investment Scheme (SMEEIS)** - The Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The SMEEIS initiative was set up in 2001 by the Nigerian Federal Government to enhance SMEs access to finance. It requires Nigerian banks to set aside 10% of their Profit After Tax (PAT) for equity investment in SMEs. As at December 2014, total of N42 billion was invested by banks.
2.	**The Small and Medium Scale Enterprises Guarantee Scheme (SMSEGS) -** The Small and Medium Scale Enterprises Guarantee Scheme (SMSEGS) scheme was set up in 2010 to fast track the development of the SME sector and increase the pace for the industrialization of the economy alongside SME access to credit. The total amount of the funds set aside for the scheme was N200 billion.
3.	**The SMEs Restructuring / Refinancing Fund**- The SMEs Restructuring / Refinancing Fund was established in 2009 for the purpose of re-financing or re-structuring banks' existing loan portfolios to SMEs. It is funded from debenture stock issued by the Nigerian Bank of Industry and is valued at N200 billion.
4.	**The Cotton, Textile and Garment (CTG) Fund**- The Cotton, Textile and Garment (CTG) Fund was established in 2009 and valued N100 billion for on-lending to SMEs engaged in the cotton, textile and garment value chain. The economic rationale for the Fund is to boost the Nigeria Textile Industry which has been poorly capitalized and output has been consistently poor. The importation of finished clothing materials is prohibited by the Nigerian Customs, hence the need to boost local production.
5.	**The National Economic Reconstruction Fund (NERFUND**) - The National Economic Reconstruction Fund (NERFUND) Facility where the Federal Government released N2 billion to NERFUND for direct lending to SMEs in 2010.

Table 3.1: Contd.

S/N	FINANCE SOURCE / PURPOSE / DATE ESTABLISHED
6.	**The Dangote Fund for Micro, Small and Medium Enterprises (MSMEs)** - The Dangote Fund for Micro, Small and Medium Enterprises (MSMEs) is a partnership between the Federal Government and Private Sector. The Fund is for on-lending of NGN 5 billion to SMEs and was set up in 2009.
7.	**The Counterpart Funding Scheme of the Bank of Industry with State Governments**- The Counterpart Funding Scheme of the Bank of Industry in conjunction with State Governments is valued at N72 billion and was set up in 2009. Under the scheme each of the state government contributes NGN1 billion to the Fund while the Bank of Industry match funds with additional NGN1 billion.
8.	**Power/Infrastructure Projects** – This fund is valued at N300 billion and was set up in 2010.
9.	**Aviation Sector Fund** – This fund is valued at N200 billion and was set up in 2009.
10.	**Commercial Agricultural Fund for Agricultural sector** – This fund was set up in 2009 and valued at N200 billion
11.	**Bank of Industry (BOI) and deposit money banks manufacturers fund** – This fund is valued at N150 billion and was set up in 2009.
12.	**Micro, Small and Medium Enterprises Development Fund** - The Micro Small and Medium Enterprises Development Fund (MSMEDF) is valued at N220 billion and set up in 2014. It is designed to enable SMEs access finance more easily. The main reasons for the fund are: provide wholesale financing windows for Participating financial institutions (PFIs); improve the capacity of the PFIs to meet credit needs of MSMEs; provide funds at reduced cost to PFIs; enhance access to finance for women entrepreneurs to finance by allocating 60% of the fund to them; improve access to finance for NGOs/MFIs

Source: CBN 2014 and SMEDAN/NBS (2012)

3.4 Institutional and Regulatory Context of Growth Oriented SMEs Financing in Nigeria

The government agency responsible for development of the SMEs sector in the country is the Small and Medium Enterprises Development Agency (SMEDAN). Nigeria operates an economic system that recognizes both public and private sector activities. The public sector is made up of three arms of the government, namely: executive, judiciary and legislature. The constitution of the Federal Republic of Nigeria provides for the operation of three tiers of government; federal, state and local government. There are 36 states and one Federal Capital Territory (FCT) which form the second tier of the administrative structure in Nigeria. The local government is the third tier of the administrative structure in Nigeria, with 774 local government areas. Nigeria's states are commonly grouped following basic geographic criteria into six geo-political zones; (i) South South, (ii) South East, (iii) South West, (iv) North East, (v) North West, (vi) North Central / FCT Abuja. The economic system has not changed since the inception of Nigeria as an independent country in 1960.

The private sector of the economy includes privately owned businesses, including individuals and households. Businesses in the private sector account for more than 75% of the total businesses in Nigeria and it is estimated that between 45% and 60% of the urban labour force in Nigeria are employed in the private sector (Nwaka, 2005). According to Manbula (2002) the SMEs dominate the private sector and most of all the SMEs experience difficulties in accessing external finance. This makes it imperative that the Nigerian government must support businesses in this sector if the businesses are to survive and contribute meaningfully to the economic develop of the nation (Ariyo, 2005). The economic development of a country is driven by access to finance (Akabueze, 2002). A business organization in Nigeria is operated in terms of the registered legal form. The business could be a large business organization or a Micro, Small and Medium Enterprise. The registered legal form could be sole proprietorship, partnership, co-operative society, private limited liability company, or public limited liability company. In Nigeria, sole proprietorship businesses are registered with the Corporate Affairs Commission as a simple business name and the liabilities of the business owner remains unlimited. A company could be limited by either guarantee or by shares. The formation and regulation of company activities in Nigeria are guided by the Companies and Allied

Matters Decree (CAMD) 1990. Other legal forms a business organization could take in Nigeria include, ''Not for profit'' organization or Non-governmental organization (NGOs) which are essentially churches, religious organizations and charitable organizations set up to fulfil certain social purposes for the benefit of their relevant target groups and communities. Although all businesses have to adopt a legal form, there are also very small individually- owned businesses which often operate informal activities within Nigeria. The firms in this category constitute the bulk of business entities classified as micro enterprises. According to (SMEDAN/ NBS, 2012) survey, the number of micro enterprises was estimated to be about 17,261,753 representing 99.86 % of the total business enterprises. The micro enterprises employ below 10 persons per firm in line with the definition of SMEs as provided in the National Policy on MSMEs. The small enterprises were 21,264 while medium businesses were 1,654. The small enterprises employ between 10 to 49 persons while the medium enterprises employ 50 to 149 persons. The same survey report claimed that each of the small and medium enterprises were started up on the average with initial capital of not more than N10 million or about seventy thousand US dollars ($70,000.00). This would translate to total initial capital of about N229.18 billion or $1.5 billion.

SME Business Development in Nigeria

SMEs occupy a major position within the Nigerian economy (Ariyo, 2005; NPMSME, 2007), although their development in Nigeria has experienced significant shortfalls mainly due to the country's over reliance on foreign exchange revenue from the exportation of crude oil. Lawal and Luqman (2011) argue that faulty conception and poor implementation of government policies is largely responsible for the over reliance on oil revenues which has impacted negatively on the social, political and economic development of the country. Prior to Nigerian independence in 1960, there were very few formal SMEs operating in the country and the emphasis was on agricultural products sourced through local farmers (NPMSME, 2007). The official recognition of businesses as 'Micro, Small and Medium Enterprises' (MSMEs) started from 1980 with the introduction of the Structural Adjustment Program (SAP) by the central government (CBN, 1980) and this coincided with the realization that the SMEs contribute significantly to employment creation (Ukaegbu, 2000). The development of MSMEs sector was therefore brought into national policy, and recognised as a 'revenue head' in the national budget. Since then, the government have made concerted efforts to recognize the importance of and support Nigerian SMEs. There have been several calls for providers of funds, including Ministries, Departments and Agencies (MDA) to support the development of SMEs by providing the much-needed funding (CBN, 2001). This is expected to ensure that SMEs contribute significantly to the GDP. A study conducted by the Central Bank of Nigeria in 1980 concluded that the GDP could be increased by more than 15% if SMEs were well positioned to play a role in economic development of the country (CBN, 1980).

In order to implement relevant policies, the Central Bank of Nigeria (CBN, 1999) defined SMEs 'as any enterprise with a maximum asset base of N1.5 billion (US $9.6 million) (excluding land and working capital), and with no lower or upper limit of staff employed (CBN, 1999). This definition was revised in (CBN, 2004) to include only manufacturing enterprises with a maximum turnover of N500 million ($3.2 million) and assets of N250 million ($1.6 million) (excluding land and working capital). To sequel that, CBN issued the prudential guidelines (CBN, 2010) which categorized SME loans as loans provided to Small and Medium Enterprises (SMEs), but restricted to manufacturing enterprises. These definitions will be considered in the course of this research but will not form the basis of SME description in Nigeria because they are not the most recent definitions. The most recent definition has been provided by the Small and Medium Enterprises Development Agency of Nigeria after the promulgation of national policy on micro, small and medium enterprises released in 2007 (NPMSME, 2007). The national policy categorized MSMEs as detailed in Table 3.2.

Table 3.2 : Categorization of Micro, Small and Medium (MSME) in Nigeria

S/N	SIZE CATEGORY	EMPLOYMENT	ASSETS (N' Million) excluding land and buildings
1	Micro enterprises	Less than 10	Less than 5
2	Small enterprises	10 -49	5 - Less than 50
3	Medium enterprises	50-199	50 – Less than 500

SOURCE: NPMSME, 2007

According to the policy, where there is conflict in the classification between employment and assets criteria the employment-based categorization takes precedence. For example if for example an enterprise has assets worth seven million naira but employs seven persons the enterprise would be categorized as micro. The employment-based categorization tends to be relatively more stable definition, given that inflationary pressures could more readily affect the asset-based definition. This policy is designed to cater for the diverse problems faced by MSMEs which include; poor access to market, land and credit, poor information flow, discriminatory legislation, weak interdependency in operational segments in the sector, weak operating capacities in terms of skills, knowledge and attitudes, lack of infrastructure and weak safeguards against occupational health and environmental hazards (NPMSME, 2007).

The policy aims to assist growth oriented SMEs businesses which are key drivers of economic development (Aruwa, 2006) and considered as important factors in alleviation of poverty (Woldie and Adersua, 2004) by the government of the Federal Republic of Nigeria. Having reached a state in which SMEs are fully recognised as a major contributor to the Nigerian economy, the need to fund these SMEs became a very important aspect of both government and financial institutions' policy. As a result, a funding scheme known as the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was launched in 2001 (CBN, 2001). This is a voluntary initiative for Nigerian banks to set aside ten percent of their profits after tax for equity investments in Small and Medium Enterprises. The equity investment scheme aims to build their capacity. According to Terungwa (2011) this initiative does not seem to have worked as expected, as the required capability has still not been built by SMEs. Nigerian banks in their effort to ensure that these equity investments are accessible to SMEs that will be able to utilize the funds adequately decided to provide financing for SMEs. The conditions attached to the SMEEIS targeted the growth oriented SMEs (Terungwa, 2011).

As a response to the limitations of the SMEEIS another initiative known as ''The Counterpart Funding Scheme of the Bank of Industry with State Governments'' was launched (CBN, 2008). The scheme requires the provision of NGN2 billion or USD12.9 million funding for each of the 36 states of the federation to finance SMEs. The failure of the SMEs in taking advantage of the SMEEIS in developing relevant capabilities therefore fits well into the current research, which aims to determine the place of funding in developing the capabilities in Nigerian SMEs. Line one of thought will be to investigate the policies and initiatives currently being used in Nigeria. One of these is the ‘prudential guidelines’ issued by the CBN in 2010 which considered SME funding in silos. Loans were fragmented and issued according to sectors and purpose (CBN, 2010). According to Ohanga (2005), SMEs have limitations in terms of their relative size which makes the banks view their businesses as economically unattractive and that this factor affect the decision of banks in approving loans for the SMEs. It is claimed that the SMEs are often unable to provide all the requirements for the level of financing which they seek to raise and also issues of investment readiness.

SME funding in Nigeria has been mainly targeted to agricultural, real estate and construction sectors. Funding for fixed assets acquisition was classed as ‘object finance facility’, while other financing for specialized firms (oil serving) were classed as ‘project finance loans’. It is not yet known if the poor performance and contribution of SMEs to the Nigerian economy is due to this fragmented funding, which meant that some SMEs benefit more than others, or do not benefit at all. This will be covered in this research.

SME financing regulation in Nigeria

The Central Bank of Nigeria (CBN) is responsible for the regulation of Nigerian financial system and the banks while Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) is the government agencies responsible for the regulating the SMEs sector. The CBN issued to the bank, the prudential guidelines for licensed commercial banks in 2001 and same document was revised in 2010 after the global financial crisis. The CBN also regulates the development banks including Bank of Industry (BOI). The CBN is wholly owned by the federal government of Nigeria. It was established by the CBN Act of 1958 and commenced operations in 1959. The enabling decree which empowers the CBN to regulate banks is the CBN Act 2007 and the Banks and Other Financial Institutions Act (BOFIA) of 1991 as amended. The CBN is headed by the Central Bank governor who serves as the chairman of the board of directors of the CBN. In addition to the prudential guideline, the CBN regularly issues circulars to the banks on policy issues. In regulating the banks, the CBN carries out annual site examination of the books of the banks. A key tool employed by the CBN is regulating banks is the committee of the managing directors of banks. It is this committee that decided in 1999 that each bank in Nigeria should put aside 10% of profits after tax in a fund called Small and Medium Enterprises Equity Investment Scheme (SMEEIS). This fund is now discontinued because it was inefficiently implemented. Most SMEs could not meet the criteria for accessing the fund, particularly the counterpart contribution. The SMEs also complained that banks were not ready to finance new projects under the fund. Some SMEs reported to the CBN that banks were rather using the fund to refinance defaulted loans. This practice of refinancing defaulted loans did not provide new finance for the already financially stressed SMEs under the fund. The CBN as the regulator required banks to ensure all loans in Nigeria are fully covered by collateral. Also the CBN reserves the right to approve all loans under the NGN220 billion SMEs finance scheme after bank due diligence. This factor as argued by some banks contributes to bureaucratic bottleneck in the administration of government backed SME financing initiatives in Nigeria. The CBN as a regulatory tool requires banks to publish their prime lending rates monthly. The prime lending rate is the best rate the bank offers credit facilities to their best customers. Additionally, the CBN has published its recommended bankers' tariffs. This document advised the allowable banking charges in the country. A key finding regarding the bankers' tariffs is that it allows banks to charge commission on turnover at the rate of NGN5 per NGN1,000 withdrawn by current account holders including business accounts. This charge does not apply in other countries. Further as part of its regulatory duties, the CBN requires banks to cap their lending to each borrower and its related entities to an amount not exceeding the bank's single obligor limit. The CBN prudential guidelines defines single obligor limit of a bank as 20% of the bank's shareholders funds unimpaired by losses.

SMEDAN was established by the SMEDAN Act of 2003. It is primarily charged with the responsibility to develop the Nigerian SME sector. The SMEDAN in 2013 carried out a survey of the SME sector in Nigeria in collaboration with the National Bureau of Statistics (NBS). This survey concluded that SMEs in Nigeria play a pivotal role through several pathways that go beyond job creation. The survey reported that these SMEs operate in growth supporting sectors of the country's economy. The SMEs not only contribute significantly to improve living standards, but also bring substantial local capital formation. Further, the SMEs are responsible for driving innovation and competition in developing economies like Nigeria. Consequently, governments at all levels in Nigeria undertake initiatives to promote the growth and development of SMEs. The overall viewpoint is that SMEs are seen as fast-tracking the realisation of broad socio-economic objectives, including poverty reduction, employment generation, wealth creation, among others.

The SMEDAN – NBS 2013 survey reported that total number of persons employed by SMEs in the country as at December, 2013 stood at 59,741,211. This is over three quarter (84.02%) of the total labour force. The survey reported female owner managers accounted for one fifth (22.75%) of SMEs in the country. Most of the entrepreneurs according to the survey were are not aware of SMEDAN and their services. The three priority areas of assistance to SMEs are access to finance, provision of infrastructure and regular supply of power and water. The SMEs contributed almost half (48.47%) of the Nation's Gross Domestic Product (NGDP) and less than one tenth (7.27%) to exports. SMEDAN published a national policy on SMEs in 2007 and a revised policy in 2015. The vision of the national policy is an SME sub-sector that delivers optimal benefits of sustainable growth, employment generation, wealth creation, poverty reduction in the domestic economy, while maintaining competitiveness internationally. The mission is to promote the growth and competitiveness of SMEs in Nigeria while the purpose is to enunciate a binding framework of objects, principles and directions by which SMEs programmes, interventions and initiatives will be designed, implemented, monitored and evaluated.

The SMEs national policy derives from the overarching national economic reform agenda- The National Economic Empowerment and Development Strategy (NEEDS) and is based on the principles of public-private partnership. NEEDS was adopted in Nigeria in 2009, aimed at the private sector as key stakeholder in the implementation of the strategy to achieve sustainable economic growth. It was also expected to fund SMEs in order to enable wealth creation, generate employment and reduce poverty. The NEEDS focused on the empowerment SMEs to facilitate their growth and helping them to build capacity. The policy recognized SMEs according to the role they play in employment creation and income generation. The funding from NEEDS was geared towards the development of domestic entrepreneurial capacity, technical skills, technological innovations and managerial competences in these companies. Despite the funding provided by the NEEDS, SMEs in Nigeria are still seen to be under-performing in the areas targeted by the fund. Hence another question arises; is this fund actually made available to the target SMEs? If they are made available, are the SMEs able to access the fund or are they being limited by the same or similar qualifying criteria set by SMEEIS? If none of the above applies, could it be lack of awareness of the availability of such funding. This research will investigate the level of awareness created by the government and other providers of fund on the availability of these funds. It is also possible that there are demand-side problems with SME financing in Nigeria. It is not yet known if SMEs are finding it difficult to present adequate business plan that warrant the provision of financing to them.

Further some of the SMEs become discouraged and decide not to border with applying for external finance because they may lack confidence in themselves believing that the bank will not approve their application. Nigerian SMEs are not required by law to publish their financial reports; hence these are usually presented in a sub-optimal format. The contents have also been seen to be inadequately presented to merit any serious consideration from lenders. In Nigeria business and financial advisory services are usually expensive making it difficult for SMEs to afford. In order to mitigate this difficulty, the National Policy on Micro, Small and Medium Enterprises has proposed to start providing advisory services for the SMEs, hence this has not commenced.
It is not yet known whether the issues of 'investment readiness', unwillingness to share control of their businesses (Cressy, 1995; Cressy & Olofsson, 1996) or discouraged borrower syndrome is responsible for the misalignment of the available financing and the finance actually taken up by SMEs in Nigeria.

Development Banks

The difficulties associated with SME financing through banks, including Micro Finance Banks (MFBs) gave rise to the promotion of five development banks in Nigeria. These include: Bank of Industry (BOI), Nigeria Infrastructure Development Bank (NIDB), Urban Development Bank (UDB), The Nigeria Agricultural, Co-operative and Rural Development Bank (NACRDB), Nigeria Export and Import Bank (NEXIM). The NACRDB was established with the objective of providing affordable credit and developing a savings culture in rural and poor segments of Nigeria. The bank focuses on SME businesses and Micro enterprises and lends at less than prevailing commercial interest rates. The loan portfolio in 2007 was about N1.7 billion (US$14.7 million).

The Bank of Industry (BOI) supports SMEs with more than three quarter (89%) of its portfolio committed to SME Financing, with special emphasis on SMEs that utilize local raw materials, agricultural sector, firms with capacity to generate employment, export-oriented firms, firms with linkages to larger enterprises, and firms run by women entrepreneurs. The BOI approves loans that are in the range of NGN 10–200 million (US$ 86,000–1,700,000) with a three to seven year tenure and one year moratorium.

BOI interest rates are capped at 10%. This form of financing has also not been fully explored by SMEs, expectedly due to lengthy process for loan disbursement and requirement for SMEs to back their request for funding with costly commercial bank guarantees. BOI only lends to borrowers that can provide commercial bank guarantees as collateral to secure the lending.

International Financial Institutions (IFIs)

There are few donors that are active in SME financing in Nigeria, including the World Bank, the IFC, and USAID. World Bank Group is active in the development of the Micro Small and Medium Enterprises Projects and is also supporting Commercial Agricultural projects including providing matching grants for SMEs and other organized business groups. The IFC currently supports several initiatives with a resident technical advisor currently working in collaboration with Diamond Bank to provide financing for SMEs. Ecobank is also expected to sign on to the scheme. USAID support SME development initiatives. Since July 2008, USAID has been working with the African Development Bank in providing joint guarantees to support bank lending. In Nigeria Ecobank is the first bank to join this program. In Nigeria only the large firms that are able to provide collateral to back their borrowing are able to secure finance from these IFIs. These borrowings are all routed to SMEs through banks which provide back to back guarantees to the international finance providers based on the collateral provided by the obligor.

3.5 Growth Oriented SMEs Financing in other African Economies relative to Nigeria as an economy in transition and a developing nation

Examination of access to financing by growth oriented SMEs literature in other African economies (e.g. South Africa, Kenya, Ethiopia, Angola, Tanzania, Namibia, Mauritius) and other West African countries relative to Nigeria as an economy in transition and a developing nation, reveals that finance is a major factor constraining the growth of the SMEs. Key determinants of SMEs access to finance in these countries which impact the ability of these SMEs to obtain financing remains the size of their operations and capital base. There is evidence that access to finance is directly correlated with size (SBS, 2012; Hyytinen and Pajarinen, 2008; Ohanga, 2005; Levenson, and Willard, 2000), hence smaller firms find it more difficult to receive financing than large and growth oriented firms. This also drives smaller SMEs to micro finance lenders and business angels. One issue to note here is that in Nigeria, the business angel lending fall within the informal and unregulated sector. This leads to high cost of borrowing for small firms.

There is also a 'poor attitude' issue with SMEs in terms of adhering to financing arrangements with the providers of finance. According to (Soludo, 2010) the Nigerian business environment tends to encourage inefficiencies and care-free attitude to debt repayment. There is poor attitude towards the enforcement of contractual agreements in most countries in Sub Sahara Africa (Olaniyan, 2012). According to Fitch (2017) outlook report on Sub Sahara Africa, macro- economic issues, in addition to low prices of petroleum products and lack of foreign exchange limits the capacity of firms to repay loans. The same report noted that the ability of Sub Saharan African countries to provide financial support to their banks is currently highly limited resulting in negative rating outlook. Consequently the unwillingness of international financial institutions to provide foreign direct investments. To manage access to finance difficulty, banks usually prefer tangible collateral to back-up any lending (Akinola, 2013) which creates more pressure on SMEs financial resources (Anigbogu, 2014). Where the SME is not able to provide the required collateral, they will fail to obtain any financing. Even if the SME is able to provide collateral, high collateral registration costs and the long length of time spent on registration of the collateral are equally constraints to business (Ketley et al., 2014). According to Bachmann and Zaheer (2006), the absence of trust results from information asymmetry which impact negatively on borrowing relationships (Berger and Udell, 1995) and increases transaction costs. Finance providers offer lowest costs to their prime and trusted customers which signal their risk perception on projected loan quality and repayment capacity of the borrowing customer (Agusto, 2010). A borrowing customer that has exhibited a track record of good character would earn the finance provider's trust (Berger and Udell, 1995). This is usually measured by their ability to meet maturing debt obligations promptly. Trusting a customer to repay loans promptly could imply that the provider of the finance, over the course of doing businesses with the company, has acquired high expectations of the borrowing customer which could be associated with the cost of the borrowing to the SME (Berger and Udell, 1995). In his study of trust in exporting relationships among Ghanaian SMEs Amoako (2012) reported the limitations of these firms due to access to finance problems particularly due to lack of adequate government financial support. He also reported problems with the legal framework and trust issues which limits risk appetite of banks. Amoako (2012) confirms the financing situation is similar in the whole of the countries of West Africa based on the experiences of the SMEs covered in his study which specialized in trading on agricultural commodities within West Africa. Generally the financial support for SMEs from the various governments is grossly inadequate among the countries in West Africa. Poor access to finance driven by inability of the SMEs to provide collateral for their borrowings continues to be a major constrain in debt financing among banks in West Africa. This situation as reported in CAL Bank Limited financial report 2016, is not unconnected to the fact that the same banks have branches in all these West African countries. In Kenya, East Africa's largest economy, the government has not provided finance directly for the SMEs to access but the government has capped interest rates since 2016 to make finance more affordable to SMEs. The Kenyan president defied opposition from the central bank and industry and signed legislation that imposes limits on bank lending and deposit rates. The Kenyan Banking (Amendment) Act, 2016 capped loan charges at four percentage points above the Central Bank Rate(CBR), presently standing at 10 per cent, and requires lenders to pay interest of at least 70 per cent of the CBR on term deposits. This measure has still not helped in accelerating access to finance from banks in Kenya according to Barclays Bank of Kenya (2017).

The African Development Bank Group (ADBG) has a financing initiative for African based financial institutions to provide financing to the financial institutions for on-lending to SMEs. The scheme also has imbedded technical assistance for the financial institutions. Only 25 financial institutions are targeted under this four year program for amounts between \$1m to \$10 million per financial institution. Being a credit line, the financing instrument is a Master Risk Participation Agreement (MRPA) which implies that the credit risk resides with the financial institutions borrowing from the fund. The pricing is competitive but not concessionary. This ADBG financing scheme does not address the issue of collateral and track record requirements for the SMEs. Among the 14 francophone countries of Central Africa and West Africa, there are no dedicated SMEs financing schemes. However, the Economist (2018) reports that these 14 countries operate under a French-backed common currency which guarantees foreign currency stability. The scheme was established under French rule and has two distinct currencies. The central African bloc uses one while the west African bloc uses the second currency and both are pegged against the euro, with French guaranteed convertibility. According to the Economist report, these 14 countries pool their foreign-exchange reserves, of which half must be deposited with the treasury of the French government and each of the country's central banks have representatives of the French government. This peculiar system has brought stability even though, the past year (2017) has witnessed several protests against the currency system used by these 14 countries, supported by France, the former colonial power. For instance, the economist reports that in the past 50 years inflation has averaged 6% in Ivory Coast, which uses the CFA franc, and 29% in neighbouring Ghana, which does not. The currency system aids trade with Europe, the region's biggest partner, and frees foreign investors from the risks of exchange-rate fluctuations. This stability in foreign currency is a key financial support for SMEs in these 14 countries.

3.6. Learning from the international experience

There has been intense debate as to the types of SMEs governments in developed countries should concentrate their funding allocation on in order to make optimal use of the available resources (Shane, 2009). Many researchers have argued that financing should be concentrated on '*start-ups'* (European Commission, 2011). Having looked at age and firm size, they concluded that the so-called ''gazelles'' tend to be small and relatively young firms, mainly new business or "start-ups". However, start-ups face many obstacles including limited access to human capital, finance, network, knowledge; failure of external resources and agents (networking) as well as bureaucratic barriers (European Commission, 2011). Policy instruments often have to deal with these problems to boost the start-ups chances of evolving into a ''gazelle''. The OECD launched the Entrepreneurship Indicators Programme (EIP) in 2006 aimed at creating a long-term program of policy-relevant facts to improve the entrepreneurial well-being of start-ups. Similarly, the EU EQUAL initiative program was commissioned as vehicle for supporting and exporting innovative actions by SMEs in the European context.

Despite the foregoing, other researchers favour the financing of '*established SMEs'* (Henrekson and Johansson, 2008; Shane, 2009). They argue that established SMEs can more effectively utilize scarce resources to achieve higher performance. Again, their contribution to economic development can be felt more rapidly than start-ups. While these studies gather grounds, the European Commission put forward a strong argument to indicate that "high-growth SMEs" create additional growth of production in other enterprises, for instance through subcontracting relations. The EU refers to these firms as important tools to reach the EU economic goals

(European Commission, 2009). Research on ''gazzelles'' commissioned by European Commission (2011) showed that few rapidly growing firms follow specific patterns and ''gazelles'' can be of all sizes but small firms tend to be overrepresented, i.e. ''gazelles'' tend to be small and relatively young firms.

Another set of studies reporting on age of firms found that the age of gazelles tends to be younger than the industry average; especially the very fast growing firms (Halabisky et al., 2006; Henrekson and Johansson, 2008; European Commission, 2007). The growth of young and small firms is more organic compared to large and old firms. Generally, gazelles can be found in all industries and sectors and tend to emerge more often in growing industries. The issue of access to growth finance for growth oriented SMEs remains however unresolved. This group of firms face constraints which limit their access to growth finance which eventually create finance gap (Brown et al., 2014). The finance escalator relative to growth oriented SMEs in international context has equally changed since the 2007-2008 global financial crisis. Santander (2014) reports that for companies with a turnover of between £0.5-25 million, the finance options are particularly limited. Private equity investors – who are very much in the business of providing growth finance – are usually more interested in larger companies, while conventional bank lending is often not available for investments that could be classified as "speculative".

Within this context, finance providers tend to regard financing growth oriented SMEs as high risk investments, which explains their reluctance in providing the much-needed finance to support them. In some instances, where the financing is provided, large risk-premiums are also charged. According to a survey commissioned by the European Commission in 2014, SMEs demand for financing were not always fulfilled – especially for smaller and younger companies. This survey showed that more than a third of SMEs in Europe did not get the full bank loan financing they needed or requested for. It also indicated a tightening in collateral and other requirements for lending, particularly since after the global financial crisis. Access to finance remains the most important concern of 13% of EU SMEs (European Commission, 2014). It is also evident from the literature that lack of financial knowledge narrows the financing options available to SMEs in Europe (European Commission, 2014).

Financing Sources for SMEs: European Perspective

The European Union has duly recognised the existence of the finance gap (European Commission, 2012). Hence there has been concerted efforts to develop financing initiatives to support the development of SMEs and to plug the gap (European Commission, 2013). Most of the EU funding initiatives involve the provision of loans to financial institutions to enable them provide risk capital for both innovative SMEs and high growing firms. Other financing initiatives include loan guarantees, microcredit and ''mezzanine'' finance. This can provide a relatively inexpensive alternative to private equity funding for the expansion of existing companies. This financing is provided in two broad categories, 'debt' and 'equity investment'. ''Mezzanine'' finance is in turn 'hybrid' or 'halfway house', a scheme combining elements of debt and equity funding (Silbernagel and Vaitkunas, 2014). While that combination may seem to introduce an unnecessary degree of complexity into the funding equation, mezzanine finance can be an effective and relatively cost-effective way of financing growth strategies that entail an element of risk (Santander Bank, 2014). The popularity of this type of financing has been show-cased in the Santander 'Breakthrough Growth Capital' which aims to provide growth capital to companies that might otherwise find themselves at the centre of the so-called 'funding gap'. This type of funding aims to support Britain's fastest-growing SMEs. The unique feature of this financing initiative is that it seeks not only a much lower rate of return than a private equity investment but also repayment terms that will not impinge on cashflow of the firm. Some examples of the most important financing programs in the UK and Europe are discussed below:

Debt Financing Schemes in the UK

The most common sources of external finance for SMEs in the United Kingdom are bank overdrafts and term loans. They do not involve giving up any share of the business or ownership interest or control of the business to the lender. According to BIS (2013) report on SME access to finance schemes, there were seven main publicly backed schemes in the UK which SMEs can tap into. These include: i) Funding for Lending Scheme (FLS) (ii) The National Loan Guarantee Scheme (NLGS) (iii) Community Development Finance (iv) Enterprise Finance Guarantee (EFG) (v) Business Finance Partnership (BFP) (vi) Small Business Tranche (vii) Start –up loans. The rationale, performance and details of these schemes are presented in Table 3.3.

The most popular of these government backed UK financing schemes is the Funding for lending scheme although early assessment of the scheme revealed that lending to SMEs dropped two years into the scheme. Canocchi (2014) reported that despite the provision of £80 billion under the FLS, lending to UK companies fail by £3.9billion and lending to SMEs dropped by £435 million in the second quarter of 2014 with Lloyds and Royal Bank of Scotland recording the biggest falls in lending. The key learning point here is that the government monitored the performance of this scheme which resulted in the extension of the scheme by the Bank of England in November 2015 for additional two years from the initial end date of January 2016 to January 2018 and focusing the scheme on provision of funding to SMEs. Following repackaging of the scheme, Bank of England and HM Treasury (2015) reported improvement in the credit conditions for SMEs with lending volumes increasing by £2.1 billion in 2015 and net lending to SMEs by the FLS participants was positive in the first two quarters of 2015.

Table 3.3: UK Based Debt Financing Schemes

Description of financing scheme
Financing Scheme - Funding for Lending Scheme Type of intervention - Cheaper borrowing for banks & building societies. Rationale of the scheme - More or cheaper loans and mortgages (consumers and businesses). Details of the scheme - i) Funding for Lending (FLS)- The scheme commenced on August 1, 2012 and it provides low cost loanable funds with tenor up to four years to banks and building societies from the Bank of England. The rationale behind the scheme is that it aims to increase the demand for finance among consumers and businesses by increasing the borrower confidence and reducing cost of borrowing. The scheme provides incentives for banks to increase lending to their customers as well as driving competition among lenders. The scheme is jointly overseen by the Bank of England and the HM Treasury while the banks are responsible for the disbursement of the funds to customers.
Financing Scheme - National Loan Guarantee Scheme Type of intervention - Government guarantees on unsecured borrowing by banks Rationale of the scheme - Cheaper business finance by reducing the cost of bank loans under the scheme by up to 1 percentage point. Details of the scheme - ii) The National Loan Guarantee Scheme (NLGS) – The scheme commenced on March 20, 2012. Rationale for the scheme is that it aids the access of businesses to low cost funds by reducing the cost of bank loans under the scheme by up to 1 percentage point. The NLGS provides government guarantees to unsecured bank loans and reduces the cost of the loans. The participating banks in the scheme are Bank of Scotland, Barclays, Lloyds TSB, Lombard, Natwest, RBS, Santander, and Ulster Bank. The customer eligibility criteria for the scheme are (i) businesses with an annual turnover of not more than £250 million, as at the date of the business's last financial accounts or management accounts. The £250 million turnover threshold includes group turnover if applicable; (ii) the firm is a UK business; (iii) the firm is not in financial difficulty.
Financing Scheme - Community Development Finance Type of intervention - Loans to a specific disadvantaged geographic area or disadvantaged group Rationale of the scheme - Varies by institution. Can include loans to start-up companies, individuals and established enterprises from within that area or community who are unable to access finance from more traditional sources (for example banks). Details of the scheme - iii) Community Development Finance – Community Development finance Institutions (CDFIs) are independent financial institutions providing financial services to disadvantaged geographical areas or groups. They provide micro-finance loans to start- up companies who are unable to access finance from more traditional sources including banks. The Community Development Finance Association (CDFA) received funding of £30 million in form of grant from the Regional Growth Fund which was match-funded by additional £30 million by the Co-operative Bank and Unity Trust Bank for on-lending to small, micro and social enterprises. The funding rationale is to increase access to finance to small businesses and drive investment. The CDFI sector also receives government assistance through the Community Investment Tax Relief (CITR) scheme. The scheme provides incentives to investors by allowing tax relief spread over five years starting with the year of investment and worth up to 25% of investments made in accredited CDFIs. Some CDFIs are also accredited Enterprise Finance Guarantee (EFG) lenders.
Financing Scheme - Enterprise Finance Guarantee Type of intervention - Loan guarantee to SMEs Rationale of the scheme - Facilitate additional lending to viable SMEs lacking the security or proven track record for a commercial loan.

Table 3.3: Contd.

Description of financing scheme
Details of the scheme - iv) Enterprise Finance Guarantee (EFG) – The rationale backing the EFG is that it provides guarantee to lenders against unsecured commercial loans to viable SMEs that may not have proven track record. However, it is does not replace commercial products and accounts for about 1-2% of total lending to SMEs in the UK. Under the EFG scheme, the government guarantees 75% of the loan, subject to a cap on total claims arising from a Lender's portfolio. The category of credit facilities covered under the scheme include overdrafts; term loans; invoice finance and trade credit and the transactions are packaged for initial pilot period of nine months. There are 44 accredited lenders participating in the scheme which include all main UK High Street Banks, Community Development Finance Institutions (CDFIs) and invoice finance providers. EFG is available to SMEs who achieve below £41 million in annual turnover seeking between £1,000 and £1 million with tenor ranging from 3 months to 10 years. Under the scheme overdraft repayment is within 2 years, invoice finance 3 years. Trade credit has lower credit limit and shorter repayment terms which varies depending on the providers. EFG trade credit facilities are accessible at B&Q and Screwfix nationwide as well as some other providers of trade credit in some other business sectors.
Financing Scheme - Business Finance Partnership (BFP) Type of intervention - Increase supply of capital through nonbank channels Rationale of the scheme - First tranche of BFP funds will lend to midsized businesses, helping to diversify the channels of finance available to them Details of the scheme - The rationale behind BFP is that it aims to increase the supply of capital through non-bank lending channels and in the longer term, to increase the sources of finance available to businesses. The scheme is designed to co-invest a total of £1.2 billion through the non-bank channels, matched by at least equal private sector capital. The first set of successful investments under the scheme were announced in 2012. Five eligible funds are now open for business under the scheme and the fund managers are (i) Alcentra Limited (ii) Ares Management Limited (iii) Haymarket Financial (iv) M&G Investment Management and (v) Pricoa Capital. All UK Businesses with turnover of up to £500 million are eligible for the scheme. HM Treasury operates the BFP and is responsible for making decisions on which loans to invest in while the individual lending
Financing Scheme - Business Finance Partnership (BFP): Small Business Tranche Type of intervention - Increase supply of capital through nonbank channels for small businesses. Rationale of the scheme - Increase non-traditional finance such as peer-to-peer platforms, supply chain finance and mezzanine finance for businesses with a turnover below £75m. Details of the scheme - Business Finance Partnership (BFP): Small Business Tranche - The rationale behind the scheme are that it aims to: (i) increase the supply of capital through non-bank channels (ii) to facilitate diversification of the sources of finance available to businesses. The Department for Business, Energy and Industrial Strategy (BEIS) (formerly Department for Business, Innovation and Skills (BIS)) is billed to invest up to £100 million of BFP through non-traditional lending channels that lend directly to small businesses including mezzanine finance funds, supply chain finance schemes and peer-to-peer lenders. The operators of this scheme are expected to facilitate total lending of more than £240 million to SMEs by attracting private sector investment alongside government's funding. The seven lenders under the scheme are: (i) Market Invoice, (ii) URICA, (iii) Beechbrook Capital, (iv) Funding Circle, (v) Zopa, (vi) BOOST&Co, and (vii) Credit Asset Management Ltd.
Financing Scheme - Start-up Loans Type of intervention - Loans to young people (18-30) to start a small company Rationale of the scheme - Open finance to those who would not normally be able to access traditional forms of finance due to lack of track record or assets. Details of the scheme - vii) Start-up Loans - The scheme provides support to young people in starting up new businesses. The scheme provides loans and mentoring support to applicants in England aged 18-30 who would not normally be able to access traditional forms of finance for a lack of track record or assets. The application is web based and the average loan size is £4,500. The loan tenor is 5 years and it is a fixed rate loan of 6% p.a. The Start-up Loans Company administers the loan.

Source: BIS (2013: 4) SME access to finance schemes: measures to support SME growth

Equity Finance Schemes in the UK

Equity finance is a source of share capital from external investors in return for ownership interest in the business. In the UK, equity finance is majorly sourced by SMEs from venture capitalists (VBCs), business angels and for start-ups founder, friends and family.

The main instruments of equity finance in the UK include: (i) Seed Enterprise Investment Scheme (SEIS) (ii) Enterprise Investment Scheme (EIS) (iii) Venture Capital Trust Scheme (VCT) (iv) Business Angel Co-Investment Fund (v) Enterprise Capital Fund (ECF) Programme (vi) UK Innovation Investment Fund (UKIIF). The rationale and details of the available sources of equity finance in the UK are reported in Table 3.4.

Other Financing Schemes Available to SMEs - BIS (2013)

The other financing schemes UK SMEs can access from either the European Union or UK government include: (i) Small and Medium-sized Enterprise Scheme, (ii) Small Business Research Initiative (SBRI), (iii) The Technology Strategy Board SMART Grants, (iv) The 'Patent Box', (v) The Metro Bank SME Finance, (vi) The UK Trade & Investment (UKTI), (vii) The UK Export Finance (UKEF), (viii) Regional Growth Fund (RGF), (ix) Growing Places Fund (GPF), (x) Joint European Resources for Micro to Medium Enterprises (JEREMIE), (xi) The 'Eureka Eurostars' programme, (xii) EU SME Instrument, (xiii) The Horizon 2020 programme. The details of other financing schemes UK SMEs can access from either the European Union or UK government are reported in Table 3.5.

Table 3.4: UK Based Equity Finance Sources

Description of financing scheme
Financing Scheme - Seed Enterprise Investment Scheme (SEIS) **Type of intervention** - Range of tax reliefs **Rationale of the scheme** - The scheme assists small, early-stage companies in raising equity finance by encouraging individual investors to purchase new shares in qualifying companies. **Details of the scheme** - The scheme commenced in April 2012 and the rationale behind it was to assist small, early stage companies in raising equity finance. It offers a range of tax reliefs aimed at encouraging individual investors to purchase new shares in eligible companies. The qualifying shares must be held for a minimum of 3 years and the income tax relief is 50% of the cost of the shares, up to a maximum annual investment of £100,000. Additional incentives including a limited extension of capital gains tax relief was added to the scheme in the 2013 budget. The eligible companies for the scheme are SMEs having less than 25 employees with assets of less than £200,000. The maximum investment a company can receive is £150,000 under the SEIS scheme. In any 12 months' period, companies can raise a maximum of £5 million from these government backed venture capital schemes which are SEIS, EIS and VCTs. HMRC administered the tax relief elements of the scheme.
Financing Scheme - Enterprise Investment Scheme (EIS) **Type of intervention** - Range of tax reliefs **Rationale of the scheme** - The scheme assists small higher risk companies to raise equity finance through encouraging individual investors to purchase new shares in qualifying companies. **Details of the scheme** - The rationale behind the scheme is to assist small higher risk trading companies raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. The scheme adopts the use of tax incentives and involves: (i) Encouraging investors to invest up to £1 million in qualifying shares and receive 30% of the cost of the investment as a relief against income tax (ii) Allows deferral of payment of Capital gains tax liability on disposal of an existing asset if the related cashflow is reinvested in EIS shares (iii) Provided income tax relief is given and the shares are held for a qualifying period, any profit on the sale of the shares will be exempt from capital gains tax. (iv) If income tax relief has been given and has not been withdrawn, losses arising on a disposal of the shares may be set against income tax as an alternative to being relieved against capital gains tax. The scheme applies to individuals investing in companies employing less than 250 employees with assets base below £15 million. Companies can raise a maximum of £5 million in any 12-month period from the government's three venture capital schemes – SEIS, EIS and VCTs. The HMRC is responsible for administering the tax relief elements of the scheme.
Financing Scheme - Venture Capital Trust Scheme (VCT) **Type of intervention** - Range of tax reliefs **Rationale of the scheme** - The scheme assists small higher risk companies raise equity finance indirectly through the acquisition of shares in a VCT. **Details of the scheme** - The rationale behind the scheme is that it encourages individuals to invest in small, unlisted higher-risk trading companies indirectly through the acquisition of shares in a VCT. The VCTs are like investment trusts and require HMRC approval. The VCTs are obliged to invest their funds into eligible small companies. Eligible companies can receive both debt and equity investment from a VCT. The VCTs provide tax incentives to potential investors as follows: (i) The maximum allowable investment in VCT shares per individual in any year is £200,000 and the allowable relief against income tax is 30% of the amount invested. The investor must hold the investment for a minimum period of five years. In addition, capital gains tax exemption applies to disposal of shares in a VCT as well as income tax exemption on dividends earned. It is required that eligible company for VCT investment should be employing less than 250 employees with asset base of less than £15 million at the time of the investment. Companies can raise a maximum of £5 million in any 12-month period from the government's three venture capital schemes – SEIS, EIS and VCTs. The administration of the tax relief elements of the scheme resides with the HMRC.

Table 3.4: Contd.

Financing Scheme - Business Angel Co-Investment Fund **Type of intervention** - Co-investment fund **Rationale for the scheme** - The scheme supports business angel investments into growth oriented early stage SMEs. **Details of the scheme** - The scheme involves a £100 million Business Angel Co-Investment Fund (CoFund). The rationale for the scheme is to provide support for business angel investments into growth oriented early stage SMEs. The CoFund can make initial equity investments of between £100,000 and £1 million in SMEs alongside syndicates of business angels (subject to an upper limit of 49% of any investment round). The CoFund could be accessed through finance investment proposals put forward by business angel syndicates (the CoFund is not open to direct approaches from individual businesses). Final investment decisions are made by the independent Investment Committee of the CoFund.
Financing Scheme - Enterprise Capital Fund (ECF) Programme **Type of intervention** - Public-private venture capital funds **Rationale for the scheme –** The rationale of the scheme is to address a market weakness in the provision of equity finance to SMEs by using Government funding alongside private sector investment to provide equity finance to early stage companies. **Details of the scheme** - Equity finance is more relevant to the needs of young innovative firms. However, this form of finance is difficult to access by these firms. The deal size relative to the transaction cost makes the transaction uneconomical for venture capitalists who prefer to invest large sums of money in later stage companies. The resultant effect of this is the ''equity gap''. The rationale for The Enterprise Capital Fund (ECF) programme is to addresses this market weakness to close the ''equity gap''. The ECF programme employs the use of government funding in addition to private sector investment to bridge the ''equity gap''. ECFs are managed by commercial fund managers and the Government's contribution to any single ECF is capped at £25 million or two-thirds of total fund size. The fund managers can invest up to £2 million in an SME. Twelve such funds have been launched since 2006 and almost £180 million has been invested in companies (BIS, 2013). The ECF programme is administered by a government-appointed fund manager Capital for Enterprise Limited ('CfEL').
Financing Scheme- UK Innovation Investment Fund (UKIIF) – **Type of intervention** - Venture capital fund of funds **Rationale for the scheme** - The scheme encourages investments in technology based businesses in strategically important sectors to the UK including digital technologies, life sciences, clean technology and advanced manufacturing. **Details of the scheme** - This is a venture capital fund of funds. The rationale is to drive economic growth and create highly skilled jobs by investing in innovative businesses with significant growth opportunities. The underlying funds within the UKIIF fund of funds invest in technology based businesses in strategically important sectors to the UK including digital technologies, life sciences, clean technology and advanced manufacturing. UKIIF operates as two funds of funds investing UK government funds with other private investors into selected underlying specialist VC funds in the UK and Europe. The Hermes Environmental Innovation Fund has a value of £130 million, consisting of £50 million UK government and £80 million of private investment and focuses on efficient use of resources and clean technologies for a low carbon economy. The European Investment Fund's UK Future Technologies Fund has a value of £200 million, consisting of £100 million UK government investment and £100 million of European Investment Bank investment, and focuses on life sciences, digital technology and advanced manufacturing sectors. UKIIF is administered by a government-appointed fund management company, Capital for Enterprise Limited ('CfEL').

Source: BIS (2013) SME access to finance schemes: measures to support SME growth

Table 3.5: The Other Financing Schemes UK SMEs can Access from either The European Union or UK Government

Description of financing scheme
Small and Medium-sized Enterprise Scheme - The scheme provides higher rates of tax relief to qualifying SMEs. Although not providing physical financing to SMEs
Small Business Research Initiative (SBRI) - The scheme offers excellent opportunities for businesses, especially SMEs, to develop and demonstrate technology to public bodies to generate economic growth. If successful, the SME will gain a lead customer for their innovative solutions and retain their intellectual property rights. They receive a contract for the full cost of demonstrating the feasibility of their technology and the offer of subsequent funding for prototype development. According to the bank of England, more than 1,300 SBRI contracts valued at more than £130million have been awarded since April 2009. They have generated new business opportunities for many companies and brought benefits to more than 40 public sector bodies. The UK government in its March 2013 Budget, signalled its intention to dramatically increase the value of SBRI contracts to £200m in 2014/15 (Bank of England, 2013).
The Technology Strategy Board SMART Grants - This is another financing opportunity to help early-stage and small companies carry out science, engineering and technology research and development projects. This grant is usually available to assess potential markets, prove concepts and develop business prototypes.
The 'Patent Box' - This scheme enables SMEs to apply a lower rate of 10% Corporation Tax to profits earned after 1 April 2013 from its patented inventions.
The Metro Bank SME Finance - This is another financing initiative which began the British Banking Revolution in July 2010 – a reinvention of community banking with a focus on convenience and service. The bank's SME Finance specialises in invoice and asset finance.
The UK Trade & Investment (UKTI) - This scheme works with UK-based SMEs to ensure their success in international markets, and encourage the best overseas companies to view UK as their international partner of preference.
The UK Export Finance (UKEF) - This is a government department dedicated to providing support to UK exporters. In 2011 the fund expanded its range of short-term products particularly aimed at SMEs. This funding basically works with UK banks to provide SMEs who export goods with trade finance solutions to enable them win and perform on specific export contracts. It has a range of products which can provide support to exporters of any size.

Table 3.5: Contd

Regional Growth Fund (RGF) - This is a £2.6 billion fund which operated across England from 2011 to 2016 to support projects that leverage private sector investment to create economic growth and sustainable employment.
Growing Places Fund (GPF) - This is designed to provide £500 million funding for the development of infrastructure, promoting economic growth and the delivery of jobs and houses. Although this financing does not directly go to SMEs, they provide infrastructure which support SMEs in the development of their businesses. This is a huge difference when compared to Nigeria where there is large-scale infrastructural deficiency. If SMEs are to survive, they should be provided with enabling environment which will provide basic amenities such as power, communication and good transport links. Aside the many funding initiatives available to UK SMEs, the European Union also provides support to European SMEs. These are usually in the forms of grants, loans and in some cases, guarantees available either directly or through programmes managed at national or regional level, such as the European Union's
Joint European Resources for Micro to Medium Enterprises (JEREMIE) - This is an initiative developed by the European Commission together with the European Investment Fund to promote the use of financial engineering instruments in order to improve access to finance for SMEs through structural and intervention funds such as European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion fund (CF), European Agricultural Fund for Rural Development (EAFRD) and the European Maritime & Fisheries Fund (EMFF).
The 'Eureka Eurostars' programme - This is a transnational publicly funded programme which is currently supported by 34 countries and the European Union. It is targeted at innovative SMEs who take part in collaborative research with partners across Europe and associated countries such as America and Canada. The programme rationale is to provide funding for transnational innovative projects; the products of which are then rapidly commercialized. The projects have average duration of 29 months and usually involve 3 to 4 partnering firms from 2 or 3 countries. The total funding is worth EUR1.4 billion. The ''Eurostars'' programme is the first European funding and support programme to be specifically dedicated to SMEs seeking to overcome one of the barriers to the implementation of high-quality SME-led transnational R&D projects, the lack of guaranteed public-sector funding.
EU SME Instrument - This is a new dedicated SME scheme designed to fill gaps in financing early stage, high risk research and development in SMEs which is estimated to cover EUR 3.0 billion over the period 2014-2020. This financing targets all types of SMEs and provides support across all areas of innovation, science and technology. Specifically, the ''The SME Instrument'' provides phased, progressive and complimentary support as follows: Phase 1- This phase is optional and offers up to 70% of the total per project which is subject to maximum of EUR 50, 000 lump sum. Phase 2 – This phase provides from EUR 500,000 to EUR 2.5 million subject to 70% of the cost. This phase incorporates in addition to phase 1 a free-of-charge business coaching.
The Horizon 2020 programme - Another popular initiative is the Horizon 2020 which has a special focus on SMEs with 20% of the programme's budget assigned to SMEs. The Horizon 2020 programme will deliver its funding for SMEs within three core themes or 'pillars': excellent science, industrial leadership and societal challenges. These initiatives have been developed on the backdrop that successful, innovative SMEs play a critical role in developing a more competitive economy

3.7 How Nigeria can learn from the UK experience of SME bank finance and regulation

The G-O SMEs financing schemes explored and regulation in the United Kingdom and other European countries lead to issues of lessons the Nigerian government can learn. SME financing initiatives in the UK are judged to be successful due to their positive impact on the SMEs. The key learning points for Nigerian government on the advancement of SME financing to achieve SMEs growth are as follows: (i) The first lesson learnt from the experience of developed countries relates to the commitment to evidence-based research and implementation of research findings. For instance, the UK SMEs have benefited from several research, including those sponsored at parliamentary level. This has not been the case in Nigeria. Repositioning of public policy support for SME financing to achieve positive outcomes lies in the government's dispassionate evaluation of the implementation of its SME financing initiatives to determine whether the finance actually got to the SMEs which are genuinely in business and had actual financing needs. In the United Kingdom, the government institutes regular research studies to provide information which can be used in policy making.

The second lesson is that the country should focus attention on addressing the "financing gaps" experienced by growth oriented SMEs, since this category of SMEs are reputed as major contributors to job creation. There is need to address the issue of financing initiatives particularly focusing on the growth oriented SMEs which are the group of SMEs that contribute most to employment creation and to the country's GDP. Current measures do not recognizes the existence of growth-oriented SMEs in terms of ensuring they are well financed. Job creation, coaching, mentoring and youth empowerment opportunities are missed out by failing to position SMEs to drive apprenticeship programs. In the United Kingdom, currently there is an apprenticeship program that can even lead to the attainment of University degree. Available resources need to be appropriately allocated by recognizing SMEs as it is in the United Kingdom.

The third lesson is that Nigerian policy makers should address the issue of collateral as a compulsory requirement for bank lending. This is very important when structuring government backed financing initiatives.

The fourth lesson Nigerian government should learn is that SMEs' failure to engage with economic policies result in sub-optimal performance of the economy as they form a large majority of businesses in Nigeria. There is need to create appropriate financial institutions that can help drive public policies that can lead to SMEs growth and development. In the United Kingdom for instance, the government has created the British Business Bank which is focused on SMEs financing.

The fifth lesson for policy makers is that the practice of a second level approval by the government departments for SME finance, after banks have assessed and approved the applications, should be reviewed in order save time in processing loans and improve SMEs chances of obtaining the required finance.

The sixth lesson is that second tier stock exchange should be strengthened to provide good investment platform for SME investors, business angles and venture capitalists. Currently the foreign direct investments coming into the country are mostly in form of debt which is not the most appropriate source of growth finance for SMEs. Poor coordination of the activities of the government ministries, departments and agencies to achieve synergy leads to duplication of efforts, wastages and abandonment of programs which is a disincentive to economic development. In the United Kingdom, business angle networks and venture capital funds are available and well regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

3.8 Summary

SME financing is of high priority for the Nigerian government since SMEs are recognized as important contributors to national GDP as well as job creation. The review of prevailing SME financing landscape in Nigeria brings into focus the need for an understanding of the nature of the relationship between SME financing and the characteristics of SMEs and their owner managers. Similarly, understanding the country's financial landscape aided the examination of the association of access to finance and SMEs growth. Access to finance remains a major concern for the Central Bank of Nigeria (CBN) in its efforts to ensure the growth and development of Nigerian SMEs. Evidence from the CBN shows that significant number of SMEs are often unable to access available credit facilities from banks and other finance providers.

Government backed financing initiatives are made available to SMEs through banks which bear ultimate responsibility for the repayment of such finance to the government. In the absence of government backed guarantees, banks are obliged to demand adequate collateral before loan can be granted and disbursed as a regulatory requirement. SMEs are equally expected to show evidence of acceptable track record to support their borrowing. In addition to bank checks, the CBN also carry out second level of due diligence after which they can consider and give final financing applications. In most cases, the financing needs of SMEs end up being approved with terms and conditions which SMEs are unable to meet, making it impossible for them to access the required finance. The sources of finance available to Nigerian SMEs have evolved through the years from mainly bank commercial loans to include government backed concessionary loans. However, the concessions are only in terms of pricing and tenor. SMEs are expected to first meet the conditions for collateral and track record before their applications can even be forwarded to the CBN by the banks for final consideration and approval. Although most of the financing initiatives are open to all Nigerian firms, growth oriented SMEs are most likely to apply for external financing in Nigeria. Like in developed countries, there has been a major decline in SMEs financing in Nigeria since after the global financial crisis (CBN, 2012).

The country can learn from the SME financing practices in the developed countries, particularly the United Kingdom and the rest of Europe. SMEs in the United Kingdom can access finance from both UK government backed initiatives and European Commission sponsored financing products which seem to have addressed most of the problems that SMEs face in accessing finance in Nigeria. The first lesson learnt from the experience of developed countries relates to the commitment to evidence-based research and implementation of research findings. For instance, the UK SMEs have benefited from several research, including those sponsored at parliamentary level. This has not been the case in Nigeria. The second lesson is that the country should focus attention on addressing the “financing gaps” experienced by growth oriented SMEs, since this category of SMEs are reputed as major contributors to job creation. The third lesson is that Nigerian policy makers should address the issue of collateral as a compulsory requirement for bank lending. This is very important when structuring government backed financing initiatives. The fourth lesson for policy makers is that the practice of a second level approval by the government departments for SME finance, after banks have assessed and approved the applications, should be reviewed in order save time in processing loans and improve SMEs chances of obtaining the required finance.

Reviewing SME financing from developed country perspective has provided insight into the practices and the state of research in this area. It has also revealed lessons which can be learnt by Nigerian policy makers in their effort to develop Nigerian SMEs. Most importantly, like the Enterprise Finance Guarantee, the government of Nigeria should endeavour to find creative solutions to the issues facing SME financing in Nigeria. It is not enough to develop SME financing schemes which majority of SMEs are unable to benefit from, due to cumbersome and unaffordable terms and conditions.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

The main aim of this study is to examine the financing of growth oriented SMEs in Nigeria. This will be achieved by examining demand-side financing requirements of growth oriented SMEs and supply-side perspective of lenders, alongside the views of policy makers and key informants. The research adopts a qualitative approach to address the following three research questions:

The following research questions were addressed in this research:

1. Does a 'debt finance gap' exist among "growth oriented SMEs" in Nigeria?
2. If so, what is the nature of this "debt finance gap"?
3. To what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"?

4.2 Research Approach

The research adopted a primarily qualitative research approach as it collected interview data from various individuals on SMEs' financing and related issues using semi-structured interviews. The strength of the qualitative research approach is in the originality of research outcomes arising from the inter-subjective stance due to the diverse perspectives of the respondents to the same reality or phenomena. According to Hancock et al., (2009) qualitative research is focused on explaining social phenomena and helps the researcher understand the social aspects of the world and why things are the way they are. Qualitative research obtains different individual's responses (data) about their perspectives to the characteristics (variables) of the phenomena, reality or topic of the research. The interpretation and analysis of the data from qualitative research, may lead to the extension of existing theories or development of new concepts or theories. Qualitative research approach enables the researcher to examine the depth and breadth of phenomena to learn more about them, study behaviour in its natural environment or context and may lead to new hypotheses and theory (Johnson and Christensen, 2011).

Although the research approach is primarily qualitative, the interviewees, provided quantitative information in form of financial data including their main financing needs, types and amounts of finance they obtained. This data formed the basis for the modelling of the financing gaps and the statistical analysis conducted (see chapters 5, 6, 7 and 8).

4.3 Research Philosophy

This research adopted an interpretive philosophy. Interpretive research philosophy uses qualitative research approach based on inductive thinking (Johnson et al., 2007). This approach observes the concepts to originate theories which are then interpreted by inductive thinking to explain the association between the concepts. Its special feature is that it relies on first-hand accounts, tries to describe what it sees in rich detail and presents its ‘finding’ in engaging and sometimes evocative language (Yin, 2009). The rationale for the choice of this philosophy is the researcher’s belief that the reality to be studied leans towards an inter-subjective and interactional epistemological stance.

This research philosophy also aligns with a qualitative research approach because it relies on the relationship between the researcher and the subject of study (Yin, 2009). The approach enabled the researcher to explain the subjective reasons and meanings that lie behind the behavioural aspects of SME financing.

4.4 Data Collection Strategy

This research used interview as the main research technique. The interview used here generated both qualitative and quantitative data in the form of participants’ responses to questions posed to them. The interview responses were transcribed and analysed to obtain information which was processed to create knowledge which provided answers to the research questions. Data was collected from bank lenders (the supply side perspective) and owner managers (demand side perspective), as well as policy makers and key informants.

Saunders et al., (2009) provide five reasons why interview strategy may be beneficial for this type of research: (i) interview is commonly used in business and management research; (ii) provides adequate answers for who, what, where, how much and how many type of questions; (iii) allows for collection of large amounts of data from a sizable population economically; (iv) use research instruments like interview guide to generate data which is analysed allowing for easy comparison; (v) interview is considered to be authoritative, comparatively easy to explain and understood.

The data collection strategy is theoretically informed by a literature review and analysis of primary data from interviews. This involved a desk-based review of both academic and policy oriented literature and the most recent data-sets on SME finance in Nigeria. The review of the literature conducted comprised the following streams of the literature: (i) SME financing in developed countries, (ii) SME financing in Nigeria and (iii) up to date SME financing theories. The demand side- and supply side- theories were both covered which enabled the researcher to develop a theoretical framework to guide the primary research.

4.5 Recruitment strategy

The distribution of the interviewees is as presented in Table 4.1.

4.5.1 How growth oriented SMEs were recruited for the research

The growth oriented SMEs were drawn using purposive sampling. A total of 48 growth oriented SMEs were selected from three sectors (agriculture, manufacturing and oil and gas) and two locations (South West zone and North Central / FCT zone). All the 48 growth oriented SMEs sampled appeared in the membership list of SMEs from SMEDAN. The SMEs in manufacturing were also in the MAN directories of membership. Data obtained from these membership lists were used to recruit SMEs and to validate, verify, confirm and or support information obtained during the interviews. The data included sector, location, main business activities, the names of the owner managers, the company incorporation numbers, website address and telephone numbers. Through initial contact with SMEDAN in 2013 the researcher accessed the list of the SMEs included in their collaborative survey with the National Bureau of Statistics. MAN, in turn has a membership of about 2,000 companies per the Nigerian Industrial directory (published in 2014). The list of 2,000 companies also included large companies and covered the entire country. The SMEs that met all the criteria from the two lists and qualified for selection for the study were 278 in total.

The researcher called the contact persons in these companies first and based on the initial discussions, follow-up e-mails were sent to obtain confirmation of the owner managers regarding their willingness and availability for interview. The researcher based on previous business and official interaction knew a couple of the qualifying owner managers. The researcher also contacted owner managers using various networks available to the researcher to ask for interviews. The researcher also used bank relationship officers to create gate pass to some of the owner managers the researcher could otherwise not have been able to access.

4.5.2 Growth Oriented SMEs interviews - who was interviewed ?

The owner managers of the growth oriented SMEs were the focus of the interviews. They were selected for interview due to their in-depth knowledge of the workings in their companies. They were directly involved in the sourcing of debt finance for their companies, understand the financing needs of their companies and make the financing decisions. The information obtained from these interviews formed the primary data for the research. The interview explored all the relevant aspects of debt financing and enabled the researcher answer the research questions.

4.5.3 The stage of the application process when owner managers were interviewed

The interviews for the owner managers were not pitched at any particular stage in the process of application for debt finance. The guiding principle was to ensure the owner managers are from SMEs who were actively seeking debt financing or have secured debt finance in the period under study.

4.5.4 Sampling Criteria

The purposive sampling used for the study comprised the following six criteria:

1. The sample is limited to ‘limited liability companies’ employing between 10 – 199 employees. This falls within the definition of SMEs by the National Policy on Micro, Small and Medium Enterprises in Nigeria adopted by this study.

2. Selected SMEs were those that possess three years prior audited financial statement of accounts which showed evidence of growth or an inclination to grow in terms of either the number of employees, assets, equity, sales or profitability. The Central Bank of Nigeria categorized companies that have not completed three financial years of existence as start-up.

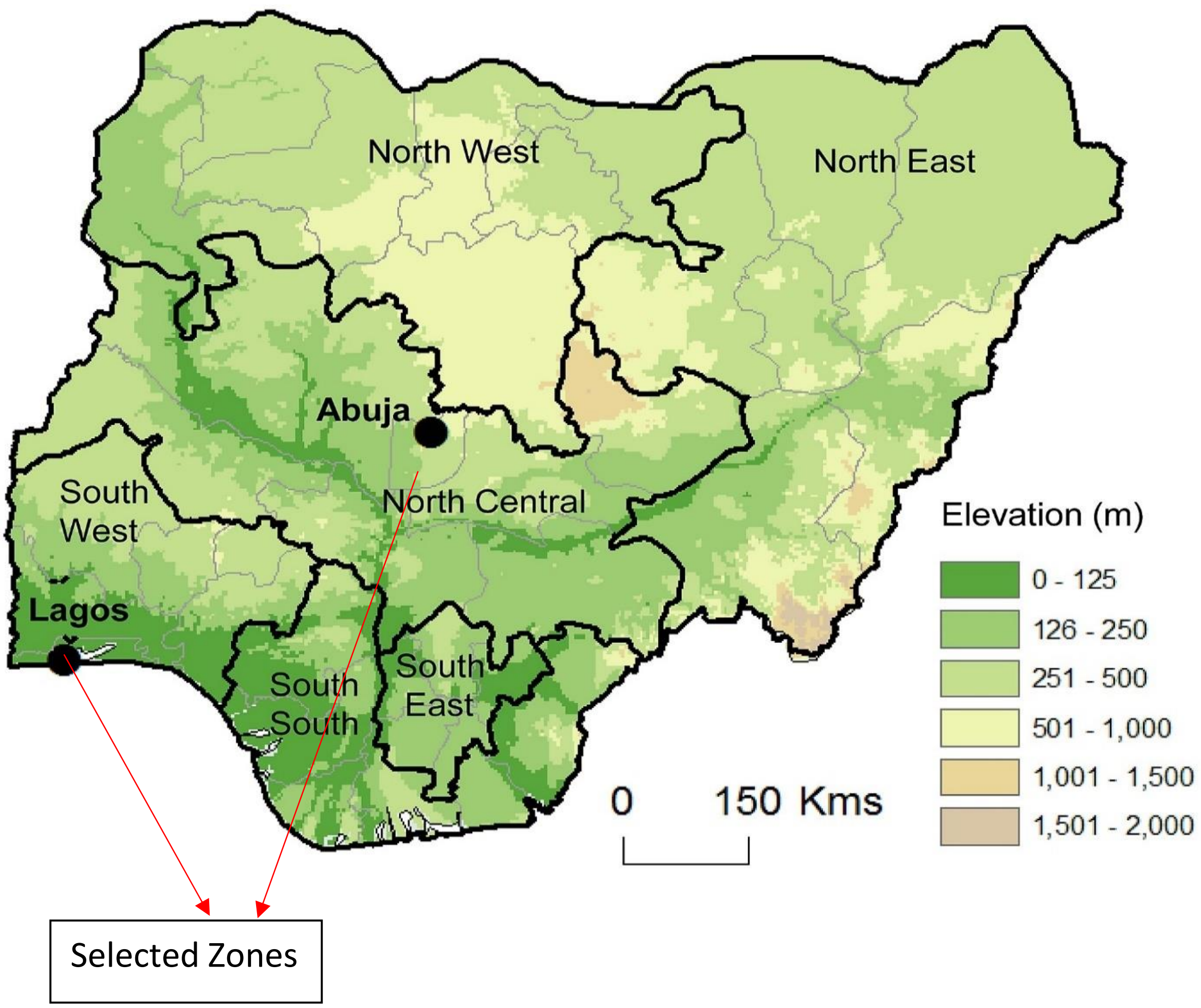
3. The companies were active in seeking / securing borrowing or must have applied for debt finance in the past three years. Non-borrowing companies were not adequate for this study as the key focus is on accessing external finance.

4. Selected companies were those with legally independent ownership structure. Hence, they were not subsidiaries of other companies. Independent ownership structure was important as it not only ensured that owner managers made financing decisions independently, but also that the ability of the firm to access external finance was not influenced by other firms.

5. Geographical location - Two geographical zones were selected for firms' location: South West (Lagos) and North Central/FCT (Abuja). These two zones, accommodate more than 75% of Nigerian Growth Oriented SMEs and are two major financial centres in the country (Lagos and Abuja). A total of 48 firms were covered in the research, selected from the two zones included in the study (total N= 48).

6. Sector - The firms were selected from the "real sector" (CBN, 2012) which is the 'backbone' of the Nigerian economy including manufacturing, agriculture and oil and gas. These three sectors represent about 90% of the Nigerian economy in terms of contribution to the GDP. The contribution to employment and growth of SMEs in these sectors is also considerable.

Figure 4.1 Nigeria Geopolitical Zones



4.5.5 Recruitment of supply-side interviewees

The supply-side interviewees were selected from different groups including: finance providers, policy makers and key informants. They were recruited as follows (i) lenders who are bank managers from commercial banks, (ii) policy makers with responsibility for SMEs financing in the two regions selected at local, regional and national levels (iii) key informants, who are business executives from financial intermediaries and financial advisers knowledgeable in SME financing, and are independent of lenders and policymakers. Ten key informants interviewed from the two zones selected for the study were recruited from Bank of Industries (BOI), Central Bank of Nigeria, Nigerian Bureau of Statistics (NBS), Federal Ministry of Finance (FMF), Manufacturers Association of Nigeria (MAN), and Small and Medium Enterprises Development Agency (SMEDAN).

Table 4.1: Distribution of Interviewees

S/N	INTERVIEWEES	NUMBER
1	OWNER MANAGERS	48
2	LENDERS	20
3	POLICY MAKERS	15
4	KEY INFORMANT	10
		93

4.6 Data Collection Tool

Four different data collection instruments (or interview guides) were developed, piloted and administered. The four data collection instruments are as follows:

(i) SME owner-managers (Demand side) – interview guide which contained both closed and open ended questions was used in conducting the interviews. A total of forty eight (48) interviews were conducted with SME owner managers.

(ii) Finance providers (Supply side) - a topic guide containing a list of questions was used for this group. The supply side study involved 20 in-depth interviews with lenders from banks.

(iii) Policy makers – a topic guide containing the interview questions was administered to 15 senior officials of government ministries, departments and agencies responsible for formulation and implementation of SME financing policy initiatives in Nigeria.

(iv) Key informants – a topic guide containing interview questions was administered to a total of 10 financial intermediaries and advisors and other experts who are independent from the lenders and policymakers interviewed.

4.7 Data analysis

Interview responses were transcribed, coded and developed into a dataset using Excel software. The data analysis was organised in two parts. The first part focused on demographic data and general information relating to the respondents and their organizations. The second part involved processing of the data by thematic grouping of responses covering a similar and / or related area and sorting the processed data using Excel software.

Processing and analysis of the quantitative data involved construction of pivot tables, determination of percentages and carrying out statistical analysis. The association between finance and the growth variables were examined using chi squared test. The modelling and calculation of the financing gaps and determination of the coefficients of correlation between finance and the growth variables were achieved using Excel functions.

Processing and analysis of the qualitative data from the research helped to identify relevant research themes and different perspectives on SMEs financing and in-depth explanations, of the main phenomena under study. The analysis of qualitative data required description of the data obtained from the respondents in detail, using descriptive statistics to identify trends and construct new categories; interpreting the data without manipulating the variables.

4.8 Research Instrument Pre-Testing

The interview guides were pre-tested or piloted to ensure the questions and the interview guides are fit for purpose. The pilot study was an important aspect of the research design as it assisted the researcher to re-define and re-focus data collection plans and procedures. As Gable (1994) points out, pilot study enables the researcher to identify problems, issues and limitations which may re-direct his action or inaction within the research process.

The pre-testing strategy also allowed the researcher to improve on the questions included in the interview guide and the interview process. It also helped the researcher to engage with the SMEs business environment as well as provide an opportunity to interact with some of the owner managers, bank managers and key informants prior to commencement of the interviews.

4.9 Testing for Reliability

Ensuring reliability is a very crucial aspect of any research instrument. In order to be reliable, the respondents must be asked the questions the same way each time. Ackroyd (1992) explains that researchers can assess reliability of their research instruments by comparing answers respondents give in one pre-test with another. Reliability refers to random error in measurement and indicates the accuracy or precision of a measuring instrument (Norland-Tilburg, 1990). There are several types of reliability measures which are relevant including: Test-Retest, Split Half, Alternate Form and Internal Consistency. According to Norland-Tilburg (1990), internal consistency is appropriate to assess reliability of any questionnaire built on measure of interval or ratio scales, but to assess the reliability of knowledge questions, test –retest or split-half is more appropriate.

This research utilized the split-half and internal consistency methods to test for the reliability of the interview questions. These measures are expected to suffice as the instrument is expected to assess knowledge from different types of respondents e.g. SME owners, finance providers and policy makers.

4.10 Testing for Validity

Validity determines if the research instrument truly measures what it was intended to measure or how truthful the research results are. In other words, does the research instrument enable the achievement of the research objectives? Validity as a concept is described by Winter (2000) as a contingent construct, grounded in the processes and intentions of research methodologies and projects. Even though some qualitative researchers have argued that the concept of validity does not apply to qualitative research (Glesne and Peshkin, 1992) they recognize the need for some level of qualification in order to ensure the quality of their research measure. Creswell & Miller (2000) argued that the researcher's perception of validity and choice of paradigm affects the validity of the research. However, other researchers have developed their own concepts of validity and have often considered different terms as more appropriate to use than the word 'validity'. These words include quality, rigor and trustworthiness (Davies and Dodd, 2002; Lincoln and Guba, 1985; Seale, 1999; Stenbacka, 2001). A study is internally valid if it describes the true state of affairs within its own setting. It is externally valid if it describes the true state of affairs outside its own setting (Norland-Tilburg, 1990).

The best validity to test in a piece of research depends on the aims and objectives of that research. However, it is considered that the most suitable validity to be measured in this study is 'content validity'. This is based on the extent to which a measurement reflects the specific characteristics of the phenomenon being studied. This has been chosen in consideration of the fact that the research measures attitude and opinions of individuals on the phenomenon of SME financing in Nigeria.

4.11 Preserving neutrality and avoiding interviewer bias

One major strength for the researcher in conducting this research was the fact that the research was based in a subject area in which he has been working for a considerable length of time and has interacted with various SMEs and lenders in the course of working as a banker and credit manager. While this is certainly a plus, the nature of qualitative data may make it challenging for a researcher to separate himself or herself from the data. With this challenge in mind, the researcher designed ways to preserve neutrality and avoid interviewer bias.

In terms of the actual interview questions, they were designed with an understanding of the respondents and the language that they use and understand. The questions were framed properly and the subject of the research was comprehensively covered. The questions were checked with both the supervisory team and selected non-interviewee 'pilot' group and changes made before they were administered. At the interview, the researcher ensured all interviewees were ready and willing to be interviewed and were capable of answering the questions and providing information that can be used without any adjustment. Interviewees were asked after the interpretation to confirm whether the researcher's interpretations represent their views. All quantitative and secondary data collected were verified with available data sources. This was mainly done with company information and data obtained from the Central Bank of Nigeria (CBN), Small and Medium Enterprises Development Agency of Nigeria (SMEDEN) and the Bank of Industry (BOI). The researcher found other sources of data that supported the interpretations, which gave the researcher confidence that the information obtained were legitimate. The information was also checked in order to rule out 'alternative explanation'. This ensured that data has not been obtained for any other reasons. Having done all the above, the researcher preserved neutrality and interviewer bias was avoided.

4.12 Ethical Considerations

The research was conducted in an ethical manner. The identities of all those who gave information during the data collection process were protected and kept confidential. The researcher is aware of the need for confidentiality due to the sensitive nature of the phenomena under investigation and therefore gave adequate assurance to all respondents. This included an option to opt-out at any time, should they become unwilling to continue with the interview. None of the names of the SMEs owner managers, finance providers and other interviewees interviewed appear in the final report. Information obtained was only shared with the supervisory team for supervision. None of the quotes obtained during the interactions with the respondents was attributed to a named respondent. Care was also taken in the wording of the questions to ensure that sensitive information was not sought.

In addition, all the information obtained from regulatory authorities was used only in evaluating responses and were regarded as individual opinion. All information and data collected during the research were used only for academic purposes, handled confidentially and always locked up in a cabinet accessible only to the researcher. University of Middlesex code of ethics for research was strictly adhered to throughout the period of this study. Details of the code of ethics is available at (http://elearn.mdx.ac.uk/www/open/ethics/index.php).

CHAPTER FIVE – QUANTITATIVE DATA FINDINGS

5.1 Introduction

This chapter answers the main research question grouping: (i) Does a 'debt finance gap' exist among "growth oriented SMEs" in Nigeria? (ii) If so, what is the nature of this "debt finance gap"? and (iii) To what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"? Debt financing gaps SMEs experience is modelled in this chapter using their prior three years most important financing needs. The information was obtained from interviews with SMEs' owner managers. This is a key contribution of this thesis in investigating finance gap theory. The finance gap existing in Nigeria is dimensioned into demand - side and supply- side finance gaps using in-depth loan interviewing methodology developed in (Deakins et al., 2008). The approach provides a practical alternative in SME lending to financial reports based lending. The thesis adopts an approach which offers qualitative insight into real cases and provides a more powerful explanation for the financing gaps, rather than a desk based data approach of secondary data. This is consistent with innovative methodological techniques described in (Deakins et al., 2008). This thesis mathematically modelled the debt financing gaps affecting the sampled SMEs and estimated the existing debt finance gaps in relation to the SMEs and their owner managers' characteristics.

The variables of the SMEs debt financing gap model used include: (i) amount of external debt financing required– the debt financing needs measure (ii) amount of external debt financing applied for– the debt financing applications measure (iii) amount of external debt financing obtained – measures of the external debt financing obtained in the debt financing gap model. The aggregate debt financing gap is the sum of the demand side debt financing gap and supply side debt financing gap. The financing needs of the 48 sampled SMEs is baselined on the size of the SMEs at the end of the 2012 financial year and the SMEs are grouped into three categories: (i) SMEs employing 25+ employees (ii) SMEs employing 15-24 employees (iii) SMEs employing 5-14 employees. The debt financing needs of these SMEs are examined in relation to the research variables.

The chapter started by profiling the characteristics of the interviewed respondents and categorizing the research variables that will be examined including, debt financing needs, debt financing gaps and SMEs' growth factors. This provides the basis for examination of the debt financing gaps. The chapter also covers examination of the role of finance on SME's growth. This draws from the debt financing gaps facing the SMEs in terms of debt financing needs, debt financing applications and debt finance obtained. The chapter also examines: (i) the level of growth achieved by SMEs in terms of employment growth and sales turnover growth relative to, debt finance received and characteristics of the SMEs and the owner managers and the association between access to bank finance and SMEs' growth.

The chapter is split into seven sections. Section 5.2, examines the categorization of the research variables. The variables include characteristics of the SMEs: (i) sector ii) location iii) trading age) and their owner managers ((i) age ii) education iii) gender iv) track record). The categorization of respondents from commercial bank lenders (tier 1 lenders), policy makers (tier 2 lenders) and key informants is in terms of their business and personal characteristics. The variables used are business characteristics including: i) location ii) position at work and personal characteristics of the respondents including: i) age ii) education iii) gender iv) track record. The categorization of the debt financing needs and variables that are used to measure debt financing gaps and categorization of the growth factor variables were also covered.

Section 5.3 of the chapter covers the development of the mathematical model for determination of debt financing gaps as well as an overview of the debt financing needs and debt financing gaps determined based on the model developed. The section also examines the debt financing needs of the SMEs to determine the nature of the debt financing needs in relation to SME employment size, the SMEs characteristics, owner managers' personal characteristics and debt financing terms. Section 5.4 examines access to debt finance by the SMEs measured in terms of the count of the loan applications presented and in relation to whether the finance need was fully funded, part funded or not funded. Section 5.5, provides tests of the association between access to finance and the research variables. The tested research variables include, SME business characteristics, SME owner managers' characteristics and employment growth. This helps to establish the role of finance in SMEs growth. Section 5.6 examines the impact of access to debt finance on growth oriented SMEs in relation to the various research variables.

Section 5.7 of the chapter summarises the key findings of the chapter regarding the existence of debt financing gaps and the growth of SMEs.

5.2 Categorization of Research Variables

5.2.1 Growth Oriented SMEs' and Owner Managers' Categorization

An overview of the categorization of the SMEs' businesses and owner manager characteristics is as detailed in Table 5.1. The categorization of the business characteristics reveals more than half (56%) of the SMEs are in South West zone. Almost half (46%) of the SMEs were in the later growth stage and two fifths (40%) are in the oil and gas sector. Agriculture accounts for over one quarter (27%) of the SMEs, due to the high proportion of agricultural businesses being micro-sized and therefore not qualifying for inclusion in the research. Mature firms make up less than one fifth (19%) of the businesses. Business succession is a key risk which contributes to the scarcity of mature firms in the country.

The categorization of the owner manager's personal characteristics reveals that the clear majority (52%) have middle aged or mature owner managers and that these are largely experienced (61% have more than 10 years' management experience). Only around one sixth (17%) of the firms have young owner managers. This is because the firms included in the research have all passed the start-up stage where many of firms with young owner managers operate. Additionally, almost three quarters of the owner managers are male and more than half of the owner managers holder post graduate degrees.

Table 5.1: Growth Oriented SMEs' and Owner Managers' Categorization

SME BUSINESS CHARACTERISTICS	Sector	Agriculture Manufacturing Oil and Gas	Number (%) 13 (27%) 16 (33%) 19 (40%) 48
	Location	North Central / FCT zone South West zone	Number (%) 21 (44%) 27 (56%) 48
	Trading age	Early Growth - 5 to 10 years Later Growth – 11 to 15 years Mature - 16+ years	Number (%) 17 (35%) 22 (46%) 9 (19%) 48
OWNER MANAGER CHARACTERISTICS	Age (of lead owner/manager in years)	Young – 21 to 40 years Middle aged - 41 to 50 years Elder - 51+ years	Number (%) 8 (17%) 25 (52%) 15 (31%) 48
	Track record	Less experienced – 1 to 9 years Experienced - 10 to 19years More experienced – 20+ years	Number (%) 19 (40%) 21 (44%) 8 (17%) 48
	Gender	Female Male	Number (%) 13 (27%) 35 (73%) 48
	Level of education	Post graduates (Masters & PhD) Graduates and below	Number (%) 25 (52%) 23 (48%) 48

5.2.2 Characteristics of Lenders, Policy Makers and Key Informants

The profiles of the forty-five supply side interviewees are categorized into "business" and "personal" characteristics as reported in Table 5.2. More than two thirds (69%) of the lenders, policy makers and key informant respondents interviewed to obtain data for the supply side perspectives are in south west zone. The lenders account for almost half (44%) of these respondents while the policy makers, account for one third of the respondents. All the respondents are managers and are grouped into three management categories based on level of responsibilities. Two thirds (66%) of the policy makers were in executive management positions. The policies are made by the executives who have more information regarding the government financing initiatives and are more experienced. Focusing more on respondents in positions with higher levels of responsibilities assisted the researcher in obtaining more reliable information. This is because all the respondents were well informed about the subject of the research.

The respondents are selected for interview as highly experienced and knowledgeable in the field of the research. However, there is a distinction between executive and middle management tiers with executives being most able to comment on policy. More than half (53%) of the respondents are middle aged, while almost one third (31%) are elder respondents. A greater proportion of the elder category are among the key informants. Few of the respondents are in the young category as it is common for people in Nigeria to attain managerial positions at forty years and above. More than three quarters (81%) of the respondents have more than ten years of working experience relevant to SMEs financing. Interviewing these highly-experienced respondents assisted the researcher in obtaining reliable information. The distribution of the gender of the respondents, is almost two-thirds male (64%) while one third (36%) were female. The respondents in general are highly educated with all of them holding at least a first degree.

Table 5.2 – Profiling Lenders, Policy Makers and Key Informants

Business Characteristics	
(i) Location	- North central / FCT zone (14); South west zone – (31)
(ii) Position	– Executive management (18); Senior management (12); Middle management (15)
Personal Characteristics	
(i) Age	– Young - 21 to 40 years (7); Middle aged – 41 to 50 years (24); Elder – 51+ years (14)
(ii) Track record	– Experienced – 1 to 9 years (6); More experienced – 10 to 19 years (18); Most experienced – 20+ years (21)
(iii) Gender	– Female (16); Male (29)
(iv) Education	– Post graduates (Masters & PhD) (31); Graduates and below (14)

Location of the respondents

Row Labels	NC / FCT	%	South West	%	Total	%
Banks - Lender (Tier 1)	4	9%	16	36%	20	44%
Policy maker – Lender (Tier 2)	5	11%	10	22%	15	33%
Key Informant	5	11%	5	11%	10	22%
Total	14	31%	31	69%	45	100%

Position of the Respondents

Row Labels	Executive Management	%	Middle Management	%	Senior Management	%	Total	%
Banks - Lender (Tier 1)	4	9%	9	20%	7	16%	20	44%
Policy makers – Lender (Tier 2)	10	22%	4	9%	1	2%	15	33%
Key Informant	4	9%	2	4%	4	9%	10	22%
Grand Total	18	40%	15	33%	12	27%	45	100%

Age of the respondents

Row Labels	Elder	%	Middle age	%	Young	%	Total	%
Banks - Lender (Tier 1)	4	9%	12	27%	4	9%	20	44%
Policy makers – Lender (Tier 2)	4	9%	8	18%	3	7%	15	33%
Key Informant	6	13%	4	9%			10	22%
Grand Total	14	31%	24	53%	7	16%	45	100%

Track record of the respondents

Row Labels	Experienced	%	More experienced	%	Most experienced	%	Total	%
Banks - Lender (Tier 1)	3	7%	10	22%	7	16%	20	44%
Policy makers- Lender (Tier 2)	3	7%	3	7%	9	20%	15	33%
Key Informant	-	-	5	11%	5	11%	10	22%
Total	6	13%	18	40%	21	47%	45	100%

Gender of the respondents

Row Labels	Female	%	Male	%	Total	%
Banks - Lender (Tier 1)	10	22%	10	22%	20	44%
Policy makers- Lender (Tier 2)	3	7%	12	27%	15	33%
Key Informant	3	7%	7	16%	10	22%
Total	16	36%	29	64%	45	100%

Level of Education

Row Labels	Post graduates (Masters & PhD)	%	Graduates and below	%	Total	%
Banks - Lender (Tier 1)	14	31%	6	13%	20	44%
Policy makers – Lender (Tier 2)	12	27%	3	7%	15	33%
Key Informant	5	11%	5	11%	10	22%
Total	31	69%	14	31%	45	100%

5.2.3 Debt Financing and Growth Factors Categorization

The amount of debt financing needs experienced by the SMEs is underpinned by the financial escalator theory (NESTA, 2009). How the range of financing relates to the size and trading age of firms across the development stages covered in the sample are explored by cross tabulation of the amount of debt financing needs, debt financing applications and debt financing obtained with the various research variables– as escalator theory suggests larger amounts will be required by more established businesses. Based on the distribution of the amounts of the various SMEs' debt financing needs, debt financing applications and the amounts of debt financing the SMEs obtained from the lenders, these debt financing factors are categorized as follows:

The categorization of the debt financing gaps is based on the distribution of the amounts of debt financing gaps experienced by each of the SMEs. The debt financing gaps are categorized as detailed in Table 5.3. The set of variables used to profile SMEs' growth include: employment growth, sales turnover. The distribution of the data on the new jobs created and the sales turnover growth achieved by the SMEs provided the basis for the categorization of the SMEs growth factors. Table 5.3, summarises categorization of the size and growth factors of the SMEs. The distribution of the data on the number of people employed by each of the SMEs in the sample provided the basis for categorization of the employment size.

Table 5.3: Debt Financing and Growth Factors Categorization

Debt Financing Needs of the SMEs	
SMEs Debt Financing Factors	Debt Financing Needs Category – Levels of Financing
Debt Financing Needs	i. Lower Debt Financing Needs < N249.99 million ii. Moderate Debt Financing Needs – N250 to N999.99 million iii. Higher Debt Financing Needs – N1 billion +
Debt Financing Applications	i. Lower Debt Financing Applications < N249.99 million ii. Moderate Debt Financing Applications – N250 to 999.99 million iii. Higher Debt Financing Applications – N1 billion +
Debt Financing Obtained	i. Lower Debt Financing Obtained< N249.99 million ii. Moderate Debt Financing Obtained – N250 to 999.99 million iii. Higher Debt Financing Obtained – N1 billion +
Debt Financing Gaps Experienced by Growth Oriented SMEs	
SMEs debt Financing Gaps	Debt Financing Gap Category – Levels of debt Financing Gap
Debt Financing gaps – demand side	i. Lower Debt Finance Gap < N49.99 million ii. Moderate Debt Finance Gap – N50 to N249.99 million iii. Higher Debt Finance Gap– N250 million+
Debt Financing gaps – supply side	i. Lower Debt Finance Gap < N49.99 million ii. Moderate Debt Finance Gap – N50 to N249.99 million iii. Higher Debt Finance Gap– N250 million+
Debt Financing gaps – Total	i. Lower Debt Finance Gap < N49.99 million ii. Moderate Debt Finance Gap – N50 to N249.99 million iii. Higher Debt Finance Gap– N250 million+
SMEs Growth Factors	
SMEs Growth Factors	Growth Factors Category – Levels of Growth
Employment Growth	Level of new jobs creation by SMEs i. Less job growth < 11 jobs ii. More job growth 11 to 20 jobs iii. Most job growth 21+ jobs
Sales Turnover Growth	Level of Sales Turnover Growth i. Less Sales Growth < N149 million ii. More Sales Growth N150 to 499.99 million iii. Most Sales Growth N500 million+
SMEs Size – Number of People Employed	
<u>SME Growth / Employment Size Category – Number of People Employed</u> Lower Growth SMEs - 5 to 14 employees Medium Growth SMEs - 15 to 24 employees Highest Growth SMEs - 25 + employees	

5.3 Debt Financing Needs and Gaps

5.3.1 Modelling Debt Financing Gaps Experienced by Growth Oriented SMEs

The debt financing gaps experienced by the SMEs is modelled from the demand and supply side perspectives. The total debt financing gaps experienced by the sampled SMEs is the sum of the debt financing gap on the demand side and supply side.

The debt financing gaps are derived from three variables: the debt financing needs (A); debt financing applications (B); and debt financing obtained (C).

i. Debt financing gap - demand side = (A – B) -- ------------------------- (1)
ii. Debt financing gap - supply side = (B – C) ---------------------------- (2)
iii. Debt financing gap – total = (A – B) + (B – C) ---------------------------- (3)

There are two sides to the gap in financing these SMEs: (i) the demand side debt finance gap which is given by the difference between debt financing needs (A) and the amount of debt finance applied for by the SMEs (B); (ii) the supply side debt finance gap, which is given by the difference between the amount of debt finance applied for by the SMEs (debt financing applications) (B) and the debt finance obtained from the bank (accepted debt financing approvals) (C). The sum of the demand side debt finance gap and the supply side debt finance gap is equal to the total debt finance gap experienced by the SME. The model assumptions are: (i) the total project cost less potential internally generated finance invested will be equivalent to the amount of external finance required. (ii) The owner managers of the SMEs determine the amount of external finance required which is the variable important for the research and this is the figure provided by the owner managers. It is also considered that the owner managers do not necessarily embark on formal financial planning and forecasting but rely more on financial boot strapping (Ekanem, 2002) and the owner managers do not provide complete information due to information asymmetry risk (Berger and Udell, 1998). It is considered unnecessary to ask the owner managers to provide the detailed financing plans of their transactions for this research. Modelling the debt financial gaps of the SMEs using the figure of the external debt financing needs provided by the owner managers is considered adequate for the research. This assumption is based on two facts: i) In line with assumption of information asymmetry theory, the owner managers are the ones that know their business needs most. (ii) the SME owner managers are all educated and are financially knowledgeable enough to gauge their financing needs since they are not new businesses and the managers have accrued experience in developing their businesses over several years (iii) there is no incentive to exaggerate their business needs to the researcher, who is a neutral observer in the grand scheme of things. (iv) the accepted debt financing approvals is equivalent to the debt financing obtained since documentation and draw down of loans are done over a period. Moreover, drawing on accepted approved loans by the SMEs is at the point of need and conditions vary for all the SMEs not all the amount approved may be drawn.

5.3.2 Overview of Growth Oriented SMEs Debt Financing Needs and Gaps

The examination of amount of debt financing needs experienced by the SMEs is underpinned by the financial escalator theory (NESTA, 2009). The financial escalator sets out the stage of the business, types and amounts of external finance required by the firms relative to what is provided by the finance providers. The debt financing needs are calculated based on the result of the 'main' financing need recorded during the past 3 years prior to interview. Selection of the 3 years provided the opportunity for assessment of substantive applications from a good number of growth oriented SMEs.

Examination of the amounts of debt financing required by the sampled SMEs based on the three baseline employment size categories is reported in Table 5.4. The SMEs presented debt financing needs of N69.58 billion. These SMEs made applications of N56.64 billion, representing 81% of their financing needs. The SMEs succeeded in obtaining total funding of N44.5 billion, representing 64% of their debt financing needs. Examination of the debt financing gaps experienced by the sampled SMEs based on the analysed research data reveals that the supply side debt financing gap is 48% of the overall financing gap among the surveyed SMEs. This finding implies that the impact of supply side failure is slightly less on SME financing among the sampled SMEs than the demand side failures. The total debt financing gap as determined from the research is N25.09 billion, representing over one third (36%) of the total debt financing needs. The total debt financing gap consists of N12.93 billion (19%) on the demand side and N12.15

billion (17%) on the supply side. The supply side debt financing gap exists because the funding obtained from the finance providers is less than the amount of financing applied for by the SMEs and may be attributed to supply side failure which is explored in more detail later in this chapter. Poor and sub-standard applications are excluded from supply side failure (Mason and Harrison, 2004; Mason and Brown, 2013).

SMEs demand for finance is less than their actual need when they are apprehensive of receiving approval from their banks due to financing criteria that may be attached to financing approvals. The research provides empirical evidence for the occurrence of credit rationing due to financing gaps arising from supply side failures and discouraged borrowers arising from debt financing gaps due to demand side failures among the sampled SMEs. Examination of the main debt financing needs or purpose for which the SMEs required financing reveals that more than half (55%) of the debt financing needs were for working capital while about one third (35%) of the debt financing needs were for fixed assets. Term loan was the most frequently required financing type accounting for a large majority (56%) of the total number of applications presented by the SMEs in the sample. Overdraft financing was the next most sought-after type of financing by the SMEs accounting for more than one quarter (28%) of the applications for financing. Examination of purpose for the finance is based on the number of different applications because each application for financing is predicated on a specific purpose. The SMEs in the sample made 274 applications in total. Some SMEs made multiple applications in each of the different financing categories and the financing decisions of the banks are made based on the purpose of each application.

In relation to characteristics of the SMEs, oil and gas sector firms presented almost two fifths (39%) of the applications which represents two thirds of the financing needs in terms of amount of finance required by the SMEs. The financing requirements of these oil and gas SMEs translate to more than half of the debt financing gaps (55%) of the SMEs consisting of 47% demand side debt financing gap and 63% of the supply side financing gaps. The incidence of huge financing gaps existing among the oil and gas SMEs is because there is no government financing initiative available to SMEs in the downstream of the Nigerian oil and gas sector. The manufacturing sector SMEs are the most discouraged as revealed in this research. These manufacturing sector SMEs presented about one third of the financing needs (35%) but accounted for almost half (49%) of the demand side debt financing gaps and are more likely to obtain finance as they account for less than one third (31%) of the supply side debt financing gaps. The relatively large demand side gap experienced by the manufacturing sector SMEs is because most of their needs are for overdraft for working capital while the banks prefer to structure term loans for fixed assets for these SMEs for ease of monitoring. The absence of a more suitable form of short term working capital finance available for these firms could be seen as a supply side failure. In terms of location of the SMEs, almost two thirds (62%) of the applications were presented in the South West zone which represents 90% of the financing needs in terms of value. The largest debt financing gaps equally occurred in the South West where Lagos and the sea ports are located. In terms of track record, the later growth firms presented the most number of financing applications and experienced the most debt financing needs and gaps which is because these are the fastest growing firms among the sampled SMEs. Lack of finance by this category of SMEs could hold back their potential future fast growth which will impact negatively on the economy.

In relation to the personal characteristics of the owner managers, the SMEs with the more experienced, elderly male owner managers had the most financing needs and these SMEs equally experienced the most debt financing gaps. In general, the finance providers demand for between 20% and 40% counterpart contribution from the SMEs to reduce leverage and evidence of owner managers' financial commitment to the transaction. In terms, of proportionality of the finance obtained by the SMEs in relation to the finance needs, the firms with female owner managers experienced the most debt financing gaps. The female led SMEs obtained less than three fifths of the finance they needed (59%) which was below the average finance obtained per SME of 64% and by a good margin below the 65% success rate achieved by the male led SMEs and 68% success rate achieved by the SMEs led by experienced owner managers. The lower success rate of the female led SMEs in obtaining finance is because the male owner managers are more able to provide collateral to secure their financing needs.

Table 5.4: Overview of Growth Oriented SMEs Debt Financing Needs and Gaps

Row Labels – SME Variable/ No of SMEs (Row %)	Count of Overall funding needs	Count of Overall funding needs (Row %)	Sum of Overall funding need NGN ' million	Sum of Overall funding need NGN (Row %)	Sum of Overall funding application NGN' million	Sum of Overall funding application NGN (Row %)	Sum of Overall funding obtained NGN' millions	Sum of Overall funding obtained NGN (Row %)	Sum of Financing gap - demand side NGN' million	Sum of Financing gap - demand side NGN' million (Row %)	Sum of Financing gap - supply side NGN' million	Sum of Financing gap - supply side (Row %)	Sum of Financing gap - Total NGN' million	Sum of Financing gap - Total NGN' million (Row %)
Grand Total – 48 SMEs (100%)	274	100%	69,584	100%	56,649	100%	44,497	100%	12,935	100%	12,152	100%	25,087	100%
3 Size Categories														
Oil & Gas – 19 (40%)	107	39%	42,315	**61%**	36,289	64%	28,609	64%	6,026	**47%**	7,680	**63%**	13,706	**55%**
Manufacturing – 16 (33%)	100	36%	24,175	35%	17,868	32%	14,045	32%	6,307	49%	3,823	31%	10,130	40%
Agriculture – 13(27%)	67	24%	3,094	4%	2,492	4%	1,843	4%	602	5%	649	5%	1,251	5%
South West- 29(60%)	169	62%	62,560	**90%**	50,779	90%	39,860	90%	11,781	**91%**	10,919	**90%**	22,700	**90%**
North Central / FCT- 19(40%)	105	38%	7,024	**10%**	5,870	10%	4,637	10%	1,154	**9%**	1,233	**10%**	2,387	**10%**
Mature- 9(19%)	74	27%	11,506	17%	9,593	17%	7,182	16%	1,914	15%	2,411	20%	4,324	17%
Later Growth- 22(46%)	117	43%	52,279	**75%**	42,216	75%	33,591	75%	10,063	**78%**	8,625	**71%**	18,688	**74%**
Early Growth- 17(35%)	83	30%	5,799	**8%**	4,841	9%	3,724	8%	958	**7%**	1,117	**9%**	2,075	**8%**
Male-35(73%)	214	78%	66,068	**95%**	53,738	95%	42,367	95%	12,330	**95%**	11,371	**94%**	23,701	**94%**
Female-13(27%)	60	22%	3,516	**5%**	2,911	5%	2,130	5%	605	**5%**	781	**6%**	1,386	**6%**
Elder-15(31%)	103	38%	37,820	**54%**	29,609	52%	23,420	53%	8,212	**63%**	6,189	**51%**	14,400	**57%**
Middle age-25(52%)	137	50%	25,436	37%	22,232	39%	17,514	39%	3,204	25%	4,718	39%	7,922	32%
Young- 8 (17%)	34	12%	6,327	**9%**	4,809	8%	3,563	8%	1,519	**12%**	1,246	**10%**	2,764	**11%**
More Experienced – 8 (17%)	70	26%	19,572	28%	14,424	25%	11,243	25%	5,148	40%	3,181	26%	8,329	33%
Experienced - 21(44%)	119	43%	40,259	**58%**	34,284	61%	27,183	61%	5,975	**46%**	7,101	**58%**	13,076	**52%**

TABLE 5.4: Contd.

Row Labels- SME Variable/ No of SMEs (Row %)	Count of Overall funding needs	Count of Overall funding needs (Row %)	Sum of Overall funding need NGN ' million	Sum of Overall funding need NGN (Row %)	Sum of Overall funding application NGN' million	Sum of Overall funding application NGN (Row %)	Sum of Overall funding obtained NGN' millions	Sum of Overall funding obtained NGN (Row %)	Sum of Financing gap - demand side NGN' million	Sum of Financing gap - demand side NGN' million (Row %)	Sum of Financing gap - supply side NGN' million (Row %)	Sum of Financing gap - supply side (Row %)	Sum of Financing gap - Total NGN' million	Sum of Financing gap - Total NGN' million (Row %)
Less Experienced -19(40%)	85	31%	9,752	14%	7,941	14%	6,071	14%	1,812	14%	1,870	15%	3,681	15%
Post graduates (Masters & PhD) -25(52%)	167	61%	60,914	**88%**	49,485	87%	39,357	88%	11,429	**88%**	10,128	**83%**	21,557	**86%**
Graduates and below – 23 (48%)	107	39%	8,670	12%	7,164	13%	5,140	12%	1,506	12%	2,024	17%	3,530	14%
Finance obtained - 1 Billion + 10(21%)	71	26%	51,896	**75%**	42,544	75%	34,180	77%	9,352	**72%**	8,364	**69%**	17,716	**71%**
Finance obtained - 250 to 999.99 Million-11(23%)	91	33%	9,706	14%	7,748	14%	5,556	12%	1,958	15%	2,192	18%	4,150	17%
Finance obtained < 249.99 Million-27(56%)	112	41%	7,981	11%	6,357	11%	4,761	11%	1,624	13%	1,596	13%	3,220	13%
Working Capital	151	55%	45,160	**65%**	36,110	64%	29,081	65%	9,050	**70%**	7,029	**58%**	16,079	**64%**
Fixed Assets	96	35%	19,778	28%	16,486	29%	12,338	28%	3,293	25%	4,148	34%	7,440	30%
Contingent Liabilities	27	10%	4,646	7%	4,054	7%	3,078	7%	592	5%	976	8%	1,568	6%
Term Loan	153	56%	56,009	**80%**	45,318	80%	36,139	81%	10,690	**83%**	9,179	**76%**	19,870	**79%**
Overdraft	77	28%	8,292	**12%**	6,723	12%	4,928	11%	1,569	**12%**	1,795	**15%**	3,364	**13%**
Finance Lease	17	6%	637	1%	554	1%	352	1%	83	1%	202	2%	285	1%
Bonds & Guarantee	27	10%	4,646	7%	4,054	7%	3,078	7%	592	5%	976	8%	1,568	6%

5.3.3 External Debt Financing Needs of Growth Oriented SMEs in Relation to Employment Size

The external debt financing needs of the SMEs in relation to the employment size of the SMEs and the characteristics of the SMEs, characteristics of the owner managers and the financing terms (amount, type and purpose) are reported in Table 5.5. Examination of the debt financing needs relative to business characteristics of the firms reveal that almost two thirds (61%) of the debt financing needs of the SMEs was in the oil and gas sector which is the sector that does not have any government financing initiative at the time of the research. Almost three quarters (73%) of the debt financing needs occurred among firms employing 25+ employees. Over one third (38%) of the debt financing needs occurred among the oil and gas SMEs employing 25+ employees while manufacturing sector SMEs employing 25+ employees presented 34% of the debt financing needs. The debt financing needs of the oil and gas SMEs employing 15-24 employees was about one-fifth (19%) of the total debt financing needs. In the agricultural sector the most debt financing needs occurred among the SMEs employing 15-24 employees. The oil and gas SMEs presented the largest debt financing needs because their operations are the most capital intensive and the lack of government financing initiatives for the SMEs in the oil and gas sector compounds their problems.

In terms of location of the SMEs, a large majority (90%) of the debt financing needs occurred in the South West (SW) zone. Among these SMEs in SW zone, the firms employing 25+ employees presented more than two thirds (71%) of the total financing needs. The SMEs in the SW presented more debt financing needs because the SW is more commercial in nature and more of the larger firms including the oil and gas SMEs are in the SW zone where the sea ports are located. The firms in North Central / FCT zone presented 10% of the debt financing needs and the occurrence of their financing needs was evenly spread among the firms employing 15-24 employees and those employing 5-14 employees. Three quarters (75%) of the debt financing needs were presented by later growth stage firms with mature firms presenting almost one-fifth (17%) of the debt financing needs. These two categories of firms appear to have more resources and are more capable of meeting the financing criteria specified by lenders, particularly collateral.

In relation to SMEs size, firms employing 25+ employees presented almost three quarters (73%) of the debt financing needs. More than half (53%) of the debt financing needs of the firms employing 25+ employees occurred in the oil and gas sector. On the other hand, almost two thirds of the debt financing needs experienced by oil and gas firms occurred among the employers of 25+ employees while 99% of the debt financing needs in the manufacturing sectors were presented by employees of 25+ employees. These findings collectively determine the importance of employment size in the surveyed SMEs debt financing. In relation to the relationship between the SME owner-manager characteristics and employment size on SMEs debt financing, more than two thirds (69%) of the debt financing needs of elder owner managers were presented by firms employing 25+ employees. The young owner managers who operate about one fifth (17%) of the firms had about one-tenth (9%) of the total debt financing needs. When the track record of the owner managers is considered, relative to their debt financing needs, more than half of the debt financing needs (58%) were presented by the experienced owner managers' firms and almost three quarters (72%) of these debt financing needs occurred among those firms employing 25+ employees.

Examination of the debt financing needs relative to the financing terms, relating to amount, purpose and type of finance, reveal more than three quarters (80%) of the debt financing needs occurred among the firms that obtained N1 billion + finance which represent about one-fifth (21%) of the sampled firms. Whilst almost one quarter (23%) of firms are in the N250 – 999.99 million financing categories, they presented less than one-fifth (14%) of the samples overall financing needs. Furthermore, over half of firms (56%) are in the less than N250 million financing category (56%), but presented just 6% of the financing needs. The greatest concentration of, almost two thirds (63%), of the debt financing needs were presented by firms in the N1 billion + financing category which employed 25+ employees. Relative to financing purpose, working capital accounts for 65% of the debt financing needs and the firms employing 25+ employees presented almost half (45%), while those firms employing 15-24 employees presented about one-fifth (15%) of the debt financing needs. Fixed assets which was almost one-third (29%) of the debt financing needs was the next in the hierarchy of the debt financing needs out of which about one-quarter (23%) occurred among the firms employing 25+ employees. In terms of the financing types over three quarters (81%) of the debt financing needs were term loans while 12% of the debt financing needs were overdraft. The financing need for contingent liabilities was 7% while finance lease was 1%.

Table 5.5: Growth Oriented SMEs External Debt Financing Needs in Relation to Size

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Overall Financing need (Row %)	Employment size - 15 - 24 employees	Percentage Overall Financing need (Row %)	Employment size - 5 - 14 employees	Percentage Overall Financing need (Row %)	Total Financing Need NGN' Million	Percentage Overall Financing need (Row %)
Overall funding need NGN' Million	**48**	**100%**	**50,539**	**73%**	**15,745**	**23%**	**3,299**	**5%**	**69,583**	**100%**
Oil & Gas	19	40%	26,613	38%	13,549	19%	2,209	3%	42,371	61%
Manufacturing	16	33%	23,926	34%	193	0.3%	-	-	24,118	35%
Agriculture	13	27%	-	-	2,004	3%	1,090	2%	3,094	4%
South West	29	60%	49,339	71%	12,955	19%	266	0%	62,559	90%
North Central / FCT	19	40%	1,201	2%	2,790	4%	3,033	4%	7,024	10%
Mature	9	19%	10,145	15%	1,243	2%	103	0%	11,491	17%
Later Growth	22	46%	39,709	57%	12,014	17%	496	1%	52,218	75%
Early Growth	17	35%	686	1%	2,489	4%	2,700	4%	5,874	8%
Male	35	73%	50,216	72%	13,356	19%	2,496	4%	66,067	95%
Female	13	27%	324	0%	2,390	3%	803	1%	3,516	5%
Elder	15	31%	29,050	42%	11,999	17%	503	1%	41,552	60%
Middle age	25	52%	15,067	22%	3,746	5%	2,738	4%	21,552	31%
Young	8	17%	6,422	9%	-	-	58	0.1%	6,480	9%
More Experienced	8	17%	22,138	32%	1,243	2%	-	-	23,381	34%
Experienced	21	44%	27,613	40%	12,151	17%	496	1%	40,259	58%

TABLE 5.5:– Contd.										
Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Overall Financing need (Row %)	Employment size - 15 - 24 employees	Percentage Overall Financing need (Row %)	Employment size - 5 - 14 employees	Percentage Overall Financing need (Row %)	Total Financing Need NGN' Million	Percentage Overall Financing need (Row %)
Less Experienced	19	40%	789	1%	2,351	3%	2,803	4%	5,943	9%
Post graduates (Masters & PhD)	25	52%	45,846	66%	12,638	18%	2,278	3%	60,763	87%
Graduates and below	23	48%	4,693	7%	3,107	4%	1,020	1%	8,821	13%
Finance obtained - 1 Billion +	10	21%	43,953	63%	9,800	14%	1,875	3%	55,628	80%
Finance obtained - 250 - 999.99 Million	11	23%	5,020	7%	4,615	7%	-	0%	9,635	14%
Finance obtained < 249.99 Million	27	56%	1,567	2%	1,330	2%	1,424	2%	4,320	6%
Row Labels	Count of Transac-tions	Percentage Count of Transactions	Employment size - 25 + employees	Percentage Overall Financing need (Row %)	Employment size - 15 - 24 employees	Percentage Overall Financing need (Row %)	Employment size - 5 - 14 employees	Percentage Overall Financing need (Row %)	Total Financing Need NGN' Million	Percentage Overall Financing need (Row %)
Overall funding need NGN' Million	274	100%	50,539	73%	15,745	23%	3,299	5%	69,583	100%
Working Capital	151	55%	31,509	45%	10,347	15%	3,066	4%	44,922	65%
Fixed Assets	96	35%	15,902	23%	3,893	6%	221	0.3%	20,016	29%
Contingent Liabilities	27	10%	3,128	4%	1,505	2%	13	0.02%	4,646	7%
Term Loan	153	56%	43,129	62%	10,935	16%	2,394	3%	56,458	81%
Overdraft	77	28%	4,199	6%	2,841	4%	802	1%	7,842	11%
Finance Lease	17	6%	83	0.1%	464	1%	89	0.1%	637	1%
Bonds & Guarantee	27	10%	3,128	4%	1,505	2%	13	0.02%	4,646	7%

5.3.4 SMEs Demand Side Debt Financing Gaps

Application of the above debt financing gaps model in the determination of demand side debt financing gaps experienced by the forty- eight sampled SMEs yields N12.94 billion as the aggregate demand side debt financing gap (see Table 5.6). Almost three quarters (71%) of the demand side debt financing gap occurred among firms employing 25+ employees while about one quarter (25%) of the gap existed among the firms employing 15-24 employees, suggesting that the firms employing 5-14 employees are more likely to come forward to put in applications for their financing needs. This is because demand side debt financing gaps represent the variance between the financing needs and applications for financing by the firms. Evidently, the larger sized firms experienced higher demand side debt financing gaps and had more debt financing needs. Examination of the demand side debt financing gaps in terms of the business characteristics of the firms reveal that manufacturing sector firms experienced the greatest proportional (48%) demand side financing gaps, followed by the oil and gas sector firms (47%). Over three quarters (87%) of the demand side financing gaps experienced by manufacturing firms occurred among the firms employing 25+ employees. In the oil and gas sector, the demand side financing gap did not vary between the firms employing 25+ employees and those employing 15-24 employees. More than two thirds (69%) of the demand side debt financing gap is localized in the south west zone particularly among the firms employing 25+ employees in both oil and gas and manufacturing sectors. In relation to business characteristics, the mature firms, agricultural sector and those firms located in North central / FCT zone experienced the least demand side debt financing gaps and were therefore most likely to make successful demands for their debt financing needs. In relation to the owner managers' characteristics, the young, female and the less experienced owner managers had the least demand side financing gaps. Examination of the incidence of the demand side debt financing gap reveals that most of the firms sampled came forward to make demand for the finance they needed. From Table 5.6, less than one quarter (21%) of the firms, individually needed N1 billion +, but these firms experienced almost two thirds (59%) of the demand side debt financing gaps. By implication, the willingness of the SMEs to engage with the finance providers is high among the sampled firms since a large majority (79%) of the firms experienced only 21% of the demand side debt financing gaps.

Table 5.6: SMEs Demand Side Debt Financing Gaps

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap-demand side (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap-demand side (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap-demand side (Row %)	Total Financing gap - demand side	Percentage Financing gap-demand side (Row %)
Sum of Financing gap - demand side	48	100%	9,125	71%	3,282	25%	527	4%	12,934	100%
Oil & Gas	19	40%	2,901	22%	2,899	22%	266	2%	6,066	47%
Manufacturing	16	33%	6,224	48%	42	0.3%	-	-	6,266	48%
Agriculture	13	27%	-	-	341	3%	261	2%	602	5%
South West	19	60%	8,941	69%	2,752	21%	88	1%	11,781	91%
North Central / FCT	29	40%	184	1%	530	4%	439	3%	1,154	9%
Mature	17	35%	1,665	13%	197	2%	32	0.2%	1,894	15%
Later Growth	22	46%	7,323	57%	2,584	20%	131	1%	10,038	78%
Early Growth	9	19%	137	1%	501	4%	364	2.8%	1,002	8%
Male	13	27%	9,069	70%	2,913	23%	347	3%	12,329	95%
Female	35	73%	56	0%	369	3%	180	1%	605	5%
Elder	15	31%	6,235	48%	2,597	20%	105	1%	8,936	69%
Middle age	25	52%	1,288	10%	686	5%	414	3%	2,387	18%
Young	8	17%	1,602	12%	-	-	9	0.1%	1,611	12%

Table 5.6: Contd.

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap-demand side (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- demand side (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap-demand side (Row %)	Total Financing gap - demand side	Percentage Financing gap-demand side (Row %)
More Experienced	19	40%	5,724	44%	197	2%	-	-	5,921	46%
Experienced	8	17%	3,244	25%	2,601	20%	131	1%	5,975	46%
Less Experienced	21	44%	158	1%	484	4%	396	3%	1,038	8%
Post graduates (Masters & PhD)	23	48%	8,279	64%	2,738	21%	277	2%	11,294	87%
Graduates and below	25	52%	846	7%	544	4%	250	2%	1,640	13%
Finance obtained - 1 Billion +	10	21%	7,587	59%	2,266	18%	195	2%	10,048	78%
Finance obtained - 250 to 999.99 Million	11	23%	1,153	9%	774	6%	-	-	1,928	15%
Finance obtained < 249.99 Million	27	56%	384	3%	242	2%	332	3%	958	7%
Row Labels	Count of Transactions	Percentage Count of Transactions	Employment size - 25 + employees	Percentage Financing gap-demand side (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- demand side (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap- demand side (Row %)	Total Financing gap - demand side	Percentage Financing gap-demand side (Row %)
Sum of Financing gap - demand side	274	100%	9,125	71%	3,282	25%	527	4%	12,934	100%
Working Capital	151	55%	5,825	45%	2,601	20%	479	4%	8,904	69%
Fixed Assets	96	35%	2,948	23%	444	3%	46	0.4%	3,438	27%
Contingent Liabilities	27	10%	352	3%	237	2%	3	0.02%	592	5%
Term Loan	153	56%	8,093	63%	2,392	18%	295	2%	10,780	83%
Overdraft	77	28%	665	5%	600	5%	214	2%	1,479	11%
Finance Lease	17	6%	15	0.1%	53	0.4%	16	0.1%	83	1%
Bonds & Guarantee	27	10%	352	3%	237	2%	3	0.02%	592	5%

5.3.5 SMEs Supply Side Debt Financing Gaps

The sampled 48 firms experienced a total of N12.18 billion supply side debt financing gaps which is 21% of the total value of applications overall for financing by the firms (see Table 5.7). The research shows that, on the supply side, the debt financing gap represented by the variance between the applications for debt finance received by the banks and the debt finance approved by the banks was relatively small for a large majority (79%) of the firms. This accounted for almost one third (23%) of the supply side debt financing gaps experienced by the firms. Most of these were agricultural sector firms which applied for relatively small amounts of finance. The SMEs in oil and gas and manufacturing sectors which applied for more financing experienced more of the refusal of financing which is responsible for the high supply side debt financing gap among the firms employing 25+ employees. This supports the assertion that banks are apprehensive of financing SMEs due to their perception of the transactions presented by these firms as being associated with high risk of credit default.

A large majority (90%) of the supply side debt financing gaps occurred in the South West zone, particularly among the larger firms, employing 25+ employees (73%) and those employing 15-24 employees (17%) suggesting that lenders in North Central/FCT were in relative terms more willingly to meet the supply needs of the firms. Evidently the firms in the North Central/ FCT zone seem to have presented less financing needs than their counterparts in the South West zone. This trend may be related to the agricultural focus of the North Central / FCT zone which is located around the Rivers Niger and Benue basin. A policy maker with SMEDAN explained that officially, the North Central zone is now considered the “food basket” of the nation as it produces the largest volume of agricultural products. Financial landscape review of the country previously discussed in chapter three reveals, the South West zone is more commercial and home to the major seaports and large oil and gas producing companies and head offices of most commercial banks, as well as Lagos which is the assumed “commercial capital” of the country.

The supply side debt financing gaps were more pronounced among the firms applying for N1 billion+. More than three quarters (76%) of the supply side debt financing gaps were experienced by this category of firms particularly the firms employing 25+ employees which accounted for almost two thirds (64%) of the supply side debt financing gaps. These firms present larger financing needs to the lenders which are more likely to be declined.

Considering the financing risks presented by SMEs in general due to incomplete financial records, collateral and other issues related to meeting financing criteria, the banks seem to be mitigating their credit risk by preferring smaller amounts of financing and that seems to explain the reason why the firms that presented financing needs of below N250 million appear to have experienced lower supply side debt financing gaps. One bank director explained that in their bank they watch their credit portfolio concentration risk closely, ensuring the risk is spread over many firms focusing more on those borrowing smaller amount of money. The benefits of this financing strategy for the bank according to this bank director is that it creates a larger pool of satisfied customers and the bank losses less money in the event of credit default, rather than concentrating more money in the hands of fewer borrowers.

Table 5.7: SMES Supply Side Debt Financing Gap

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap-supply side (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap-supply side (Row %)	Employment size - 5- 14 employees	Percentage Financing gap-supply side (Row %)	Total Financing gap - supply side	Percentage Financing gap-supply side (Row %)
Sum of Financing gap - supply side	48	100%	9,036	74%	2,639	22%	477	4%	12,152	100%
Oil & Gas	19	40%	5,224	43%	2,193	18%	243	2%	7,660	63%
Manufacturing	16	33%	3,813	31%	30	0%	-	0%	3,843	32%
Agriculture	13	27%	-	0%	415	3%	234	2%	649	5%
South West	29	60%	8,818	73%	2,066	17%	35	0%	10,919	90%
North Central / FCT	19	40%	219	2%	573	5%	442	4%	1,233	10%
Mature	9	19%	1,984	16%	296	2%	22	0%	2,302	19%
Later Growth	22	46%	6,928	57%	1,731	14%	93	1%	8,753	72%
Early Growth	17	35%	125	1%	612	5%	361	3%	1,098	9%
Male	35	73%	67	1%	531	4%	183	2%	781	6%
Female	13	27%	8,970	74%	2,108	17%	293	2%	11,371	94%
Elder	15	31%	5,167	43%	1,760	14%	91	1%	7,018	58%
Middle age	25	52%	2,709	22%	879	7%	371	3%	3,960	33%
Young	8	17%	1,160	10%	-	0%	15	0%	1,175	10%
More Experienced	8	17%	3,662	30%	296	2%	-	0%	3,958	33%
Experienced	21	44%	5,225	43%	1,783	15%	93	1%	7,101	58%
Less Experienced	19	40%	150	1%	560	5%	383	3%	1,093	9%

Table 5.7: Contd.

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap- supply side (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- supply side (Row %)	Employment size - 5- 14 employees	Percentage Financing gap- supply side (Row %)	Total Financing gap - supply side	Percentage Financing gap- supply side (Row %)
Post graduates (Masters & PhD)	25	52%	7,971	66%	1,905	16%	272	2%	10,148	84%
Graduates and below	23	48%	1,065	9%	734	6%	205	2%	2,004	16%
Finance obtained - 1 Billion +	10	21%	7,788	64%	1,254	10%	180	1%	9,222	76%
Finance obtained - 250 to 999.99 Million	11	23%	930	8%	1,144	9%	-	0%	2,074	17%
Finance obtained < 249.99 Million	27	56%	318	3%	241	2%	297	2%	856	7%
Row Labels	**Count of Transactions**	**Percentage Count of Transactions**	**Employment size - 25 + employees**	**Percentage Financing gap- supply side (Row %)**	**Employment size - 15 - 24 employees**	**Percentage Financing gap- supply side (Row %)**	**Employment size – 5- 14 employees**	**Percentage Financing gap- supply side (Row %)**	**Total Financing gap - supply side**	**Percentage Financing gap- supply side (Row %)**
Sum of Financing gap - supply side	274	100%	9,036	74%	2,639	22%	477	3.9%	12,152	100%
Working Capital	151	55%	4,999	41%	1,536	13%	429	3.5%	6,964	57%
Fixed Assets	96	35%	3,418	28%	751	6%	45	0.4%	4,213	35%
Contingent Liabilities	27	10%	620	5%	353	3%	3	0.02%	976	8%
Term Loan	153	56%	7,444	61%	1,564	13%	287	2.4%	9,295	76%
Overdraft	77	28%	955	8%	560	5%	165	1.4%	1,680	14%
Finance Lease	17	6%	17	0.1%	163	1%	22	0.2%	202	2%
Bonds & Guarantee	27	10%	620	5%	353	3%	3	0.02%	976	8%

5.3.6 SMEs Total Debt Financing Gaps

The aggregate debt financing gap experienced by the forty- eight sampled firms which have been estimated using the debt financing gap model (see Table 5.8) is N25.09 billion, which is 36% of the debt financing needs of these firms. Further analysis of the debt financing gaps reveals that the majority (52%) of the debt financing gaps reside on the demand side implying that demand side failures in Nigeria are slightly more dominant. Relative to the business characteristics of the firms, the debt financing gaps are more prominent among oil and gas and manufacturing sector businesses and particularly the firms employing 25+ employees. Incidentally, these are the firms that provide more jobs, implying that addressing the debt financing gaps of these firms may be more beneficial to the economy. The debt financing gaps seem to be lower among the smaller firms that apply for smaller amounts of financing. As revealed previously in this research, such firms include agricultural sector firms employing 5-14 employees with a debt financing gap of 2%, early growth stage firms (8% gap), firms with female owner managers (6%), firms with young owner managers (11%). The debt financing gap is even lower among firms with these attributes which are employing 5-14 employees.

Analysis of the categorization of the existing debt financing gaps in the various escalator levels in this research shows that the debt financing gaps are most pronounced among the SMEs applying for N1 billion + which are employing 25+ employees. These firms are in the minority (21%) but account for almost three quarters (71%) of the debt financing gaps. Analysis of the debt financing gaps in relation to the purpose for which the firms sought financing reveal highest levels of debt financing gaps (64%) occurring among firms that applied for working capital. The debt financing gap was moderate (30%) among firms that applied for fixed assets financing and least (6%) for those in need of contingent liabilities. The lenders did not need to part with physical cash to meet the financing needs of firms that required contingent liabilities which is associated only with reputational risk which is a likely explanation for the minimal debt financing gap these firms requiring contingent liabilities financing experienced. In relation to type of financing required by the firm, term loan was required in the majority (56%) of the cases. The firms requiring term loans experienced more than three quarters (79%) of the debt financing gaps. As previously revealed in this research the lenders seem to have preferred structuring their financing in the form of term loans for monitoring reasons. One of the owner managers even confirmed that the officials in the bank he was using signposted him to apply for a term loan if he wanted to be successful in the application. The low level of applications and financing gaps in overdrafts may have been due to the preference of the lenders in structuring and approving term loans rather than overdraft facilities. The low level of financing gaps in finance lease is because the owner managers prefer to pay for and own the fixed assets outright rather than leasing. One of the owner managers explained that in times of credit default the lender can easily come to the firm's business premises and take away the equipment under lease since the ownership is in their name.

Table 5.8: SMEs Total Debt Financing Gaps

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap- Total (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- Total (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap- Total (Row %)	Total Financing gap	Percentage Financing gap- Total (Row %)
Total Financing gap	48	100%	16,637	66%	7,446	30%	1,004	4%	25,087	100%
Oil & Gas	19	40%	8,104	32%	5,093	20%	509	2%	13,706	55%
Manufacturing	16	33%	8,533	34%	1,597	6%	-	-	10,130	40%
Agriculture	13	27%	-	-	756	3%	495	2%	1,251	5%
South West	29	60%	16,234	65%	6,343	25%	123	0.5%	22,700	90%
North Central / FCT	19	40%	403	2%	1,103	4%	881	4%	2,387	10%
Mature	9	19%	3,777	15%	493	2%	54	0.2%	4,324	17%
Later Growth	22	46%	12,623	50%	5,840	23%	224	1%	18,688	74%
Early Growth	17	35%	237	1%	1,113	4%	726	3%	2,075	8%
Male	35	73%	16,514	66%	6,547	26%	640	3%	23,701	94%
Female	13	27%	123	0%	900	4%	364	1%	1,386	6%
Elder	15	31%	9,849	39%	4,356	17%	196	1%	14,400	57%
Middle age	25	52%	4,048	16%	3,090	12%	784	3%	7,922	32%
Young	8	17%	2,741	11%	-	-	24	0.1%	2,764	11%
More Experienced	8	17%	7,836	31%	493	2%	-	-	8,329	33%
Experienced	21	44%	8,469	34%	4,384	17%	224	1%	13,076	52%

Table 5.8: Contd.

Row Labels	Count of SMEs	Percentage Count of SMEs	Employment size - 25 + employees	Percentage Financing gap- Total (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- Total (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap- Total (Row %)	Total Financing gap	Percentage Financing gap- Total (Row %)
Less Experienced	19	40%	332	1%	2,569	10%	780	3%	3,681	15%
Post graduates (Masters & PhD)	25	52%	14,840	59%	6,168	25%	548	2%	21,557	86%
Graduates and below	23	48%	1,797	7%	1,278	5%	455	2%	3,530	14%
Finance obtained - 1 Billion +	10	21%	13,821	55%	3,520	14%	375	1%	17,716	71%
Finance obtained - 250 to 999.99 Million	11	23%	2,232	9%	1,918	8%	-	-	4,150	17%
Finance obtained < 249.99 Million	27	56%	583	2%	2,008	8%	629	3%	3,220	13%
Row Labels	Count of Transactions	Percentage Count of Transactions	Employment size - 25 + employees	Percentage Financing gap- Total (Row %)	Employment size - 15 - 24 employees	Percentage Financing gap- Total (Row %)	Employment size - 5 - 14 employees	Percentage Financing gap- Total (Row %)	Total Financing gap	Percentage Financing gap- Total (Row %)
Total Financing gap	274	100%	16,637	66%	7,446	30%	1,004	4%	25,087	100%
Working Capital	151	55%	9,864	39%	5,307	21%	908	4%	16,079	64%
Fixed Assets	96	35%	5,800	23%	1,549	6%	91	0.4%	7,440	30%
Contingent Liabilities	27	10%	972	4%	590	2%	6	0.02%	1,568	6%
Term Loan	153	56%	14,157	56%	5,130	20%	583	2%	19,870	79%
Overdraft	77	28%	1,476	6%	1,511	6%	377	2%	3,364	13%
Finance Lease	17	6%	32	0.1%	215	1%	37	0.1%	285	1%
Bonds & Guarantee	27	10%	972	4%	590	2%	6	0.02%	1,568	6%

5.4 Access to Debt Finance in Relation to Frequency of Loan Applications

Examination of the frequency data on the count of loan applications made by the SMEs is reported in Table 5.9. The success of the SMEs in accessing finance is categorized in terms of three variables: (i) Full funding (ii) Part funding (iii) No funding, based on the outcome of the loan application. The 48 sampled SMEs made a total of 274 loan applications. Cross tabulation of the frequency data on loan applications, reveals the SMEs made multiple loan applications relative to the types and purpose of the finance. The unit of analysis is therefore count of applications and not the SMEs. Examination of the success rate of the SMEs in receiving full approval in relation to the terms and conditions reveal that in terms of amount of the finance approved, almost two thirds of the fully successful applications were those below N249.99 million which implies that finance providers are more likely to approve small amounts of loan in full than larger ones. In terms of financing purpose, the finance providers are more likely to fully approve applications for fixed assets while in terms of types of finance, the applications for term loans are more likely to be approved in full.

Almost two thirds (63%) of the applications were funded in part, almost a quarter (21%) were unfunded while almost one fifth (16%) were fully funded. In relation to the characteristics of the SMEs, for oil and gas, more than half of the loan applications (52%) were partly funded as well as more than three quarters (77%) of loan applications by male owner managers. Half (50%) of the applications by experienced owner managers and 49% of the applications by middle age owner managers were partly funded. Further review of partly funded applications revealed that, in relation to purpose and type of financing, more than half of the applications for term loans (56%) and working capital applications (52%) were partly approved by the banks. In relation to location more than two thirds (68%) of the part funded loan applications were in South West zone. The high proportion of part approvals from the oil and gas sector is because the finance providers are more likely to provide part finance for the large amounts and most of the larger amounts applied for were in this sector. In terms of the location of the SMEs, there was no marked difference in proportion of approvals between the two zones covered in the study, as about two third of the applications were partly approved in both zones.

The oil and gas sector firms presented one third (33%) of the applications that received full approvals. Most of the applications involving large amounts of finance were presented by firms in the oil and gas sector. In terms of location, almost two third of the applications (64%) that received full approvals were in North Central / FCT zone where most of the smaller value applications were presented. This finding reveals that finance providers are more likely to approve smaller amounts of applications in full as these constituted lower risks in terms of the amount of loss to be incurred in the event of credit default. In terms of trading age of the firm, almost three quarters of the full approvals were received by the mature and later growth firms.

Examination of the applications that were declined (see Table 5.9) reveals that almost half of the declined applications (49%) were in the manufacturing sector while oil and gas accounted for about one third (37%) of the declined applications. In terms of locations, more than three quarters of the declined applications were in south west zone. In relation to the personal characteristics of the owner managers more than four-fifths (89%) of the declined applications were from firms with male owner managers. In terms of amount of financing declined, almost half of the declined applications (47%) were in the category of N1 billion + which is further evidence of the finance providers' preference for approving smaller amounts of finance for SMEs. In terms of type of finance declined, almost half (49%) of the declined applications were for working capital financing.

Table 5.9: Access to Finance in Relation to Frequency of Applications

Row Labels	Count of Overall funding needs	Count of Overall funding needs (Row %)	Sum of Frequency of Full Approval	Sum of Frequency of Full Approval (Row %)	Sum of Frequency of Part Approval	Sum of Frequency of Part Approval (Row %)	Sum of Frequency of No Approval	Sum of Frequency of No Approval (Row %)
Grand Total	274	100%	45	16%	172	63%	57	21%
Oil & Gas	107	39%	15	33%	89	52%	22	39%
Manufacturing	100	36%	18	40%	45	26%	22	39%
Agriculture	67	24%	12	27%	38	22%	13	23%
South West	169	62%	16	36%	116	68%	40	71%
North Central / FCT	105	38%	29	64%	56	32%	17	29%
Mature	74	27%	9	20%	48	28%	21	37%
Later Growth	117	43%	22	49%	70	41%	21	37%
Early Growth	83	30%	14	31%	54	31%	15	26%
Male	214	78%	32	71%	132	77%	48	84%
Female	60	22%	13	29%	40	23%	9	16%
Elder	103	38%	14	31%	68	39%	22	39%
Middle age	137	50%	26	58%	84	49%	26	45%
Young	34	12%	5	11%	20	12%	9	16%
More Experienced	70	26%	5	11%	27	15%	17	29%
Experienced	119	43%	30	67%	86	50%	25	44%
Less Experienced	85	31%	10	22%	59	35%	16	27%
Post graduates (Masters & PhD)	167	61%	24	53%	106	62%	42	74%
Graduates and below	107	39%	21	47%	66	38%	15	26%
Finance obtained - 1 Billion +	71	26%	6	13%	51	30%	21	37%
Finance obtained - 250 to 999.99 Million	91	33%	11	24%	52	30%	18	32%
Finance obtained < 249.99 Million	112	41%	28	62%	69	40%	17	31%
Working Capital	151	55%	22	49%	90	52%	39	68%
Fixed Assets	96	35%	18	40%	65	38%	13	23%
Contingent Liabilities	27	10%	5	11%	17	10%	5	9%
Term Loan	153	56%	24	53%	96	56%	33	58%
Overdraft	77	28%	12	27%	50	29%	15	26%
Finance Lease	17	6%	4	9%	10	6%	3	5%
Bonds & Guarantee	27	10%	5	11%	16	9%	6	11%

5.5 Association Between Access to Finance and the Research Variables

The test for association between access to finance and the characteristics of the SMEs, the owner managers, employment growth and relationship banking are undertaken using chi square tests. Access to finance is measured by frequency of success in obtaining finance in terms of receiving full funding, part funding or no funding for each application for finance by the SMEs. The characteristics of the SMEs is measured by the sector, location and trading age of the SMEs. The characteristics of the owner managers is measured by the age, gender, track record and education. The employment growth is measured by the number of new jobs created while relationship banking is measured by number of visits the lenders made to the SMEs within a period. These provide a basis for linking access to finance with these research variables.

(I.) Association between Access to finance and Growth Oriented SMEs Business Characteristics – (Table 5.10)

i. Sector - There is an association between the business sector of the SME and access to finance based on chi square testing, at 2 degrees of freedom and significance level of 5%.
ii. Location - There is an association between the business location of the SMEs and access to finance based on chi square testing, at 2 degrees of freedom and significance level of 5%.
iii. Trading age - There is no association between trading age of the SMEs and access to finance based on chi square testing, at 2 degrees of freedom and significance level of 5%.

Table 5.10: Association Between Access to Finance and Growth Oriented SMEs Business Characteristics

1.) Test for Association Between SME Business Sector and Access to Finance
Ho: There is no association between the business sector of the SME and access to finance
Ha: There is an association between the business sector of the SME and access to finance
Degrees of freedom - df = 2
Level of significance - $\alpha = 0.05$
Chi square from tables = 5.991
Chi square calculated from empirical data = 6.879

2.) Test for Association Between Business Location of the SMEs and Access to Finance
Ho: There is no association between the business location of the SMEs and access to finance

Ha: There is an association between the business location of the SMEs and access to finance
Degrees of Freedom - df = 2
Level of Significance - α = 0.05
Chi square from tables = 5.991
Chi square calculated from empirical data = 14.395

3.) Test for Association Between SME Trading Age and Access to Finance
Ho: There is no association between trading age of the SMEs and access to finance
Ha: There is an association between trading age of the SMEs and access to finance
Degrees of freedom - df = 2
Level of significance - α = 0.05
Chi square from tables = 5.991
Chi square calculated from empirical data = 0.804

(II) Association between Access to Finance and SMEs Owner managers' Characteristics – (Table 5.11)

i. Age - There is an association between SMEs' owner managers' age and access to finance by the SMEs based on Chi square testing at 5% level of significance and 2 degrees of freedom.
ii. Track record - There is an association between track record of the owner manager in business and access to finance based on Chi square testing at 5% level of significance and 2 degrees of freedom.
iii. Education - There is no association between the level of education of the SME's owner manager and access to finance based on Chi square testing at 5% level of significance and 2 degrees of freedom.
iv. Gender - There is no association between the gender of the SME's owner manager and access to finance based on Chi square testing at 5% level of significance and 2 degrees of freedom.

Table 5.11: Association between Access to Finance and SMEs Owner Managers' Characteristics

1.) Test for Association Between SME Owner Managers' Age and Access to Finance
Ho: There is no association between SMEs' owner managers' age and access to finance.
Ha: There is an association between SMEs' owner managers' age and access to finance.
Degrees of freedom - df = 2
Level of significance - $\alpha = 0.05$
Chi square from tables – 5.991
Chi square calculated from empirical data = 6.342

2.) Test for Association Between SME Owner Managers' Track Record and Access to Finance
Ho: There is no association between track record of the owner manager in business and access to finance.
Ha: There is an association between track record of the owner manager in business and access to finance.
Degrees of freedom - df = 2
Level of significance - $\alpha = 0.05$
Chi square from tables = 5.991
Chi square calculated from empirical data = 7.976

3.) Test for Association Between SME Owner Managers' Level of Education and Access to Finance

Ho: There is no association between the level of education of the SME's owner manager and access to finance.
Ha: There is an association between the level of education of the SME's owner manager and access to finance.
Degrees of freedom - df = 2
Level of significance - $\alpha = 0.05$
Chi square from tables = 5.991
Chi square calculated from empirical data = 0.396

4.) **Test for Association Between SME Owner Managers' Gender and Access to Finance**

Ho: There is no association between the gender of the SME's owner manager and access to finance.
Ha: There is an association between the gender of the SME's owner manager and access to finance.
Degrees of freedom - df = 2
Level of significance - $\alpha = 0.05$
Chi square from tables = 5.991
Chi square calculated from empirical data = 2.269

(III) Association between Access to Finance and Employment Growth – (Table 5.12)

Employment - There is an association between employment growth by SMEs and access to finance based on chi square testing, at level of significance of 5% with 2 degrees of freedom.

Table 5.12: Association between Access to Finance and Employment Growth

1.) Test for Association between Employment Growth by SMEs and Access to Finance Ho: There is no association between employment growth by the SMEs and access to finance. Ha: There is an association between employment growth by the SMEs and access to finance. Degrees of freedom - df = 2 Level of significance - α = 0.05 Chi square from tables = 5.991 Chi square calculated from empirical data = 6.298

(IV) Association between Access to finance and Relationship Banking – (Table 5.13)

Relationship banking - There is an association between access to finance and relationship banking based on chi square testing, at level of significance of 5% with 2 degrees of freedom.

Table 5.13 Association between Access to Finance and Relationship Banking

1.) : Test for Association between Access to Finance and Relationship Banking Ho: There is no association between access to finance and relationship banking Ha: There is an association between access to finance and relationship banking Degrees of freedom - df = 2 Level of significance - α = 0.05 Chi square from tables = 5.991 Chi square calculated from empirical data = 12.687

5.6 IMPACT OF FINANCE ON GROWTH ORIENTED SMEs

5.6.1 Overview of SMEs Growth in Relation to Finance

SMEs growth is measured in this research by employment size growth and sales turnover growth using 2012 financial year baseline data and covering a period of three financial years ending in 2014. The examined forty-eight SMEs are categorized into three groups based on employment size during the baseline year. The growth achieved by the SMEs relative to external finance used is reported in Table 5.14. Overall employment grew

within the survey sample of 48 businesses between 2012 and 2014 by 57%. Examining the sample by employment size categories established for the 2012 baseline year it is apparent that employment growth is both numerically and proportionally greatest within the largest size category (25+ employees) and smallest amongst the smallest employment category (5-14 employees). However, when average and median growth per firm are considered, it is the smallest employee firms which demonstrate the proportionally highest growth. In addition, employment growth per unit of finance obtained is higher among the smallest employee firms.

SMEs employing 25+ employees accounted for almost half of the surveyed business cases in 2012 (46%), those employing between 15-24 employees accounted for one third (33%) and those employing 5-14 employees accounted for just over one fifth (21%). Proportionally, SMEs employing 25+ accounted for two-thirds of the total sample employment in 2012 and 56% of the employment in 2014, exhibiting 57% employment growth in the period. SMEs employing 15-24 employees (25%) in 2012 grew faster at 68% per SME relative to 51% growth by SMEs employing 25+ employees. SMEs employing 5 to 14 employees in relative terms grew fastest achieving per SME employment size growth of 100%.

Overall sales turnover grew within the survey sample of 48 businesses between 2012 and 2014 by 376% relative to the baseline year. Examining the sample by sales turnover growth categories established for the 2012 baseline year it is apparent that sales turnover growth is both numerically and proportionally greatest within the largest size category (25+ employees) which obtained higher levels of finance and smallest amongst the smallest employment category (5-14 employees). However, employment growth per unit of finance obtained is higher among the smallest employee firms.

Sales turnover growth of employers of 25+ employees is 56%. The rate of growth of these SMEs is 3.97 which is higher than the sample average of 3.67. From the findings of this research, among SMEs with higher employment size, growth is more focusing on sales turnover while among SMEs with lower employment size, growth is more focusing on employment size growth.

Table 5.14: Overview of SMEs Growth in Relation to Use of External Finance

	Employing size - 5 to 14 employees	Employment size - 15 to 24 employees	Employment size - 25+ employees	Grand Total
Count of SMEs	10 (21%)	16 (33%)	22 (46%)	48 (100%)
Sum of Employment size – 2012	104 (8.5%)	302 (24.6%)	824 (66.9%)	1,230 (100%)
Employment size per SME – 2012	10	19	37	26
Sum of Employment size – 2014	200 (10.3%)	507 (26.2%)	1,230 (63.5%)	1,937 (100%)
Employment size per SME – 2014	20	32	56	40
Sum of Employment size growth	96	205	406	707
Median employment size growth for each category	9	11	14	11
Percentage employment size growth for each category % relative to 2012 (baseline year)	92%	68%	49%	57%
Percentage Employment size growth (Row % of total employment size growth)	14%	29%	57%	100%
Employment size growth per SME for each category	10	13	19	14
Percentage Employment size growth per SME (Row %)	100%	68%	51%	54%
Employment size growth per unit of finance obtained per SME	0.04	0.02	0.01	0.016
Sum of Sales NGN' million - 2012	2,109	8,871	11,716	22,696
Sum of Sales NGN' million - 2014	9,763	38,007	58,265	106,036
Sum of Sales turnover growth NGN' million	7,654	29,136	46,548	83,340
Percentage sales turnover growth for each category % relative to 2012 (baseline year)	363%	328%	397%	367%

Table 5.14: Contd.

	Employing size - 5 to 14 employees	Employment size - 15 to 24 employees	Employment size - 25+ employees	Grand Total
Median sales turnover growth for each category NGN' million	352.96	550	416.28	416.28
Percentage Sales Turnover Growth (Row % of total sales growth)	9%	35%	56%	100%
Sales turnover growth per SME N' million	765	1,821	2,115	1,736
Sales turnover growth rate per SME	3.63	3.28	3.97	3.67
Sales turnover growth per unit of finance obtained per SME	0.33	0.19	0.07	0.04
Sum of Overall financing need NGN' million	3,298	15,745	50,539	69,583
Finance need per SME NGN' million	330	984	2,297	1,450
Sum of Finance obtained NGN' million	2,295	9,824	32,378	44,497
Finance obtained per SME NGN' million	230	614	1,472	927
Finance obtained / Finance need (Success rate in obtaining finance Row %)	70%	62%	64%	64%
Percentage of finance obtained (Row %)	5%	22%	73%	100%
Sum of Financing Gap - Total NGN' million	1,003	5,921	18,161	25,086
Finance Gap per SME NGN' million	100	370	826	523
Sum of Finance gap / Finance need (Row %)	4%	7%	9%	20%

Further statistical analysis found (reported in Table 5.15) that the median finance need of the SMEs is N328 million while the median finance obtained is N177 million, representing 54% of the median finance need. The median employment size growth is 11 employees per SME while the median sales turnover growth is N416 million. Half (50%) of the SMEs required finance of N1,450 million but obtained N927 million, representing almost two-thirds (64%) of the finance need. These SMEs experienced employment size growth of 15 employees per SME and per SME sales turnover growth of N1,736 million. The SME that received the highest amount of finance created 75 new jobs and achieved sales turnover growth of N14,600 million (18%) of the total sales turnover growth. The SMEs employing 5-24 employees used 27% of the finance to create 43% of the new jobs while SMEs employing 25+ employees used 73% of the finance to create 57% of the new jobs. The SMEs employing below 25 employees seem to be more focused on growing their businesses and are more prolific in creating new jobs although they obtained less overall finance. Conversely, where required external finance was not received it could have a severe detrimental effect. For example, an interviewed fish farmer that required but could not obtain external finance of N29 million subsequently downsized and disengaged 9 employees, due to lack of finance.

Table 5.15: Finance Obtained Vs Employment Size Growth and Sales Turnover Growth

Results of statistical analysis of research variable	Financing need NGN ' m	Finance obtained NGN' m	Employment size growth	Sales turnover growth NGN ' m
Median	328	177	11	416
Mean	1,450	927	15	1,736
3rd quartile	1,096	673	16	1,551
1 st quartile	105	63	8	150
Maximum value	15,807	9,133	75	14,600
Finance Obtained Vs Employment Size Growth and Sales Turnover Growth				
SME Employment Size / Sector	**Financing need NGN ' m**	**Finance obtained NGN' m**	**Employment size growth**	**Sales turnover growth NGN ' m**
Employment size - 25 + employees 22 SMEs (46%)	**50,539 (73%)**	**32,378 (73%)**	**406 (57%)**	**46,549 (56%)**
MANUFACTURING - 14	23,926	13,889	221	4,824
OIL & GAS - 8	26,613	18,489	185	41,725
Employment size - 15 to 24 employees 16 SMEs (33%)	**15,745 (23%)**	**9,824(22%)**	**205 (29%)**	**29,137 (35%)**
AGRICULTURE - 6	2,004	1,248	55	2,848
MANUFACTURING - 2	193	120	26	417
OIL & GAS - 8	13,549	8,456	124	25,872
Employment size - 5 to 14 employees 10 SMEs (21%)	**3,299 (4%)**	**2,295 (5%)**	**96 (14%)**	**7,655 (9%)**
AGRICULTURE - 7	1,090	595	67	2,520
OIL & GAS - 3	2,209	1,700	29	5,135
Grand Total – 48 SMEs (100%)	**69,583 (100%)**	**44,497 (100%)**	**707 (100%)**	**83,340 (100%)**

5.6.2 Finance Impact on Growth in Relation to SMEs Business Characteristics

Finance impact on growth relative to business characteristics (sector, location and trading age) was examined for three different employment sizes (25+ employees, 15-24 employees and 5-14 employees) as reported in Table 5.16. Employment size growth average was 57% while average sales turnover growth for the sample was 367% against average financing of 64%. Oil and gas employers of 5 to 14 employees achieved the highest employment growth rate of 132% and were equally most successful in sourcing external finance having obtained 77% of their finance need.

The average employment growth rate in the manufacturing sector is 40% which lags behind the SMEs average of 57% and this is due to the high cost of doing business in the manufacturing sector. This arises from the use of aging machinery and high cost of factory overheads and diesel which is consistent with the opinion of most of the manufacturers who reported high cost of manufacturing products in Nigeria. For instance, the owner manager of a cosmetics and chemical products manufacturing firm whose application for finance to acquire new plants and machinery was declined due to inadequate cashflows said:

…. ” *We desperately need to change our equipment as they are now becoming obsolete and making production more uneconomical. Unfortunately, our application for finance was declined. The bank said our cashflow projection assumptions seem to be very ambitious and unrealizable relative to our current level of production. The bank has not considered that our operations is currently very labour intensive and our machines inefficient making our cost of production very high. The newer machines are more compact, occupy less space and require fewer people to operate*” ….

At 58%, the average success rate of sourcing external debt finance is equally low among manufacturing SMEs. The SMEs with employment size 25+ grew their sales turnover the most at 723% which is higher than the average oil and gas sales growth of 525% and the sampled SMEs average of 367%. The sales turnover growth in the manufacturing sector of 83% is significantly lower than the SMEs average with the impact being more on the SMEs employing 25+ employees in the manufacturing sector - at 81% sales turnover growth. The employment growth rate is higher in the South West (SW) region than the

North Central / FCT (NC/FCT) zone, though the success rate in sourcing finance was higher among the NC/FCT SMEs. Business activities are also higher among the SW SMEs which is evident in the sales turnover growth rate which was 389% in the SW and 273% in NC/FCT which is due to the more commercial nature of SW zone where the seaports and the commercial city of Lagos are located. SMEs in early growth stage employing between 5-14 employees were highly successful in sourcing external finance at 73% which was higher than the average of 64%. In terms of employment size growth, SMEs employing 5-14 employees in the later growth stage achieved 115% which was the highest rate of growth for employment size. Similarly, the employment growth rate of SMEs employing 5-14 employees were equally high (when growth stage is accounted for) at 91% (mature) and 84% (early growth). Overall, concluding from the analysis above, employment growth rate is highest among the SMEs in the oil and gas sector operating in the South West zone which may be due to the commercial nature of the area and the importance of the oil and gas firms in distribution of petroleum products required for the heating of industrial equipment and generation of electricity.

Sales turnover growth, in the early growth stage SMEs, employing 15 to 24 employees is the highest at 714% followed by the SMEs employing 25+ employees in the later growth stage which achieved overall sales turnover growth rate of 506% and these were almost twice the sample average for sales turnover growth rate of 367%. The sales turnover growth rate is generally lower among the SMEs employing lower numbers of employees across the various sectors, locations and trading age of the SMEs which further confirms that growth among high employing SMEs is in relative terms, more focused in generating business activities and driving sales turnover growth rather than employment size growth.

Table 5.16: Cross Tabulation of SMEs Growth in Relation to Finance and their Business Characteristics

SMEs Business Characteristics	Count of SMEs	Financing need NGN ' m	Finance obtained NGN 'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N' m - 2012	Sales turnover growth N' m	Sales turnover growth N' m (Row %)
Grand Total	**48**	**69,583**	**44,497**	**64%**	**1,230**	**707**	**57%**	**22,697**	**83,340**	**367%**
AGRICULTURE	**13**	**3,094**	**1,843**	**60%**	**188**	**122**	**65%**	**2,556**	**5,368**	**210%**
Employment size - 5 to 14 employees	7	1,090	595	55%	82	67	82%	1,224	2,520	206%
Employment size - 15 to 24 employees	6	2,004	1,248	62%	106	55	52%	1,332	2,848	214%
MANUFACTURING	**16**	**24,118**	**14,009**	**58%**	**612**	**247**	**40%**	**6,295**	**5,241**	**83%**
Employment size - 15 to 24 employees	2	193	120	62%	45	26	58%	354	417	118%
Employment size - 25 + employees	14	23,926	13,889	58%	567	221	39%	5,941	4,824	81%
OIL & GAS	**19**	**42,371**	**28,645**	**68%**	**430**	**338**	**79%**	**13,845**	**72,732**	**525%**
Employment size - 5 to 14 employees	3	2,209	1,700	77%	22	29	132%	885	5,135	580%
Employment size - 15 to 24 employees	8	13,549	8,456	62%	151	124	82%	7,185	25,872	360%
Employment size - 25 + employees	8	26,613	18,489	69%	257	185	72%	5,775	41,725	723%
NC / FCT	**19**	**7,024**	**4,637**	**66%**	**331**	**168**	**51%**	**4,286**	**11,697**	**273%**
Employment size - 5 to 14 employees	7	3,033	2,152	71%	71	63	89%	1,571	4,763	303%
Employment size - 15 to 24 employees	8	2,790	1,687	60%	141	61	43%	1,894	5,933	313%
Employment size - 25 + employees	4	1,201	798	66%	119	44	37%	821	1,001	122%

Table 5.16: Contd.

SMEs Business Characteristics	Count of SMEs	Financing need NGN ' m	Finance obtained NGN 'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N' m - 2012	Sales turnover growth N' m	Sales turnover growth N' m (Row %)
SW	**29**	**62,559**	**39,860**	**64%**	**899**	**539**	**60%**	**18,411**	**71,644**	**389%**
Employment size - 5 to 14 employees	3	266	143	54%	33	33	100%	538	2,892	537%
Employment size - 15 to 24 employees	8	12,955	8,137	63%	161	144	89%	6,977	23,204	333%
Employment size - 25 + employees	18	49,339	31,580	64%	705	362	51%	10,896	45,548	418%
EARLY GROWTH	**17**	**5,874**	**3,774**	**64%**	**290**	**133**	**46%**	**3,425**	**11,085**	**324%**
Employment size - 5 to 14 employees	7	2,700	1,974	73%	67	56	84%	1,599	6,098	381%
Employment size - 15 to 24 employees	5	2,489	1,376	55%	87	30	34%	453	3,235	714%
Employment size - 25 + employees	5	686	424	62%	136	47	35%	1,373	1,753	128%
LATER GROWTH	**22**	**52,218**	**33,428**	**64%**	**693**	**438**	**63%**	**15,033**	**58,940**	**392%**
Employment size - 5 to 14 employees	2	496	272	55%	26	30	115%	372	1,065	286%
Employment size - 15 to 24 employees	9	12,014	7,698	64%	176	152	86%	7,968	24,002	301%
Employment size - 25 + employees	11	39,709	25,458	64%	491	256	52%	6,693	33,873	506%
MATURE	**9**	**11,491**	**7,295**	**63%**	**247**	**136**	**55%**	**4,238**	**13,315**	**314%**
Employment size - 5 to 14 employees	1	103	49	47%	11	10	91%	138	492	356%
Employment size - 15 to 24 employees	2	1,243	750	60%	39	23	59%	450	1,900	422%
Employment size - 25 + employees	6	10,145	6,496	64%	197	103	52%	3,650	10,923	299%

5.6.3 Finance Impact on Growth in Relation to Owner Managers' Personal Characteristics

Finance impact on growth relative to owner managers' personal characteristics (gender, age, track record and education) was examined for three employment sizes groups, (25+ employees, 15 to 24 employees and 5 to 14 employees) as reported in Table 5.17. Male owner managers were only slightly more successful in sourcing finance having obtained 64% of their finance need compared to the female (61%). Male employers of 5-14 employees received 74% of their finance needs and were the most successful in terms of sourcing finance. Employment growth rate was marginally higher among the male owner managers. The sales turnover growth among the male owner managers was 380% which was similarly higher than the female owner sales turnover growth rate of 263%. Male owner managers seemed to be growing both employment size and sales turnover more than their female owner counterparts. This was because the interviewed male owner managers were numerically more (representing 73%) of the owner managers but this would need further exploration with more data in future. Similarly, more of the female owner managers were in the agricultural sector which lags behind the oil and gas sector and the manufacturing sector where more of the male owner managers operate. Additionally, almost half (40%) of the female owner managers operate the smallest employing companies (5-14 employees) while apparently as previously noted, employment growth is both numerically and proportionally greatest within the largest size category (25+ employees).

The most successful group in sourcing external finance is middle age owner managers employing 25+ employees who obtained 73% of their finance need. This is consistent with Barney (1991) who recognizes the need for firm resources in development of sustained competitive advantage and Owen et al., (2016) which found that larger firms with more mature management skills possess higher business capabilities, and management team resources attributed to be responsible for their access to external funding success. The middle age owner managers equally recorded higher sales turnover growth rate but not higher employment growth rate which suggest that they seem to be using fewer employees to drive larger sales turnover. This may be due to their ability to attract bigger ticket transactions because of their higher business capabilities (Owen et al., 2016). The highest employment growth occurred among the elder owner managers who achieved average employment growth rate of 90% with higher rates occurring among elder employers of 5 to 24 employees. The most experienced owner managers seem to be growing employment size at the highest rate. Experienced owner managers employing 5-14 employees achieved up to 115% (aggregate) employment size growth. There is no apparent variation in the employment size growth and sales turnover growth achieved by the sampled SMEs which may be because most of the owner managers are highly educated (*to at least first degree level).*

Table 5.17: Cross Tabulation of SMEs Growth in Relation to Finance and Owner Managers' Personal Characteristics

Owner Managers' Characteristics	Count of SMEs	Financing need NGN ' m	Finance obtained NGN 'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N' m - 2012	Sales turnover growth N' m	Sales turnover growth N' m (Row %)
Grand Total	*48*	*69,583*	*44,497*	*64%*	*1,230*	*707*	*57%*	*22,697*	*83,340*	*367%*
Female	*13*	*3,516*	*2,130*	*61%*	*230*	*131*	*57%*	*2,522*	*6,629*	*263%*
Employment size – 5 to 14 employees	*5*	*803*	*439*	*55%*	*56*	*48*	*86%*	*770*	*1,280*	*166%*
Employment size – 15 to 24 employees	*5*	*2,390*	*1,490*	*62%*	*87*	*57*	*66%*	*1,254*	*4,728*	*377%*
Employment size - 25 + employees	*3*	*324*	*201*	*62%*	*87*	*26*	*30%*	*498*	*621*	*125%*
Male	*35*	*66,067*	*42,367*	*64%*	*1,000*	*576*	*58%*	*20,174*		*380%*
Employment size – 5 to 14 employees	*5*	*2,496*	*1,856*	*74%*	*48*	*48*	*100%*	*1,339*	*6,375*	*476%*
Employment size – 15 to 24 employees	*11*	*13,356*	*8,334*	*62%*	*215*	*148*	*69%*	*7,617*	*24,409*	*320%*
Employment size - 25 + employees	*19*	*50,216*	*32,177*	*64%*	*737*	*380*	*52%*	*11,218*	*45,927*	*409%*
Elder	*15*	*41,552*	*25,598*	*62%*	*372*	*333*	*90%*	*11,883*	*47,942*	*403%*
Employment size – 5 to 14 employees	*3*	*503*	*307*	*61%*	*27*	*40*	*148%*	*1,050*	*2,970*	*283%*
Employment size – 15 to 24 employees	*6*	*11,999*	*7,643*	*64%*	*111*	*104*	*94%*	*6,786*	*23,390*	*345%*
Employment size - 25 + employees	*6*	*29,050*	*17,648*	*61%*	*234*	*189*	*81%*	*4,047*	*21,583*	*533%*
Middle age	*25*	*21,552*	*15,205*	*71%*	*554*	*279*	*50%*	*7,290*	*32,353*	*444%*
Employment size – 5 to 14 employees	*6*	*2,738*	*1,954*	*71%*	*63*	*41*	*65%*	*1,009*	*4,435*	*439%*
Employment size – 15 to 24 employees	*10*	*3,746*	*2,181*	*58%*	*191*	*101*	*53%*	*2,085*	*5,747*	*276%*
Employment size - 25 + employees	*9*	*15,067*	*11,070*	*73%*	*300*	*137*	*46%*	*4,196*	*22,171*	*528%*
Young	*8*	*6,480*	*3,694*	*57%*	*304*	*95*	*31%*	*3,523*	*3,045*	*86%*

Table 5.17: Contd.

Owner Managers' Characteristics	Count of SMEs	Financing need NGN ' m	Finance obtained NGN 'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N' m - 2012	Sales turnover growth N' m	Sales turnover growth N' m (Row %)
Employment size – 5 to 14 employees	*1*	*58*	*34*	*59%*	*14*	*15*	*107%*	*50*	*250*	*500%*
Employment size - 25 + employees	*7*	*6,422*	*3,660*	*57%*	*290*	*80*	*28%*	*3,473*	*2,795*	*80%*
Less Experienced	*19*	*5,943*	*3,812*	*64%*	*350*	*164*	*47%*	*3,677*	*11,349*	*309%*
Employment size – 5 to 14 employees	*8*	*2,803*	*2,023*	*72%*	*78*	*66*	*85%*	*1,737*	*6,589*	*379%*
Employment size – 15 to 24 employees	*4*	*2,351*	*1,307*	*56%*	*72*	*35*	*49%*	*410*	*2,800*	*683%*
Employment size - 25 + employees	*7*	*789*	*482*	*61%*	*200*	*63*	*32%*	*1,530*	*1,959*	*128%*
Experienced	*21*	*40,259*	*27,183*	*68%*	*561*	*362*	*65%*	*14,759*	*63,355*	*429%*
Employment size – 5 to 14 employees	*2*	*496*	*272*	*55%*	*26*	*30*	*115%*	*372*	*1,065*	*286%*
Employment size – 15 to 24 employees	*10*	*12,151*	*7,767*	*64%*	*191*	*147*	*77%*	*8,011*	*24,437*	*305%*
Employment size - 25 + employees	*9*	*27,613*	*19,144*	*69%*	*344*	*185*	*54%*	*6,376*	*37,853*	*594%*
More Experienced	*8*	*23,381*	*13,502*	*58%*	*319*	*181*	*57%*	*4,260*	*8,636*	*203%*
Employment size – 15 to 24 employees	*2*	*1,243*	*750*	*60%*	*39*	*23*	*59%*	*450*	*1,900*	*422%*
Employment size - 25 + employees	*6*	*22,138*	*12,752*	*58%*	*280*	*158*	*56%*	*3,810*	*6,736*	*177%*
Post Graduates (Masters & PhD)	*25*	*60,763*	*39,321*	*65%*	*731*	*446*	*61%*	*15,370*	*65,782*	*428%*
Employment size – 5 to 14 employees	*3*	*2,278*	*1,730*	*76%*	*27*	*21*	*78%*	*690*	*3,418*	*495%*
Employment size – 15 to 24 employees	*8*	*12,638*	*7,995*	*63%*	*148*	*121*	*82%*	*7,026*	*23,860*	*340%*
Employment size - 25 + employees	*14*	*45,846*	*29,596*	*65%*	*556*	*304*	*55%*	*7,654*	*38,504*	*503%*
Graduates and below	*23*	*8,821*	*5,176*	*59%*	*499*	*261*	*52%*	*7,326*	*17,559*	*240%*
Employment size – 5 to 14 employees	*7*	*1,020*	*565*	*55%*	*77*	*75*	*97%*	*1,419*	*4,237*	*299%*
Employment size – 15 to 24 employees	*8*	*3,107*	*1,829*	*59%*	*154*	*84*	*55%*	*1,845*	*5,277*	*286%*
Employment size - 25 + employees	*8*	*4,693*	*2,782*	*59%*	*268*	*102*	*38%*	*4,062*	*8,045*	*198%*

5.6.4 How Level of Financing Affects Growth

Analysis of SMEs growth by broad sector is undertaken by examining employment growth and sales turnover growth by 48 sampled SMEs, using three categories of the level of finance obtained (N1 billion+; N250 to 999.99 Million; < N249.99 Million). This is to enable greater understand of the growth characteristics of the SMEs at varying levels of financing, as reported in Table 5.18.

Finance obtained- N1 Billion +: The SMEs that obtained finance of over N1 billon were those that employed 25+ employees which suggests that level of finance obtained is a function of the size in all the sectors. Growth in the oil and gas sector is more pronounced than the manufacturing sector at the N1 billion level and the oil and gas SMEs are growing above the sample average for employment size (79% compared to the overall sample aggregate of 57%) and sales turnover (525% compared with 367%). No SME in the agricultural sector obtained finance of N1 billion +.

Finance obtained - N250 to 999.99 Million: All the firms that obtained between N250 to N999.99 million were employing more than 14 people. In the manufacturing sector, all three firms that received financing in this band employed 25+ employees. In oil and gas, one third of the firms that received funding within this band employed 25+ employees while two thirds employed 15-24 employees. In agriculture, all the recipients of funding within this band employed 15-24 employees. It appears that manufacturing and oil and gas appear far more capital intensive and are more likely to require funding of up to N250 million to be able to employ 25+ employs in manufacturing and N1 billion + funding to be employing in the 25+ employee category in oil and gas.

Finance obtained < N249.99 Million: SMEs that received funding in this band generally seem to employ fewer people, typically under 15 employees. They account for most the sample (27, representing 56%) and appear to have experienced only moderate success in sourcing financing; oil and gas (61%), agriculture (59%) and manufacturing (55%) - all below the sample average of 64%. The small firms generally experience more difficulties in sourcing finance than their larger counterparts. Employment size growth of this SME category in the agriculture sector was 66%, in manufacturing 32% and oil and gas 61%. Only the employment size growth in manufacturing was below the sample average employment size growth. SMEs that obtained funding of less than N249.99 million in all three sectors typically underperformed the sample aggregate (average) performance in growing both employment and sales turnover. This finding is consistent with Owen et al. (2016) which found a direct correlation between the level of use of external financing and SMEs growth in their research using data from a 2015 survey of 15,502 UK SMEs.

This research therefore concludes that financing plays a key role in the development of the business performance in terms of employment size growth and sales turnover growth, which supports their ability to source higher levels of funding. The SMEs that obtained higher levels of finance grew employment size and sales turnover at higher rates than those SMEs that obtained lesser amounts of finance.

Table 5.18: Cross Tabulation of SMEs Growth in Relation to the Category of Finance Obtained

Row Labels	Count of SMEs	Financing need NGN' m	Finance obtained NGN' m	Finance obtained / Financing need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales turnover N'm - 2012	Sales turnover growth N'm	Sales turnover growth (Row %)
Grand Total	**48**	**69,583**	**44,497**	**64%**	**1230**	**707**	**57%**	**22,697**	**83,340**	**367%**
AGRICULTURE	**13**	**3,094**	**1,843**	**60%**	**188**	**122**	**65%**	**2,556**	**5,368**	**210%**
Finance obtained - 250 to 999.99 Million	**2**	**1,243**	**750**	**60%**	**39**	**23**	**59%**	**450**	**1,900**	**422%**
Employment size - 15 to 24 employees	2	1,243	750	60%	39	23	59%	450	1,900	422%
Finance obtained < 249.99 Million	**11**	**1,851**	**1,093**	**59%**	**149**	**99**	**66%**	**2,106**	**3,468**	**165%**
Employment size - 15 to 24 employees	4	761	498	65%	67	32	48%	882	948	107%
Employment size - 5 to 14 employees	7	1,090	595	55%	82	67	82%	1,224	2,520	206%
MANUFACTURING	**16**	**24,118**	**14,009**	**58%**	**612**	**247**	**40%**	**6,295**	**5,241**	**83%**
Finance obtained - 1 Billion +	**2**	**19,637**	**11,438**	**58%**	**160**	**86**	**54%**	**1,727**	**1,493**	**86%**
Employment size - 25 + employees	2	19,637	11,438	58%	160	86	54%	1,727	1,493	86%
Finance obtained - 250 to 999.99 Million	**3**	**2,882**	**1,692**	**59%**	**103**	**49**	**48%**	**1,086**	**367**	**34%**
Employment size - 25 + employees	3	2,882	1,692	59%	103	49	48%	1,086	367	34%
Finance obtained < 249.99 Million	**11**	**1,599**	**879**	**55%**	**349**	**112**	**32%**	**3,482**	**3,381**	**97%**

Table 5.18: Contd.

Row Labels	Count of SMEs	Financing need NGN' m	Finance obtained NGN' m	Finance obtained / Financing need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales turnover N'm - 2012	Sales turnover growth N'm	Sales turnover growth (Row %)
Employment size - 25 + employees	9	1,407	759	54%	304	86	28%	3,128	2,964	95%
Employment size - 15 to 24 employees	2	193	120	62%	45	26	58%	354	417	118%
OIL & GAS	**19**	**42,371**	**28,645**	**68%**	**430**	**338**	**79%**	**13,845**	**72,732**	**525%**
Finance obtained - 1 Billion +	**8**	**35,991**	**24,920**	**69%**	**208**	**222**	**107%**	**10,845**	**57,692**	**532%**
Employment size - 25 + employees	5	24,316	17,140	70%	162	146	90%	4,850	37,150	766%
Employment size - 15 to 24 employees	2	9,800	6,280	64%	39	65	167%	5,900	17,637	299%
Employment size - 5 to 14 employees	1	1,875	1,500	80%	7	11	157%	95	2,905	3058%
Finance obtained - 250 to 999.99 Million	**6**	**5,510**	**3,191**	**58%**	**140**	**66**	**47%**	**1,260**	**10,360**	**822%**
Employment size - 25 + employees	2	2,138	1,244	58%	70	32	46%	675	4,125	611%
Employment size - 15 to 24 employees	4	3,372	1,947	58%	70	34	49%	585	6,235	1066%
Finance obtained < 249.99 Million	**5**	**870**	**534**	**61%**	**82**	**50**	**61%**	**1,740**	**4,680**	**269%**
Employment size - 25 + employees	1	160	105	66%	25	7	28%	250	450	180%
Employment size - 15 to 24 employees	2	376	229	61%	42	25	60%	700	2,000	286%
Employment size - 5 to 14 employees	2	334	200	60%	15	18	120%	790	2,230	282%

5.6.5 Finance Impact of Growth in Relation to SMEs Main Business Activities

Here a more fine-grained sectoral approach is taken to provide deeper analysis of the impact of finance on SMEs growth in relation to their main business activity. Examination of finance impact on employment growth and sales turnover growth relative to the main business activities of these SMEs, based on 2012 baseline year employment (Employment size: 5 -14 employees, Employment size: 15 - 24 employees, Employment size: 25 + employees), as reported in Table 5.19, reveals:

Agriculture

Agricultural sector SMEs obtained N1,843 million funds, representing 60% success rate in obtaining debt finance relative to their financing needs which is below the sample mean of 64%. This produced 65% growth in employment - ahead of the sample mean of 57%, and sales turnover growth of 210% - below the sample mean of 376%. The Crop producers in the sample obtained almost two thirds (62%) of their finance needs which is higher than the success rate in the overall agriculture sector of 60% (though lower than the overall sample average of 64%). These crop producers achieved mean employment size growth of 95%, well above the mean employment size growth of 65% achieved overall by agricultural sector SMEs (and the sample mean of 57%). The smallest employees (5 – 14 employees) were more focused on employment growth achieving 123% employment growth while those employing 15 – 24 employees focused their growth more on sales turnover growth achieving 400% sale turnover growth (ahead of sample mean of 367%). One of the crop producers raised an important complaint for agricultural businesses that the bank was only willing to consider their application for short term finance which he explained is inadequate for crop production - particularly as some crops have gestation periods of up to seven years.

The fish farmers obtained 49% of their debt financing needs, a negative variance of 15% below the sample mean (64%). One of the fish farmers which was employing 15 to 24 employees during the baseline year was discouraged and did not apply for finance after preliminary discussions with the bank officials proved unhelpful. The two fish farmers that obtained finance achieved 59% success, only 5% below the sample mean. These two fish farmers, both employing 5-14 employees, performed well in achieving employment size growth of 83% and sales turnover growth of 480%. In contrast, the fish farmer that failed to obtain finance downsized from 15 employees to 6 employees - representing a decrease of 60% in employment size. This SME did not lodge most of their sales turnover with the bank which contributed to refusal of finance by the bank and consequent discouragement of the owner manager from making further attempts at obtaining external finance from banks. The firm's sales turnover growth was also low relative to that reported by other fish farmers. At the time of the interview the owner manager of the fish farm that failed to obtain finance was contemplating selling the business. They felt that they were not competing favourably with other fish farms due to inadequate financing of the business which led them to be failing in meeting their customers' demands for dried catfish.

The livestock farmers had 59% success rate in sourcing finance which was below the sample average of 64%. These SMEs achieved employment size growth of 67% which is above the sample average of 57%. The sales turnover growth of these livestock farms was 177% which was significantly lower than the sample average of 367%. These livestock farmers equally experienced poor, below average access to finance. A key result of this was poor turnover growth. The livestock farmers employing 15 – 24 employees grew employment at the rate of 73%, faster than both the means for the agricultural sector and sample as a whole. One of the livestock farmers complained of the bank's risk aversion and perception of livestock farming as a business activity with indeterminate cashflows.

Manufacturing

In the manufacturing sector, only the Cosmetics and Chemicals producing firms employing 15 – 24 employees grew employment size at the level of the sample mean (58%). All the other manufacturers across the size categories performed below the sample mean of 57%. Building Materials manufacturers, employing 25+ employees achieved employment size growth of only 28%, significantly below the sample mean. One of the owner managers producing roofing sheets stated:

….."*the demand for our roofing sheets is poor due mainly to importation of cheaper brands of products into the country"*…

This discouraged him from borrowing more money at high cost, which would put his business at a competitive disadvantage. At the time of the interview the SME was using bootstrapping techniques, only manufacturing to order and demanding advance payment from buyers to cut costs, reduce borrowing and improve profitability.

The more successful Cosmetics and Chemical Products manufacturers in accessing finance only achieved employment size growth of 46% and sales turnover growth of 86% - below the overall sample averages. A manufacturer of cosmetics products also complained of high financing costs in the country and stated:

…."the cost of financing is very high in the country. It limits our capacity to access finance to develop our business to achieve growth"….

Another owner manager who refines table salt said that ….."*the banks constrain business, offering highly priced short tenured term loans instead of more flexible overdraft"…..*

The food and drinks manufacturers in the 25+ employee group mostly employed unskilled workers. They exhibit 55% success in accessing finance, which is below the sample average of 64%. Their employment size growth was 37%, considerably lower than the sample average of 57%, while their sales turnover growth was 88% - again considerably below the sample average (367%). A food and drink manufacturer explained that his bankers prefer financing quick turnover businesses rather than manufacturers. In his words …"*the banks give you money at very high cost and expect you to sign minimum turnover and transaction clean up cycles covenants which is inconsistent with the business fundamentals in manufacturing*"…

Oil and gas

The highest employment growth rate in the oil and gas sector occurred among the petroleum products bulk storage (tank farm) operators employing 25+ employees, which achieved 160% employment growth. These two tank farm operators had success rate of 67% in accessing external finance. The mean employment size growth of these tank farm operators was 157%, while sales turnover growth was 355%. One of the tank farm operators had just completed a major recruitment exercise two months before the interview, although it was noted that most of these new employees are unskilled.

The oil vessel and rig supply services firms employing 5 – 14 employees achieved employment growth rate of 157% and were also among the firms that had the highest employment growth rate. The highest employment growth rate among the petroleum products trading firms of 120% occurred among the firms employing 5 – 14 employees.

Table 5.19: Cross Tabulation of SMEs Growth in Relation to their Main Business Activities and Use of External Finance

Row Labels	Count of SMEs	Financing need NGN ' m	Finance obtained NGN'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N'm - 2012	Sales turnover growth N'm	Sales turnover growth N'm (Row %)
AGRICULTURE	**13**	**3,094**	**1,843**	**60%**	**188**	**122**	**65%**	**2,556**	**5,368**	**210%**
Crop production	**3**	**1,212**	**749**	**62%**	**39**	**37**	**95%**	**1,225**	**2,721**	**222%**
Employment size - 5 to 14 employees	2	487	286	59%	22	27	123%	825	1,121	136%
Employment size - 15 to 24 employees	1	725	463	64%	17	10	59%	400	1,600	400%
Fish Farming Business	**3**	**174**	**85**	**49%**	**39**	**11**	**28%**	**123**	**508**	**413%**
Employment size - 5 to 14 employees	2	143	85	59%	24	20	83%	80	382	480%
Employment size - 15 to 24 employees	1	31	-	0%	15	-9	-60%	43	125	290%
Livestock Farming Business	**7**	**1,707**	**1,009**	**59%**	**110**	**74**	**67%**	**1,208**	**2,139**	**177%**
Employment size - 5 to 14 employees	3	460	224	49%	36	20	56%	319	1,017	319%
Employment size - 15 to 24 employees	4	1,247	785	63%	74	54	73%	889	1,123	126%
MANUFACTURING	**16**	**24,118**	**14,009**	**58%**	**612**	**247**	**40%**	**6,295**	**5,241**	**83%**
Building Materials	**2**	**503**	**387**	**77%**	**58**	**16**	**28%**	**505**	**233**	**46%**
Employment size - 25 + employees	2	503	387	77%	58	16	28%	505	233	46%
Cosmetics and Chemical Products	**6**	**20,190**	**11,739**	**58%**	**291**	**134**	**46%**	**4,486**	**3,865**	**86%**
Employment size - 15 to 24 employees	2	193	120	62%	45	26	58%	354	417	118%
Employment size - 25 + employees	4	19,998	11,619	58%	246	108	44%	4,132	3,448	83%
Food and Drinks	**8**	**3,425**	**1,883**	**55%**	**263**	**97**	**37%**	**1,304**	**1,143**	**88%**
Employment size - 25 + employees	8	3,425	1,883	55%	263	97	37%	1,304	1,143	88%

Table 5.19: Contd.

Row Labels	Count of SMEs	Financing need NGN ' m	Finance obtained NGN'm	Finance obtained / Finance need (Row %)	Employment size 2012	Employment size growth	Employment size growth (Row %)	Sales Turnover N'm - 2012	Sales turnover growth N'm	Sales turnover growth N'm (Row %)
OIL & GAS	**19**	**42,371**	**28,645**	**68%**	**430**	**338**	**79%**	**13,845**	**72,732**	**525%**
Oil Vessel and Rig Supply Services	**9**	**25,315**	**17,081**	**67%**	**207**	**171**	**83%**	**2,980**	**37,640**	**1263%**
Employment size - 5 to 14 employees	1	1,875	1,500	80%	7	11	157%	95	2,905	3058%
Employment size - 15 to 24 employees	4	7,888	4,597	58%	73	65	89%	810	11,010	1359%
Employment size - 25 + employees	4	15,552	10,984	71%	127	95	75%	2,075	23,725	1143%
Petroleum Products Bulk Storage (Tank Farm) Operators	**2**	**9,122**	**6,130**	**67%**	**46**	**72**	**157%**	**6,050**	**21,487**	**355%**
Employment size - 15 to 24 employees	1	4,300	3,080	72%	16	24	150%	5,600	11,937	213%
Employment size - 25 + employees	1	4,822	3,050	63%	30	48	160%	450	9,550	2122%
Petroleum Products Trading	**8**	**7,935**	**5,434**	**68%**	**177**	**95**	**54%**	**4,815**	**13,605**	**283%**
Employment size - 5 to 14 employees	2	334	200	60%	15	18	120%	790	2,230	282%
Employment size - 15 to 24 employees	3	1,361	779	57%	62	35	56%	775	2,925	377%
Employment size - 25 + employees	3	6,240	4,455	71%	100	42	42%	3,250	8,450	260%
Grand Total	**48**	**69,583**	**44,497**	**64%**	**1230**	**707**	**57%**	**22,697**	**83,340**	**367%**

5.7 Summary

Most of the growth oriented SMEs are in the south west zone, closer to Lagos area, the commercial capital of the country where the sea ports are located as well as the large companies. This further explains why the oil and gas and manufacturing businesses are mainly concentrated in the south west zone. In terms of track record, most SMEs in the sample have existed in business for more than 10 years which is why they can provide three prior years' financial reports and meet track record requirements of banks for lending. Categorization of the financing needs of the sampled SMEs has provided a basis for the examination of the nature of these needs and modelling the financing gaps and in the examination of role of finance on SMEs growth.

The test for association of access to finance and employment growth provides a basis for linking growth of SMEs with availability of finance and rationale for government involvement in ensuring SMEs are adequately funded to enable them to create jobs and contribute to the GDP. The research revealed there is an association between employment growth by SMEs and access to finance at the level of significance of 5% with 2 degrees of freedom. The research also revealed there is an association between access to finance and relationship banking at the level of significance of 5% with 2 degrees of freedom. The tests of association between the business and owner managers' characteristics and access to finance reveals the key characteristics that drive SMEs' access to finance success. In relation to the SMEs business characteristics, the research revealed there is an association between access to external finance and both business sector and location at 2 degrees of freedom and 5% significance level. This explains the lenders' preference in financing firms in some sectors and locations to others and targeting government financing initiatives to SMEs operating in the real sector including agriculture, manufacturing and oil and gas. In relation to the owner managers' personal characteristics, the research also revealed an association exists between access to finance and the age and track record at two degrees of freedom and 5% significance level. This supports the resource based value theory (Barney, 1991).

Most of these SME owner managers are within the middle age and elder category. By implication they are typically aged over 41 years. At about this age, they must have accumulated adequate financial resources. These individuals are able to establish their own businesses in the absence of financial assistance. A good majority of these owner managers have previous working experiences and established networks. These owner managers also possess business track records of more than 10 years. Therefore, they have adequate experience which supports (Fraser et al, 2013) view that the link between personal work record and banking relationship could be important in sourcing finance by SMEs. The respondents are highly knowledgeable people based on their profile. A good balance was achieved between people in government and those responsible for SME financing policies and people that are directly responsible for lending to SMEs and have contact with them.

Existence of a debt financing gap among growth oriented SMEs, which is dimensioned in terms of demand side and supply side financing gaps, is empirically confirmed in this research. With the sampled SMEs estimated to have experienced total debt financing needs of N69.58 billion, financing applications of N56.65 billion and accepted approved financing of N44.5 billion, producing a total debt financing gap of N25.09 billion. The financing gap consists of (i) a demand side debt financing gap of N12.93 billion and (ii) a supply side debt financing gap of N12.15 billion. The demand side debt financing gap represents 52% of the total debt financing gap implying that the impact of demand side failures may be more prominent in the case of Nigeria, which supports implementation of SME financing initiatives. In relation to the main financing needs (purpose of seeking finance), the working capital financing gap which represents 64% of the total debt financing gap is more prominent because the sampled SMEs have all passed their start-up stage where fixed assets needs are more prominent. Relative to the types of finance sought by the firms, the term loan financing gap accounts for N19.9 billion (79%) of the total financing gaps experienced by the sampled SMEs. The Term loan financing gap consists of the demand side term loan gap of N10.7 billion (42%) and supply side term loan gap of N9.2 billion (37%). Overdrafts account for N3.7 billion (15%) of the financing gap experienced by the SMEs.

The Term loan financing gap is more pronounced in the manufacturing and oil and gas sectors because of the larger amounts of funding sought by these sectors and the banks not lending fully. The overdraft financing gap is low partly because SME owner managers apply for term loan financing based on banks' preference in offering SMEs short term loans to overdraft financing for monitoring reasons. The total success rate for term loans approval is 82% while overdraft is 11% which is evidence that banks are less willing to approve overdraft for SMEs than term loans. There is no marked difference in the overdraft financing gap within the sectors. The later growth stage SMEs which are largely those led by experienced owner managers require more of (N1bn+) category financing, representing more than three quarters (80%) of total financing needs.

Working capital financing accounted for the highest amount of financing needs of the SMEs with total of N44.9 billion (65%), followed by fixed assets financing of N20.02 billion (29%) and contingent liabilities financing needs of N4.6 billion (7%). SMEs sampled are all in their growth stage having successfully completed their start-up stages which is why they require more of working capital financing and less of fixed assets financing as earlier stated. Contingent liabilities financing is used more in oil and gas sector to reduce the need for cash financing as well as reducing the need for tangible collateral. Use of contingent liabilities is beneficial as disbursement of cash takes place only if the contingency crystallizes.

The research revealed that almost two thirds (63%) of debt financing needs presented by SMEs were approved in part with the bank demanding the owner managers to make a counter part contribution to finance the proposals. These contributions range between 20% to 40% of the amount approved notwithstanding whether the proposals are viable which is evidence of supply side failure. This research provides a basis for public policy decision making relating to SMEs financing in Nigeria based on successful modelling of the debt financing gaps experienced by the sampled SMEs which can be generalized. The research also examined the role of finance in the development of Nigerian growth oriented SMEs and the supply and demand side financing factors that explain the effects of SME financing on the growth of SMEs in Nigeria. Regarding the role of finance on SMEs growth, the research established an association between access to bank finance and SME growth at two degrees of freedom and 5% significance level. This result as earlier explained is consistent with Owen et al., (2016) as well as Banerjee (2014) which explored the links between financial constraint and firm growth.

In conclusion, the existence of an association between access to finance and SMEs growth explains the role of finance on the development of SMEs. In addition, as earlier reported, the research established the existence of an association between access to finance and characteristics of the business (sector and location) and owner managers (age and track record) at 5% significance level and two degrees of freedom. The findings of the research also indicate that despite limitations of requiring collateral, track record and financing criteria such as counterpart funding, bank finance is helping to address debt financing gaps facing growth oriented SMEs in Nigeria and is specifically having an impact on employment size growth and sales turnover growth.

Building on the quantitative information on the key findings of this chapter concerning the financing needs of the growth oriented SMEs and the existence, dimensions and nature of the finance gaps, Chapter 6 (a qualitative Chapter) seeks to provide in-depth qualitative information on the key findings relating to the financing needs and financing gaps of these SMEs. Providing in-depth qualitative information in chapter six is beneficial as it helps to collaborate the research findings about the existence and nature of the finance gap identified through the quantitative analysis.

CHAPTER SIX – QUALITATIVE DATA FINDINGS

6.1 Introduction

This chapter examines the qualitative data on debt financing needs of the Growth Oriented SMEs (G-O SMEs) focusing on both the demand- side and supply- side perspectives. The chapter also examines those key factors that explain the effects of SME financing on SMEs growth. The chapter is divided into six sections. Section 6.2 analyses the main growth-related debt finance needs of the growth oriented SMEs during the 2012 to 2014 financial years. Section 6.3 analyses the demand side perspectives to factors that affect the financing needs of growth oriented SMEs. These factors include: (i) the discouraged borrowers (ii) information requirements for SMEs lending (iii) timeliness of approvals or rejections (iv) credit approval process, bureaucracy and regulations (v) conditions and collateral requirements for SME lending (vi) acceptable collateral for SME financing. Section 6.4 is about the consequences of success or failure to raise debt finance. Section 6.5 is on examination of supply- side perspectives to SME financing. The supply-side perspectives were examined in terms of the lenders perspectives to the existence and nature of financing gaps and the supply-side factors that explain the effects of finance on SMEs growth. The supply-side factors that determine the effects of SME financing covered in the research include: (i) commitment of the lenders to SME financing (ii) origination of lending policies and creation of awareness of the policies and the availability of SME financing initiatives (iii) development of banking relationships to meet the information requirement needs for lending (iv) public policy support for SMEs financing. Section 6.6 is the summary of the chapter.

6.2 Main Growth-Related Debt Finance Needs of Growth Oriented SMEs

Based on the analysis of the 48 interviews conducted, the debt finance needs of the growth oriented SMEs is dimensioned in terms of the purpose of the finance and the type of the finance. The purpose of the finance identified mainly involved: (i) Fixed Assets Facility (ii) Working Capital Facility (iii) Contingent Liabilities. The types of the finance identified mainly involved: (i) Term loan (ii) Overdraft facility (iii) Finance lease (iv) Bonds and guarantees. The 48 growth oriented SMEs presented a total of 274 financing needs. Unsurprisingly, given their size and greater financing requirements per firm, nearly three quarters (73%) of the financing needs were presented by the larger firms employing 25 + employees, with almost one quarter (23%) of the financing needs presented by firms with 15 - 24 employees and just 5% presented by the smallest firms with 5 - 14 employees. In terms of the purpose of finance, more than half (55%) of the total number of applications were for working capital (to fund daily operational cashflow needs, for instance inventories, salaries, rental costs and energy costs), 35% were for fixed assets (to fund equipment, vehicles, plants and buildings), while 10% of the applications were for contingent liabilities. In terms of the types of finance more than half (56%) of the applications were for term loan facilities, about a quarter (28%) were for overdraft facilities, 10% of the applications were for Bonds and Guarantees while 6% of the applications were for finance lease. More than two thirds (69%) of the overall finance gap was experienced by the SMEs that applied for working capital, 27% of the finance gap was experienced by SMEs that applied for fixed assets while 5% of the finance gap was experienced by SMEs that applied for Contingent liabilities. This was due to the larger SMEs studied, which had more working capital financing needs and obtained proportionally less of their required funding. In terms of the finance types, more than four fifths (83%) of the finance gap was experienced by SMEs that applied for term loans, 11% of the finance gap was experienced by SMEs that applied for overdraft facilities, 5% of the finance gap was experienced by SMEs that applied for Bonds and guarantees while the SMEs that applied for finance lease account for 1% of the finance gap. Term loans were more likely to be supplied than overdrafts, but not necessarily at the level requested because of the high demand for term loans. The finance providers were more disposed to suppling term loans, the large term loan finance gap relates to the larger SMEs working capital requirements not being met. Even though the term loans might be obtained, but often not to the level required for larger loan requests.

All the SMEs in the study have passed the start-up stage where fixed assets financing is the predominant financing need. Among the growth oriented SMEs covered in the study, working capital financing is the most influential financing need because the firms required financing to drive their daily operations and grow their businesses. Growth in this study is dimensioned in terms of employment size growth and sales turnover growth. In terms of type of finance required by the growth oriented SMEs in the study, overdraft facility is the main financing need. The research revealed that the banks were more disposed to offering term loan facilities to the SMEs because it is easier to monitor the utilization of the term loans. However, these often did not meet the overall funding requirements of the larger growth oriented SMEs if we factor in the large term loan financing gap discussed above. One of the owner managers stated that:

…"my bank manager advised that we should apply for term loans if we wanted to stand any chance of receiving approval for our application when we needed finance to purchase some of our machinery. We did and applied for term loan but the bank still did not give us as much finance as we needed"…

From a qualitative perspective, the key determining factors revealed regarding the financing needs of the growth oriented SMEs included: (i) Financing Boot Strapping (ii) Discouraged borrower (iii) Incomplete records (iv) Raising of finance from friends and family members (v) Bank risk acceptance criteria (vi) Provision of collateral (vii) Information asymmetry risk and overstatement of financing needs (viii) Impact of economic factors on SMEs borrowing (ix) Relationship banking. More detailed examination of the financing needs cases among the three sectors in the study in relation to the above factors revealed that minimization of financing costs was the most prominent Boot strapping technique used by the growth oriented SMEs. The section analyses qualitative information on the key findings relating to cases of the financing needs of the growth oriented SMEs and the theories which underpin these financing needs reported in Table 6.1.

Bootstrapping

The research revealed that the sampled SMEs used various boot strapping methods, focusing on minimization of financing costs and maximization of cashflows by the company. For instance in the case of Janel, the fish famer which required finance to import fish meal to feed the company's fish, the importation of fish meal for the farm's use and generation of cashflows through trading in imported fish meal while the fish grows to maturity is evident of financial boot strapping. By using cashflows generated from trading in the fish meal, the company was able to reduce the need for borrowing. The additional entrepreneurial effort by the owner manager in importing fish meal for the company's use and selling the excess fish meal generated cashflows for the company and reduced their financing costs. This same company also procured fish driers for processing of its fish. The company upon harvesting of its fish sold life fish to its buyers and the remaining fish where processed, dried and then preserved for sale over a longer period of time and to ensure the company did not have to embark on panic sale of its fish in order to maximize profits. The owner manager stated:

…"in our business everything matters. You use every opportunity to make money for the business and you have to minimize costs. We import our own fish meal and earn additional income by selling excess fish meal"...

The same owner manager also stated:

…"before we decided to dry our fish by ourselves we were at times selling at giveaway prices because you have to sell soon after harvesting the fish and you do not want to continue feeding the fish indefinitely. Now once the fish matures to the level we want we harvest and process them and sell at our own terms"…

The research further revealed that growth oriented SMEs use financial boot strapping methods to generate finance. In the case of Jumbee, the company could not fully source the finance it needed from banks and rather combined various financial boot strapping techniques in financing the remaining part of the project to get the factory operational. Some of the financing strategy adopted by the company included late repayment of existing bank loans, forfeiting of salaries and other fringe benefits by the owner manager, borrowing from friends, and sourcing of trade credits from suppliers. Other measures included reduction in credit sales and employing various measures to quicken collection of credit sales. The owner manager stated:

…"when you find yourself in tight financial condition you have to be smart to ensure you do not make money for the banks. By paying late and collecting our payments early we reduced our costs so much"…

Even though SMEs generally use financing boot strapping, it may be disadvantageous to the company. For instance in the case of "Liberty", in order to save cost of maintenance the company used unauthorised equipment mechanic in servicing their electric generator which contributed to voiding of their equipment warranty. The owner manager stated:

…"I learnt a bitter lesson in this transaction. Cutting corners, focusing on cost saving does not always help. When you are small and lack adequate finance, what is the alternative? You win sometimes and loss sometimes"…

Discouraged Borrower

The case of "Delight" also provides evidence of financial boot strapping and in addition the case highlights, a "Discouraged borrower" and the issue of incomplete financial records keeping by the growth oriented SMEs. Even though this company needed working capital to finance its operational overheads and fixed assets financing, the owner manager was discouraged and decided not to apply for the finance after initial discussions with their bank relationship officer. The failure of the owner manager to lodge the cashflows from the company's sales into their bank account to avoid bank charges was a boot strapping initiative to reduce the company's costs. This case also highlights the issue of incomplete financial records. The owner manager stated:

…" we cannot afford to continue paying Commission on Turnover when we can pay our creditors cash. Business is very tough. You need to closely watch costs"…

Bank Risk Acceptance Criteria and Raising Finance from Friends and Family Members

The third form of financial boot strapping by the SMEs is evident in the case of "Green Angel" which required both working capital and fixed assets financing. The decision by the owner manager to buy used haulage truck to reduce costs and the creativity in using the deposit of a family member to provide collateral for the company's borrowing are financial boot strapping initiatives. The owner manager stated:

…"we did not have to buy a brand new vehicle to save cost. We try to provide creative solutions to reduce costs"…

The preference for used haulage truck and the practice of not making 100% lodgement of the company's cashflows from sales to avoid bank commission on turnover charges are forms of financial boot strapping used by the growth oriented SMEs.

The main debt financing needs of growth oriented SMEs in Oil Rig Supply Services were: (i) acquisition of electric power generators (ii) financing the acquisition of various oil rig services equipment (iii) to finance the acquisition of a dumb barge for the marine haulage of petroleum products to oil rig facilities of major oil producing companies (iv) to finance the acquisition of tug boats (v) to finance the acquisition of flying boats (outboard marine engines). The key finding regarding the debt financing needs of the SMEs in oil rig supply business is that lenders consider their business as high risk and difficult to monitor. They use smaller vessels to supply consumables to rig locations which are often in the high sea. Most of the demand for supplies they executed were ad hoc with time being of the essence. They often required unsecured overdraft facilities which the banks were not ready to provide.

Incomplete Records

The case of "Adegbite" which required fixed assets financing provides evidence that information asymmetry risk is fundamental in SME financing. In addition, the growth oriented SMEs financing needs may be overstated to reduce their financial contribution to the transaction. Further, this case provides evidence that collateral inadequacy is a key reason why a bank may not approve a financing request and that economic factors can impact on SMEs borrowing. Delays in processing this company's financing needs impacted the economics of the transaction making it less attractive as prices moved against the company. This case highlights issues of demand side failures as the owner manager was unable to provide adequate justifications for the amount of finance required and adequate collateral to cover the financing needs in line with the bank's lending policy. Approving the facility in a reduced amount is evidence of credit rationing which in this case is more because the bank wanted to play safe and provide financing up to the amount the borrower's collateral could cover. The owner manager stated:

…"we lost a lot of time and money in securing finance. Prices moved against us. The bank insisted in giving us far less money than we needed and scaling down the project"…

Relationship Lending

The impact of relationship lending in SME financing is evident in the case of "Oguike" which needed fixed assets financing to buy some of the fixed assets of a company in credit default. The bank utilized proprietary information at its disposal to arrange this loan to encourage the owner manager to buy the assets in order to work out its bad loan portfolio. For the bank, this was a loan work out strategy in the absence of a functional second tier equity market. The owner manager stated:

…"we needed the equipment and applied for finance to buy a brand new equipment but the bank discussed with us and offered us the alternative used equipment. It is more of a mutually beneficial relationship with the bank"…

The impact of relationship lending in SME financing was also highlighted in accessing Temporary Overdraft (TOD) by "Konrald" which had an unplanned financing need. The approval of the discretionary lending by the manager was a decision underpinned by relationship lending. The owner manager stated:

…"good relationship with banks is very good. In our case we got TODs because of our relationship with the bank manager. We could have missed a big opportunity"…

Provision of Collateral

The growth oriented SMEs used finance lease to reduce costs. A manufacturing company, Pavan which needed fixed assets financing to acquire electric generator successfully used finance lease to serve costs and creatively provided collateral to back the financing need. The owner manager stated:

…"finance lease was good for us. We did not have to provide a collateral because the generator was used as the collateral. We just pay our lease rentals and maintain the generator"…

The growth oriented SMEs also needed to discount their receivables to finance their working capital requirements. In accepting to discount a company's receivables the provider of finance takes the risk of the debtor company. The lenders accepted for discounting only invoices issued by reputable blue chip companies. The owner manager of one of the companies that needed receivables discounting stated:

…"We could not have been able to execute the new jobs if the bank did not discount our receivables"…

A key finding in this research is that as an oil and gas industry practice, the large importers accept guarantees issued by banks on behalf of the SMEs buying the products. The banks on the order hand accept to issue such guarantees when the SMEs have trade receivables from reputable blue chip companies after verification of the receivables. The banks get the SMEs to execute domiciliation agreement which instructs the large company to make payment directly to the bank. This is a creative mechanism to reduce requirement for collateral as the banks place reliance on the credit worthiness of the reputable large blue chip company. All the SMEs trading in bulk petroleum products interviewed used bank guarantees as collateral, a business practice which is underpinned by trust. The banks issued the guarantees based on their reliance that the product off takers which are blue chip companies will pay for the products based on domiciliation arrangement entered into with the SMEs.

One of the bank lenders interviewed explained that banks accepted to issue bank guarantees for transactions where they could place reliance on the reputation of the off takers but not for reselling of products in the open market to petroleum filling station operators. A second bank lender interviewed confirmed their bank has a lending product for petroleum products which requires the borrower to provide evidence of successful completion of five previous transactions within the past three years. The lending product also requires an independent warehousing agent appointed by the bank to monitor and supervise the delivery of the petroleum products which are guaranteed by the bank. One of the SME owner managers explained that to be able to execute five previous transactions successfully is the big issue in order to qualify to use this lending product. The reason is that the initial transactions would have been adequately secured with tangible collateral. This owner manager further explained that he initially rented a collateral which involved getting a willing property developer to pledge his real estate property to the bank to facilitate the transaction. One of the lenders confirmed this business practice of renting collateral. However, the key risk this practice introduces to the transaction is that the title documents to the property could have been illegally obtained. The title document could even have been cloned from the original document. This lender explained how their bank once fell victim when a property owner declined giving approval for his property to be used as collateral for a defaulted transaction.

Information Asymmetries Risk and Over Statement of Financial Needs

The petroleum products storage facilities operators in case 41 and case 42 needed finance to either purchase an existing petroleum products tank farm or to construct a new storage facility. As tank farm owners, the companies are able to earn rental income for letting other companies use the storage facilities as well as using the storage facility in storing their own petroleum products for sell in the open market. The bank lenders required information about the business plan and financial records which the owner manager in case 41 was unable to provide. The bank lenders were of the opinion that the company applied for more finance than it actually required. These issues delayed the processing of the finance. In case 42, the bank lenders believed the owner manager had much information undisclosed to the bank. In determining the borrower's contribution the bank needed adequate information on the various amounts the borrower had spent on the project. A key factor is that the tank farm is the collateral for the finance.

The tank farm operators on the order hand demanded for performance bonds from their suppliers of the petroleum products as a signal confirming that the potential products supplier possesses the capacity to supply products with good quality and promptly. Also the ability of the supplier to obtain performance bonds from the bankers is evidence signal of good track record as a bank is expected to take performance risks only on their qualifying customers after due credit analysis. A supplier of petroleum products providing performance bonds tries to meet the terms of the supply contract as most of the time banks demand for cash collateral to secure issuance of performance bonds which carry high risk and immediate obligation on the part of the bank that issued the performance bond when it crystalizes.

Impact of Economic Factors on SMEs Financing

The main debt financing needs of filling station operators were: (i) to finance the acquisition of various fixed assets including equipment for blending of lubrication oils (ii) to finance the acquisition of aviation fuelling truck for the execution of contracts for the refuelling of aircrafts with airline companies. (iii) To finance the acquisition of petroleum products haulage trucks (iv) Finance lease for acquisition of electric power generators (v) To finance the construction of petroleum products filing stations- this application was declined as the bank preferred buying an existing filing station facilities (vi) To finance the purchase and installation of equipment for a Liquefied Natural Gas Plant. (vii) To Finance the importation of a Liquefied Natural Gas Haulage truck. The key finding relating the debt financing needs of the filling station operators is that fundamental to their business is ensuring regular supply of products to ensure and their business is driven by very thin profit margins particularly because the pump price of products are regulated. These filling station operators are often required to make advance payment for their purchases of products from the bulk suppliers which puts pressure on their cashflows. Further, the prices of petroleum products are subject to fluctuations and availability of foreign exchange.

Table: 6.1 Key finance factors - distribution and key findings for the case studies

Key factor	N0. of cases (case no.) – key qualitative examples – impacts on growth
(i) Bootstrapping	**20 cases affected to some degree (1-10,15-24) Main examples: "…failure to obtain a loan meant working for nothing for 6 months…" (case1) "…only receiving 50% of loan required meant extra time taken finding supplier financing and using personal credit cards to pay for working capital requirements …." (case 5) Key Impacts: "… we had to postpone the project for 6 months and lost prime mover status in our market…" (case 7) "… the project was dropped and instead of employing 2 extra staff we have had to let two staff go…" (case 15)**
(ii) Discouraged borrower	11 cases (1-5, 10, 12, 17, 21, 47, 48) Main examples: "…delays in loan processing discouraged the borrower leading to refusal to apply for N16 million refinancing of some of the cost of setting up the business…" (case 21) "…funds required to part finance the importation of Chemicals and other raw materials but loan was refused due to information asymmetry risk…" (case 10) Key Impacts: "…we had to close down the snail farm, disengaged 6 staff and closing the fish farm..." (case 21) "…a case of adverse selection leading to abandoned project and trading to generate internally generated finance…" (case 10)
(iii) Incomplete records	13 cases affected to some degree (1,2,6, 11-16, 19,25,31,32) Main examples: Term loan to finance purchases of raw materials for manufacturing of cosmetics products – Body and Hair creams (case 13) To finance the acquisition of delivery trucks for the company. Delivery trucks – 4 No. 10 Tons Trucks (case 14) Key Impacts: "…failure to receive 40% of the finance and scaling down the project…" (case 13) "…delayed documentation leading to increase in the price of the trucks…" (case 14)
(iv) Raising of finance from friends and family members	8 cases (17,21, 26,30, 36, 38,42,46) Main examples: "…To finance the acquisition of Petroleum Products Delivery Tankers (10 No. 33,000 Litres) for supply of diesel to customers…" (case 38) "…To finance the acquisition of Tugboats for Oil Rig Suppliers…" (case 36) Key Impacts: "…Increase in turnover by 30% …" (case 42) "…Signing of new contract for supply of petroleum products…" (case 17)
(v) Bank risk acceptance criteria	6 cases (6,20, 22, 37, 41, 43) Main examples: "…to facilitate the company's bid for a contract worth N200 million annually for the supply of bread to various prisons in the country for which 10% Bid Bond was required…" (case 6) "…to finance the construction of access road to the company's factory…" (case 20) Key Impacts: "…successful execution of the bread supply contract…" (case 6) "…increase in market share due to ability of more customers to assess the company's business premises…" (case 20)

Table: 6.1 : Contd.

Key factor	N0. of cases (case no.) – key qualitative examples – impacts on growth
(vi) Provision of collateral	11 cases affected to some degree (1,3,4, 18, 25,26,29,35, 39-40, 42) Main examples: "…Import finance – for purchase of raw materials…" (case 1) "…to part finance the acquisition of power generating set to serve as back up to an aging generator and guarantee regular power supply to the farm…" (case 25) Key Impacts: "…failure to receive finance would have led to failure of the business due high overhead costs…"(case 1) "…receipt of finance led to 30% increase in sales turnover…" (case 25)
(vii) Information asymmetry risk and overstatement of financing needs	7 cases (18, 28, 34, 39,40, 43, 44) Main examples: "…to finance the acquisition of poultry equipment to house the birds…" (case 18) "…to part finance the construction of grains storage silos for the company to enable the farm preserve its products …" (case 28) Key Impacts: "…we grew our market share by 20% and sales turnover also increased by 30%..."(case 44) "…we can now take advantage of low cost of grain during the harvesting season and turnover has increased by 30%..." (case 28)…
(viii) Impact of economic factors on SMEs borrowing	10 cases (10, 18, 40-48) Main examples: "…delay in securing finance meant exchange rate moved against us and we could not open the letter of credit to part finance the importation of Chemicals and other raw materials…" (case 10) "…the bank was dragging its feet and delaying in providing to us finance, the equipment supplier sold the equipment we first negotiated to another company which increased the equipment cost for us…" (case 18) Key Impacts: "…being unable to take delivery of imports of goods made us to loss our major buyers…" (case 40) "…the economics of the project totally changed and the business could have failed…"
(ix) Relationship banking.	7 cases (2,6,7,10,14,22, 23,31) Main examples: "…to finance the takeover of a farm. The owner of the business was retiring and offered to sell the business as none of the children was interested in the farming business…" (case 23) "…to finance upgrading of the company's oil palm mill..."(case 31) Key Impacts: "…the equipment came at a reduced cost even though they are now old and need replacement soon…"(case 22) "…our production capacity has increased by 40% and quality of our packaging has equally improved…"(case 31) "…market share has significantly increased. Sales turnover increased by 40% and the equipment is more efficient and safer to operate…" (case 31)

6.3 Demand Side Perspectives to Factors that affect Debt Financing Needs of Growth Oriented SMEs

6.3.1 Discouraged Borrowers

The existence of market imperfections (Hughes, 1997; 2009; North et al., 2013) and information gaps (Mason and Harrison, 2004) gives rise to demand side failures (Berger and Udell, 1998) which is a situation where firms with viable projects fail to get finance. Failure to receive finance for viable projects due to demand side failures result in financing gaps (Bolton, 1971; North et al., 2013; Baldock et al., 2015; Cowling et al., 2012; Armstrong et al., 2013; Brown and Lee., 2014; Owen et al., 2016). Demand side failures are caused by different circumstances which discourage firms with viable projects from seeking external finance. Desk review of literature confirmed that the most common reasons for demand side failure include reluctance of the firms to share profits (Brown and Lee ,2014), control aversion (Cressy 1995), inability to present the case for financing effectively to the financiers (Mason and Kwok, 2010), discouraged borrowers (Fraser 2009; 2014), investment readiness (Cressy and Olofsson, 1996), pecking order theory (Myers and Majluf, 1984), resource based value (Barney, 1991) and path dependency (Teece, 2007). The forgoing concepts are consistent with the resource based view which states that dynamic capabilities are hard to codify, transfer and imitate, in order to nurture competitive advantages. It also encourages firms to maintain their existing financial arrangements rather than seek external financing.

The research found that Nigerian SMEs experience six main forms of 'demand side failures' including: First, where owner managers fail to apply for finance because of the fear that the finance provider may disclose the firm's business secrets to competitors. In one case, the owner manager believed that the finance provider failed to approve his firm's proposal but instead diverted the business proposal to another firm. The new firm implemented the proposal after receiving finance. Second, where the owner managers fail to apply for finance because they would not want their business associates to perceive them as relying on bank loans because of financial difficulties giving rise to cashflow problems (i.e. "going to the bank to beg for money"). Third, is abandonment of credit requests due to delays in processing the applications, particularly in the case of government initiatives which the CBN is required to approve after bank due diligence. The owner managers see the need for additional approvals from the CBN as additional cost in terms of time and cost of processing the loan. Fourth, where owner managers fail to apply for finance because of discouragement arising from their belief that the bank lending criteria are difficult to meet. These owner managers do not want to waste their time and resources where they expect their applications to fail. They therefore seek to avoid losses arising from failure in obtaining the finance due to inability to meet lending criteria. Fifth, owner managers avoid lodging their business cashflows into their bank accounts, and prefer to disburse funds in cash to their suppliers to avoid bank charges. This implied that their business turnover based on the bank account statements were poor and hence would not support bank borrowing. Sixth, arises from owner managers' perception of the financing risk associated with the banks. One of the owner managers recounted how he spent time and money processing finance from a bank, received approval, met relevant conditions precedent to draw down, but never received the finance because the bank was subsequently liquidated in 2009 by the Central Bank of Nigeria. This owner manager also lost the cash sales lodged into the bank which supports the finding that firms since the 'Global Financial Crisis' (GFC) have become risk averse (Giles 2013).

These varieties of discouraged borrowers vary from those reported in Fraser (2009; 2013) and supports the view in Brown and Lee (2014) that complex interplay between demand side and supply side issues affect SMEs financing. Those owner managers who fear bank failure would rather not apply for finance than lose their business cashflows by banking with failing or unstable banks. They prefer to deposit their cash with the strongest banks to ensure safety of their business cashflows, notwithstanding, the fact that the strongest banks are perceived to focus mainly on financing large corporate customers. By implication these firms were avoiding banks which were perceived to be weak or unstable.

6.3.2 Information Required from Growth Oriented SMEs for Lending

The interviewed owner managers were asked to discuss the type of information the lenders required them to provide in order obtain financing. Each of the owner managers listed various information and documents they provided to their banks to facilitate the processing and documentation of their credit facilities as detailed in Table 6.1. The firms were required to provide about the same information and documents which included (i) The application letter; (ii) corporate and management profiles; (iii) audited financial reports for the previous three years; (iv) bank statements of accounts for the last twelve months period; (v) cash flow projections covering the period of the loan, (vi) evidence of track record; (vii) business plan and viability report; (viii) good credit check reports from all their existing banks (ix) the original title documents for relevant collateral pledged as security for the facility. In addition to these, the banks required government approvals for the plans of buildings and construction projects. The oil and gas firms in bulk trading of petroleum products were also required to provide off take agreements with the buyers. The banks also required government permits to operate gas refilling plant and petroleum products filling station. Furthermore, contribution or evidence that money has been invested in the company by the MD/CEO were required from all the interviewed owner managers. Fundamentally, the banks required similar information from the SMEs in all the SMEs.

A key finding regarding the provision of information by the owner managers is that none of the interviewed owner managers was able to provide all the documents their banks required in the form the lenders needed the information. The research revealed occurrence of incidence of incomplete records among these SMEs. One of the owner managers explained that he had issues with providing the cashflow projections. The bank rejected the cash flow projections provided and said that the related assumptions were inconsistent with the prevailing macro- economic situation in the country. This owner manager said the bank particularly complained about the figures applied in the costing of the agricultural inputs. Also the bank rejected computation of the amount of funds the owner manager had invested as contribution to the transaction and requested for supporting documents and receipts which the owner manager could not provide.

More than two third (68%) of the owner managers said that their banks required for these information in piece-meal which contributed to delays in the approval process. A large majority (80%) of the owner managers said that their banks required too much information and documents for their credit approval. One of the owner managers in crop production said:

…"*the stress in providing banks with documents and information is by far out of proportion to the benefits we derive from collecting the bank funds for business. What is the point asking for information you know very well is irrelevant in credit decision making. For instance my bank said I should factor the impact of over flooding of the River Niger on harvest in my cash flow projections*"…

Table 6.2: Information Required from Growth Oriented SMEs for Lending

S/n	Required Documents / Information	Essence of the Documents
1	Loan Application letter which should be specific on the purpose of the loan, tenor and the company needs.	This letter evidences that a properly authorised officer of the firm requested for the finance and should be submitted in addition to the CBN specified "Loan Application Form" (LAF).
2	Business plan	This should detail current financial position and anticipated impact of the loan if granted.
3	Collateral – title documents	The original title documents are provided to the lender to secure the loan
4	Cash flow projections	This should be provided with relevant assumptions if the loan is required either for a new business or for more than one-year period. The cashflow projection should cover the tenor of the financing required.
5	Bank statements	This should be provided for all the company's bank accounts covering a period of twelve months. It is required to provide information on the sales turnover.
6	Audited financial reports	This should cover a period of three years preceding the year of loan application. If a gap exists, for instance where the time of request of the loan is more than six months from the end of the last financial year, the company is required to provide management accounts for the six months' period.
7	Corporate and Management profiles	This is required to assess the adequacy of the management team to use the finance and repay.
8	Track records	This is required to assess the credit history or provide documentary evidence of borrowing experience in the particular line of business for which the money is required for.
9	Evidence that the company has been meeting repayment obligations and does not have any non-performing loans in any bank.	Some banks require their credit administration unit to check whether the bank had in previous years written off any indebtedness for the company. The banks require credit reference on the borrowers.
10	Profile of a recent business activity in the industry.	Copies of contract documents and agreement executed between the company and any third party who may be involved in the financial arrangement are required. The bank's legal department reviews such contract documents prior to approval of the loan.
11	Evidence of Tax payment for the last three years and evidence of filing of financial reports with the Corporate Affairs Commission (CAC).	These are regulatory requirements.
12	Personal guarantee of the managing director of the SME supported with a statement of personal financial net- worth of any guarantor sworn under oath.	This is required to ensure the owner manager of the SME is committed to the success of the transaction to avoid credit default.

6.3.3 Timeliness of Approvals or Rejections of Financing Applications of Growth Oriented SMEs

The research revealed that timeliness of approval of the loan applications was fundamental to success of the SMEs. In order to examine how timely the firms received feedback regarding approval or rejection of their applications the owner managers were asked the two question: "Approximately when (month/year) did you recognise the need for external finance and applied for finance?" And "What was the date (month/year) when approval of funding / bank decision was received?" The turnaround time in almost two thirds (60%) of the applications were between 31 days to 90 days. Less than one fifth (16%) of the applications received feedback within 30 days while 19% of the feedback were received from banks between 91 to 180 days. The remaining 5% of the applications received feedback between 181 to 214 days. The mean time for receipt of feedback was 66 days. The minimum time was 15 days while the maximum time was 214 days. All the feedback received by the firms within 30 days were either for loan applications relating to product papers which were checklist based or the transactions that were backed with cash collateral. One of the owner managers in poultry business recounted his experience regarding slow pace of loan approval by his bank and stated:

…"*my credit was being "tossed around" between the branch office and the credit department at the head office for over four months. In fact it was like they were playing ping-pong game with my loan application. One thing today another issue tomorrow. During the period several issues were raised regarding the transaction particularly the scale of the project. It was so frustrating. One of the credit officers said his premonition was against recommending the request for further consideration and approval by the bank's credit committee. The account officer visited my office over thirty times during the period for additional information and clarifications and I even had to hire a consultant to make a presentation to the management of the bank before I got the approval. Even at that the bank asked that we scale down the project* "...

More than three quarters (88%) of the applications that received feedback after 90 days required further approvals from the CBN. The requirement for further approval from the CBN after bank due diligence as earlier reported was a key issue that caused resentment among the owner managers.

6.3.4 Credit Approval Process, Bureaucracy & Regulations

The research revealed that knowledge of bank's credit approval process is fundamental to growth oriented SMEs' success or failure in accessing debt finance from banks. The banks are regulated by the Central Bank of Nigeria. The association of banks with regulation makes bureaucracy an important factor in access to finance. Availability of information drives the credit approval process and underpins financing decisions by lenders. The relevancy of the credit process is highlighted in the responses to the "Are you confident that the finance providers will assess your request for finance fairly all the time?". Almost two third (65%) of the owner managers (N=48) said they lenders assessed their financing applications fairly. Over three quarter (78%) of these owner managers mentioned the credit process and policies of the lenders as an important factor that ensures lending decisions are made dispassionately. These responses are further reinforced when the responses to the questions: "How many banks do you maintain business account relationship with?" and …"How many years have you maintained account relationship with the banks?" are factored in, because the least number of bank accounts maintained by the owner managers is five banks and all the owner managers have been in business for up wards of five years as detailed in the profiling section of the thesis. One of the owner managers maintaining accounts with ten banks stated:

…"these banks have their internal processes and policies. They are not targeting any one person in making these policies but all the customers. I have numerous bank accounts. All these banks want you to bank with them so we keep opening accounts but the story is the same in all of them. The requirements are similar. The banks are fair. I accept their decisions. They try to safe guard depositors money. …..You see I was once victim of bank failure. When I was in school. My father's money was trapped in "ACB Bank". It was a very hard time for the family"…

More than three quarter (88%) of the owner managers stated the banks will not approve their financing proposals if they do not meet the bank's requirements. The responses of three of the owner managers to the question…."Do you think your bank could approve credits when you do not qualify for the credit because you enjoy close relationship with the bank?"…. were:

..."No, never. The banks cannot approve unless all conditions are met. Even after approval is received, meeting the terms and conditions is the most critical hurdle"…

---"they will not approve. My class mate is one of the bank managers. He cannot even given me any preferential treatment…"

…"the bank's policy is the guide. I have come to understand how the system works. Even when you qualify you may still not get the money. You Know the banks' are heavily regulated. The CBN even approves the credit facility by themselves….."tell me how can the system work well even the CBN cannot trust the bank's with credit approval"….

Even though a large majority of the owner managers stated the credit policy is key to access to finance, less than one fifth (15%) of them knew details of the credit process in their banks. This is based on responses to the question: "To what extent do you know the credit approval processes and procedures of your finance providers? This situation calls for the need for more awareness of the bank's credit processes and procedures by the owner managers in order to improve access to finance. The Central Bank of Nigeria (CBN) regulates bank lending based on the "Prudential Guidelines for Licensed Banks". The CBN first issued these guidelines in 1990 and reissued a revised version in 2010. The guidelines, addresses various aspects of banks' operations, including financing different sectors in the economy and risk management as earlier explained. The awareness of the details of this CBN guideline to banks which is the key regulatory instrument is still low among the owner managers. Less than one fifth (12%) of the owner managers knew about the existence of this guideline. Two of the owner managers who were former bankers knew the details of the regulatory requirements as contained in the guidelines.

As explained earlier credit decision making is underpinned by the availability of information. All the owner managers stated that banks maintain information sources to assist their credit. The credit process of the Bank's based on the research is explained in seven stages as presented in Table 6.2. In the first stage, the bank receives a written credit application from the obligor. One of the bank manages stated that it is CBN regulatory requirement that all credit applications must be evidenced by written application. The second stage involves processing of the loan application based on the bank's credit policy. This is carried out by designated bank officials. The officer uses all available information including financial and non-financial information to appraise the loan application. A risk manager in one of the bank's stated:

…"after the account officer has produced and forwarded the "credit approval memorandum" to credit risk management group, we carry out an independent assessment of the credit proposal and make recommendations to the management on the risks and possible mitigating factors related to the loan application"…

In the third stage, the bank approves the financing request and issues a facility letter to the obligor. The facility letter specifies the terms and conditions of the approved loan including the collateral. This stage is key in the credit process. The obligor is expected to accept the facility letter and provide all the requirements for documentation of the loan else the loan cannot proceed. Beyond this point, every other process is for the bank to disburse the approved finance, monitor and carry out loan recovery if the obligor eventually defaults in repayment. The disbursement is made to ensure maturity of the loan matches the agreed loan repayment plan. The bank officials subsequent to disbursement of the funds monitors to ensure utilization is for the agreed loan purpose and the repayment is done in line with the terms of approval. A default in repayment of the loan will trigger loan recovery activities of the bank which could eventually lead to foreclosure of the pledged collateral. When the obligor successfully repays the loan and the related interest, the bank will be obliged to return the original title documents to the collateral to the borrower which marks the end of the loan cycle.

Table 6.3: Credit Process Stages in a typical bank – SMEs Financing

Stage	Process Description
Stage one	The first stage of the credit process starts with receipt of loan application letter from the customer with all relevant supporting documents. The customer's letter should provide information on what the money is required for, what the customer will provide as collateral, the amount of money required and for how long the customer needs the money.
Stage two	The second phase is that the account officer will process the request in line with the bank's internal procedure which includes writing a credit proposal which has a predefined format, checking the customer's credit history, doing financial spreadsheets using the financial reports submitted by the company, checking out all the information the customer provided on the company and the transaction.
Stage three	The third stage is the credit approval. Depending on the amount of money required the bank has a list which specifies who should be able to give final approval before the customer is informed in writing officially of the approval of the loan and given a letter with the terms of the offer the bank is making.
Stage four	The fourth stage is that the customer will accept the offer letter formally providing the board resolution that authorised the acceptance of the offer letter and also provide any other document specified in the offer letter to enable the bank to register its interest in any collateral provided by the customer. This stage is referred to as the documentation stage in most banks.
Stage five	The fifth stage is the booking of the loan in the banks books to recognize the accounting entries and then crediting the customer's account with the money.
Stage six	The sixth stage is monitoring the customer after disbursement of the loan to ensure the customer is using the money for the purpose approved.
Stage seven	The seventh stage is repayment or recovery of the loan. Subsequent to disbursement of the loan, the bank is obliged to carry out post disbursement monitoring of the usage of the loan by the SME to ensure the proceeds of the loan is not diverted to unrelated activities to ensure safety of the loan. The bank also ensures the customer is repaying the loan in line with the approved conditions and adhering to all relevant covenants attached to the approval. The bank is obliged to return to the borrower the original title documents to the pledged collateral as soon as full and final payment is made by the borrower and execute a deed of collateral release to close the transaction.

6.3.5 Conditions and Collateral Requirements For SME Lending

Responses of the lenders to the question "What are the conditions and collateral the banks request / accept from growth oriented SMEs in Nigeria for loans?" reveal extensive documentation is required for SME loans post approval. Conditions banks attach to SME financing include collateral, pricing and tenor. One of the bank managers stated:

…"the bank ensures through the process of loan documentation that the conditions precedent to disbursement are met and creates legally binding and enforceable obligations in lending relationships"…

The executive director responsible for risk management in one of the banks also pointed out:

…"*Proper loan documentation preserves a lender's rights. The legal department of the bank drives loan documentation process to ensure a valid legally binding negotiable debt instrument is created. To document a loan, we need the facility letter to be accepted by the borrower and also a loan agreement. In addition, the original title documents to the collateral pledged must be deposited with the bank*"…

All the lenders stated that disbursement of SME loans with incomplete documentation is not permissible in their banks. One of the bank managers stated that:

…"*the CBN's prudential guidelines disallows giving loans without proper documentation, particularly facility letter and collateral*"…

Pricing Conditions

Banks use pricing conditions to guarantee their earnings and profitability while loan operating conditions ensures borrower's understanding of how the loan is expected to be utilized to minimize the risk of credit default. One of the bank managers stated that:

…"*The bank earns interest as reward for providing loans. Interest charged depends on the assessed risk of the borrower. Interest is accrued at a pre-agreed rate and debited to the borrowers account periodically until the loan is fully repaid. Interest rate could be fixed or floating and most often computed on per annum basis. Bank charges are often established by banking regulations and transaction based which means the bank charge is debited to the customer's account at the point the service is rendered for instance establishment of letters of credit or issuance of manager's cheques. The related facility fees is negotiated and agreed with the borrower at the time of processing the loan and debited to the borrower's account prior to disbursement of the loan"...*

The bank may need to apply fees is conducting legal search and in carrying out professional valuation of the collateral. The fee may be charged similarly at the anniversary of the loan for transactions exceeding one year in tenor. One of the managers stated that:

…"The Central Bank of Nigeria issued bankers' tariff allows banks to charge current account holders commission on turnover (COT) at the rate of N5.00 on every withdrawal of N1,000.00 which is 0.5% on every withdrawal"...

Commission on turnover does not apply in the United Kingdom, United States of America and other countries. It is peculiar to the Nigerian banking system.

A large majority (94%) of the owner managers expressed strong objection to this charge which translates to double charges on loans because same finance provided by the bank is subject to interest rate, fees, bank charges and commission on turnover. Evidence from the regulators and lenders interviews suggests the CBN is trying to phase out commission on turnover gradually over the next three years.

Operating Conditions

Transaction dynamics is included in offer letter and loan agreement to provide details of activities to be followed in administering a loan from documentation, disbursement, post disbursement up to repayment of the loan. One bank manager stated that:

…"Borrowing restriction conditions are included in offer letter and loan agreement to ensure the borrower does not engage in excessive borrowing which could jeopardise the interest of bank during the life of the loan"…

Banks also use operating conditions to establish their seniority over other lenders in lending relationships. A bank manager stated that:

…"A bank includes cash flow domiciliation conditions in offer letters and loan agreements to ensure the borrower will operate the account and guarantee the firm's operational cash flows are routed through the bank substantially during the tenor of the loan. It also helps to improve the profitability of the transaction"...

One bank manager stated that*:*

…"Loan purpose condition is included in offer letter and loan agreement to ensure the borrower does not divert the loan to unrelated activities which will increase the risk of loan default and minimum account balance is specified to ensure there is adequate funds in the firms account to meet the repayment obligations as they fall due during the tenor of the loan. Minimum turnover

covenant is established to ensure the borrower is routing at least a basic level of lodgements through their account within the pre-agreed period of time which may be quarterly, semi-annually or annually"...

Other loan operating conditions mentioned by the interviewees are loan repayment plan, transaction clean up cycles. One Head of Risk Management stated that:

…"Loan repayment plan is prepared and agreed with the borrower upfront in the lending relationship to ensure the borrower has clear information on when the repayment of the loan is due and how much is expected to be repaid"…

One Credit Analysis Manager stated that:

…"Transaction clean up cycle is included in overdraft facilities to ensure the borrower is adhering to the transaction dynamics and that the borrower is able to repay the overdraft on demand. Banks specify direct payment to third parties condition in offer letter and loan agreement as well as the transaction dynamics to ensure the funds are not diverted to unrelated activities by the borrower and to ensure success of the loan transaction"...

Documentation Conditions

The banks require the borrowers to apply for loans officially in writing. This is a regulatory requirement by the Central Bank of Nigeria to ensure only loans that are properly applied for are approved. All the forty-eight SME owner managers said they were required by the banks to apply for their loans with their official letter head paper.

Facility letter is the document through which the bank communicates with the borrower regarding the terms and conditions of the approval and the borrower is required to accept the loan offer letter. The acceptance of the loan offer is authorised through a board resolution. All the owner managers said they received and accepted offer letters for their loans prior to disbursement. Banks use the condition that the SMEs should execute a loan agreement prior to disbursement to ensure there exists a binding and legally enforceable contract in existence between the bank and the borrower. The bank relies on this condition to exercise its rights under the loan if the borrower defaults in paying back the loan in line with the agreed terms and conditions. All the twenty lenders interviewed said their banks demand for the borrower to execute loan agreement for all loans. All the forty- eight SME owner managers confirmed as a condition precedent to draw down of their loans they had to execute loan agreement and equally provided board resolution authorising the execution of the loan agreement with the bank.

Loan amount specifies the upper limit of the loan. The bank determines the loan amount through credit appraisal to ensure more money than required is not disbursed. One of the account officers stated:

…"In terms of the amount of loans, the regulatory requirement of prudential guidelines precludes banks from lending to customer in excess of their current "single obligor" limits". The maximum you lend to a borrower is 20% of the bank's shareholders' funds unimpaired by losses"...

The tenor determines the length of time the borrower is allowed to use the money before repayment. The tenor of the loan matches the length of time the firm is expected to complete the project for which the finance is required and the operational cash flows of the firm available for loan repayment.

Equity contribution is borrower's counterpart funding requirement. Over three quarter (90%) of the lenders said their banks require equity contribution. A credit officer stated:

…"I always include equity contribution as evidence of the borrower's commitment to the transaction to reduce risk and leverage"...

Including personal guarantee of the owner managers for lending to the SME as a lending condition allows the bank to obtain the commitment of the SME owner manager for the loan because the firm is a legal entity with limited liabilities. Through the use of owner manager's personal guarantee, the bank is able to make the owner manager personally liable for the indebtedness of the firm. All the twenty lenders interviewed said their banks demand and collect the personal guarantees of the owner managers of the SMEs as a condition precedent to draw down on SME loans. All the forty-eight SMEs owner managers interviewed said they had to provide their personal guaranty each time they borrow from banks. The owner manager of a salt refining company relayed his experience with providing personal guarantee in responding to question "Did your bank demand for your personal guarantee as a condition for your company's loans?"

… "Yes I provide the bank with my personal guarantee each time I request for a loan for the company. The bank said that is the only way they know they can get me to be liable for the company's debt. As a chartered accountant I do not have a problem with that. The bank also

collects signed and undated cheques drawn from my personal account which they hope to present through the clearing system if the company defaults. This is the practice I think is very wrong but because I do not have an option I have to comply"…

Personal guarantee is supported with the owner manager's declaration of personal financial net worth as a loan condition to determine the assets that belong to the SMEs owner manager prior to disbursement of the loan. All the SME owner managers of the forty-eight SMEs interviewed said they provided their banks with their statement of personal financial net-worth for their company loans. The owner manager of a bakery stated that:

…"I even had to take the bank relationship officer on a tour to identify all assets listed on my statement of personal financial net- worth. We even posed together for photographs for the bank to be sure of the particular properties listed on my net- worth statement. The bank was very detailed in identifying the properties"…

Demanding for collateral for SMEs financing allows the lender to have a second way out of the transaction. All the twenty lenders said collateral is a condition that must be in place before their banks can approve a credit request. One of the credit officers stated:

…" Collateral is a regulatory requirement for bank lending"...

In approving SME financing, banks focus on collateral with certain attributes in line with the prudential guidelines which include: (i) the borrower should hold good title on the collateral (ii) the title on the collateral should be easily transferable to the lender (iii) the collateral should be marketable which requires that the lender should be able to find a buyer for the collateral easily should the need to foreclose on the collateral arise. (iv) Valuation of the collateral should be relatively easy and affordable (v) the value of the collateral should be stable or appreciating (vi) the collateral should not be sold at a loss or discount (vii) collateral should not be perishable.

6.3.6 Acceptable Collateral for SME Lending

The Banks and Other Financial Institutions Decree 1992 stipulated that "no manager or other official of a licensed bank shall grant, advance, loan or credit facility to any person or legal entity unless it is authorised in accordance with the rules and regulations of the bank and where adequate security is required by such rules and regulations such security shall be obtained for the advance, loan, or credit facility and shall be deposited with the bank”.

A collateral is accepted by a lender from a borrower as a second way out of the transaction if operational cashflows fail to repay the lending. From responses to the question “What collateral do banks demand and accept for SMEs financing? it is concluded that different banks request for and accept different types of collateral from SMEs for financing purposes depending on the type of finance in question and in accordance with the bank’s internal credit policy. Collateral acceptable to banks based on responses provided by the lenders is categorized in this thesis into: (i) tangible assets collateral (ii) intangible assets collateral. The various documentations identified during the fieldwork based on responses from the lenders required by banks to perfect their interest in collateral pledged for SME loans are discussed below:

Tangible Assets Collateral

Tangible assets collateral required or acceptable to banks for lending purposes include both fixed assets and current assets. A company could provide a form of collateral which does not belong to the company to secure its loans provided the legal owner of the collateral has good title over the collateral and is willing and able to pledge the collateral to the lender as security for the loan. The type of collateral provided as security for a loan determines the form of legal documentation required to be executed and registered to confer legal title over the collateral.

Fixed Assets Collateral

Legal Mortgage - Legal mortgage collateral conveys legal interest in a property as security for a loan or for discharge of an obligation. The borrower executes an agreement acknowledging the debt and offering a landed property which is subject of legal mortgage to the lender to serve as security for the loan. The borrower hands over the title documents to the property to the lender and the lender is obliged to register the legal mortgage at the lands registry to perfect the lenders interest in the property. The lender would need to value the property to ensure the open market and forced sale values of the collateral provide adequate cover for the principal amount of the loan and accrued interest. Legal mortgage is highly ranked among various acceptable collateral for lending. Provided a lender has registered legal mortgage over a property in respect of an indebtedness, the lender does not have to go to court to prove the indebtedness and obtain court sanction prior to foreclosing and realising the property in order to recover the indebtedness.

Equitable Mortgage - Equitable mortgage is a weak form of collateral and most banks do not accept equitable mortgage as primary collateral for loans. The difference between legal and equitable mortgage is that in the case of equitable mortgage the lender only collects the title documents to the collateral but does not have to register interest on the collateral in respect of the borrower's indebtedness at the land registry. The borrower can still create a legal mortgage over the same property over which one lender is currently holding an equitable mortgage which places the holder of equitable mortgage at an inferior position in terms of collateral. In practice lenders get the borrower to execute all relevant document to be able to register a legal mortgage if the need arises when credit default risk crystalizes.

Mortgage debenture - A mortgage debenture incorporates a charge over the land and the factory plants and machinery. The title document to the land is registered with the land registry in addition to the listing of the plant and machinery items. This is a superior type of collateral that gives the lender effective charge over the borrowing company's land, buildings and the plant and machinery equipment.

All assets debenture - All assets debenture collateral requires borrower to execute a document called the debenture deed which acknowledges the company's indebtedness and pledges the company's assets as collateral for its indebtedness. Debenture creates a charge over the plants and machinery assets of the company but does not include a legal mortgage over the land on which the factory is located. There is no registration of the property at the lands registry. All that is required is filing of the copy of the debenture deed at the corporate affairs commission by the lender to note its interest in the assets and payment of relevant stamp duty charges. The borrower is allowed to appropriate the assets under debenture deed up to when the lender declares a default and calls in the loans. It does happen at times that the value of the assets of the borrower under the debenture are adequate to cover the indebtedness to more than one lender and the banks share in the debenture on equal basis in which case the debenture is said to be share on pari-passu basis. The debenture may not be shared on equal basis, with some lenders having priority charge over others. The assets of the company covered under the debenture are listed in the debenture deed and these assets are valued by an independent professionally qualified valuer. The indebtedness could be a specified sum or amount outstanding payable at a fixed date with interest.

Fixed charge on assets - Fixed charge collateral is a form of debenture. A particular asset is charged to the lender which must not be sold or altered in form or shape provided the indebtedness is still unpaid. The consent of the lender is required before any alteration could be effected on an item of equipment under a fixed charge. The lender does not need court judgement to foreclose on an equipment under fixed charge arrangement

Legal ownership of assets - Legal ownership of the assets gives the lender legal title over the assets pledged as security for the loan. The lender assumes right as the legal owner of the assets until the debt is paid and the lender executes a document to transfer ownership of the assets to the borrower. This is more often used as collateral for assets financed under finance lease arrangement where the assets are at inception bought in the name of the lender and the lessor only transfers legal ownership after the lessee has paid all the periodic instalments of the lease rentals and the residual value of the leased assets at the end of the lease period.

Current Assets Collateral

Floating charge on Inventory - The floating charge on inventory collateral is used by the banks to finance trading. The inventory is monitored and the borrower is not to reduce the inventory level below a certain agreed amount. This is a form of debenture deed where the borrower is allowed to appropriate the assets until when credit default occurs and the lender calls in the facility. Court judgement is required to effect a foreclosure of the collateral and pursue recovery in the event of credit default.

Tripartite warehousing arrangement - Tripartite warehousing arrangement collateral gives the bank right of lien over inventory which are locked up in a dedicated warehouse under the care of an independent warehousing agent. The inventory is released based on instructions given directly to the warehousing agent by the bank. The bank documents the inventory release instructions on “Authority to Collect” (ATC) which are signed only by properly authorised officials of the bank. Under tripartite warehousing arrangement the bank is obliged to register debenture. This is a creative means of saving the borrower money in debenture registration charges.

Domiciliation of receivables - The domiciliation of receivables collateral is an arrangement where the lender grants a credit facility to a borrower which is secured with a future expected payment from a third party. The third party is directed under the domiciliation arrangement to effect payment directly to the account of the borrower with the lender. The cash flows from the payment to be received from the third party is then used to repay the borrower's debt with the lender. The risk inherent in domiciliation of receivables arrangement as collateral is that the borrower could divert the payment to another bank.

Irrevocable Standing Payment Order (ISPO) - Irrevocable Standing Payment Order collateral arrangement is used by lenders to finance transactions where the payment is primarily domiciled to another bank. The bank is then given an irrevocable mandate or instruction to remit to the lender payments to liquidate the borrower's loan as cash flows are received from the third party making the payments. This collateral arrangement is weaker than domiciliation of receivables arrangement in that another bank first receives payments and then remits to the lender.

Lien and right to set off Cash balances - Lien and right to set off on cash balances is a collateral arrangement that gives the lend the right to hold on to the borrower's deposit balance in other accounts with the bank and also the right to set off any indebtedness of the borrower with such cash balances in the event of credit default.

Lien and right to set off blue chip company shares - The lien and right to set off blue chip company shares is a collateral arrangement under which a borrower uses its investments in other company's shares in the stock exchange as collateral to borrow money from a bank. The borrower executes all relevant documents that will enable the lender to go to the stock exchange and sell the share and use the sales proceeds to repay the loan in the event of credit default.

Intangible Assets collateral

Collateral is intangible when it does not refer to any assets of the firm that has physical existence and include insurance policies and contingent liabilities like guarantees and counter indemnities.

Comprehensive Insurance Policy - This is an arrangement to provide insurance protection over pledged assets. The lender is mentioned under the insurance policy as the loss payee beneficiary.

Counter Indemnity - Counter indemnity is a collateral arrangement under which an insurance company provides a form of guarantee to the lender that if in the course of the transaction the lender suffers a loss, then the insurance company would indemnify the lender. Banks use insurance counter indemnity as collateral for bond and guarantees issued on behalf of growth oriented SMEs.

Counter indemnity is a collateral arrangement under which an insurance company provides a form of guarantee to the lender that if in the course of the transaction the lender suffers a loss, then the insurance company would indemnify the lender. Banks use insurance counter indemnity as collateral for bond and guarantees issued on behalf of growth oriented SMEs.

Personal guarantee- Lenders take personal guarantee of the owner managers of the SMEs to ensure they are properly tied to the loan and it makes them committed to the success of the transaction and the repayment of the loan.

Bank guarantee - This collateral arrangement enables another bank to provide guarantee to the lender for the indebtedness of the borrower.

6.4 Consequences of Success or Failure to Raise Debt Finance

Business Impact of Success and Failure in Accessing Finance on SMEs Growth

The attribution of finance to SMEs growth from the owner managers' perspective is examined in this section. The owner managers were asked how the external finance they obtained impacted on their business activities? More specifically, they were asked what they considered to be the main impacts of the funding they secured in terms of: (a) number of jobs created; (b) increase on sales turnover performance; and (c) proportional increase in profitability? They were also asked what would have happened to the business if funding was not obtained?

All forty-eight owner managers reported positive impact of finance on the growth of their firms in terms of both employment growth and sales turnover growth. The impact of finance secured was however different if analysed on a sectoral basis. The following quotes illustrate the positive outcomes of success in obtaining external finance as reported by the owner managers themselves:

Positive Outcomes of Securing Finance

(a) In the **agricultural sector**, one crop producer, stated:
... "*the finance* [obtained] *impacted on the business greatly. The sales volume increased about 3 times and the company was able to sign a production contract*".

In turn, one fish farmer attributed the increase in the stock of fish and the fact that the farm is growing to the external finance the firm obtained by saying:

… "*we increased our initial stock of fingerlings and started importing our own fish feeds which has significantly reduced our costs of production"*

(b) In the **manufacturing sector**, all the owner managers (N=16) reported increases in employment, sales turnover and profitability, albeit at different levels, which they all attributed to the finance obtained. The owner manager of a tropical wine manufacturing firm stated that:

… "the working capital finance we obtained from Wema Bank [lender] helped us to place orders for large stock of raw materials which helped us to guarantee regular supply of products to our distributors. Sales are gradually improving. We have opened another sales depot. Hopefully we could double last year's sales by the end of our financial year in December"

The owner manager of one firm manufacturing beverages and chocolate pointed out that:

…" the finance we received was instrumental to our expansion of the business. We employed a couple of new people and we now operate two shifts"

Other impacts of finance on manufacturing businesses were also identified:

Five out of six cosmetics and chemical manufacturers reported various levels of increases in their market share. One of the owner managers stated […]

" *we experienced almost 60% increase in market share, we are executing the contract for the production and supply of bread to some prisons in the country"*

One of the owner managers producing foods and drinks also reported organisational and managerial improvements. Specifically, the owner manager explained:

…" *the company got better structured and improved on corporate governance practices"*

(c) In the **oil and gas sector** the owner managers equally reported various impacts of external finance on their businesses. Sales turnover increase was reported to be the main impact of external finance obtained by eight out of the nineteen firms in this group while four owner managers reported increase in employment to be the main impact of finance on their firm's business. One of the owner managers reported:

…" receipt *of external finance gave us the enablement to execute the new haulage contract the company signed and our sales turnover has increased greatly. Without the finance, nothing could have been done…"*

One of the owner managers that operate a petroleum products bulk storage facility (tank farm) stated that:

…" we employed four senior people to strengthen our management team in sales, shipping and accounting departments [of the business] and many other unskilled staff and six truck drivers when we commissioned the tank farm last year [2014]. These were possible because of the financial support we received from Skye Bank [lender]"

Two of the Oil Vessel and Rig Supply Services providers reported increase in production capacity as the main impact of external finance on their businesses. The owner manager stated that:

…." we expanded our businesses into oil spillage cleaning, attracting bigger contracts…"

The owner manager of one of the Petroleum Products Trading firms, responded that acquisition of a petroleum products filling station was the main impact of external finance on their business. He said:

…" *the company was able to acquire filling stations and sales volumes increased and new staff joined the company after the finance"*

Potential Outcomes of Failure to Secure Finance

Interestingly, over two thirds (68%) of the owner managers reported potential for business failure instead because of their failure in obtaining external finance. The following quotes illustrate potential outcomes of failure in obtaining external finance:

The owner manager of a table salt refining firm stated:

…" *without external finance, the business would have absolutely collapsed and the factory would have been closed down. You can imagine the impact on the 120 families their bread winners would have lost their jobs"*

One fish farmer who was not lodging in all their cash receipts with banks to avoid bank charges, and consequently did not obtain finance because preliminary discussions with the bank officials discouraged him from applying for finance stated:

… "we could not get the bank to assist us with finance. We desperately needed to reconstruct our water bore holes as there were traces of iron ore in the water we get from our existing bore holes and fit re-circulation pumps to increase mobility of the fish to enable them develop better. Our production and sales have drastically reduced and the business has become unprofitable. In the past one year, we have stopped nine people from working for the farm as the wage bill was becoming too high. I have all along been sustaining the business with my personal savings. At the moment, we [the owner manager and his wife] are considering selling the farm. We even had to stop snail farming because of lack of finance"

For one livestock farmer, the main potential consequence of failure to obtain finance was continuing power supply problems. The owner manager said:

…." the company could not have been able to afford the new electric power generator at that time. We could have at best bought a used generator which would have resulted in more usage of diesel and cost of maintenance"

The owner managers of two oil and gas firms reported that employment downsizing would have been imminent for them if they had failed in obtaining external finance. Potential shortfalls in sales turnover where also reported by some oil and gas owner managers. The owner manager of a Petroleum Products Trading firm said that:

….” *we would have remained small and selling only gas in prefilled cylinders and possibly downsized. We were not doing much business before we got to start with Diamond bank* [the lender]. *In fact, how else could we have taken advantage of the Local Purchase Order (LPOs) business if we did not obtain external finance?*”

Similarly, owner manager of a Petroleum Products Trading firm who reported potential reduction in their sales turnover in the absence of external finance explained:

…” *we could not have been able to acquire the filling stations and that would have hampered growth of the business and low sales*”

In another circumstance, an owner manager in oil and gas sector, said that:

… “*the growth we achieved would not have been possible, particularly acquisition of our filling stations and importation of products and sales without external finance”*

The owner manager of the second oil and gas firm stated that:

…” *the business could have been liquidated if we did not get finance. None of our creditors was ready to give us a breathing space*”

From the foregoing, owner-managers acknowledged the roles external finance played in supporting their firms’ growth from the perspectives of employment, sales turnover, profitability and also in avoiding business failure. Some of the owner managers were however still cautious in making decisions relating to sourcing external finance due to the implications of credit default to their businesses as well as, reduction in profits and business control arising from financing restrictions imposed by the lenders.

6.5 Supply Side Perspective to SME Financing

6.5.1 Examination of SMEs Financing Gaps from Supply Side Perspectives

In order, to examine the supply side perspectives to SMEs financing gaps, the lenders were asked questions about the key driving factors that affect financing gaps. Specifically, the lenders were asked whether some growth oriented SMEs were refused financing by their banks in the past 3 years. An overwhelming majority of the lenders (96%) were positive about instances of rejection of financing applications from growth oriented SMEs by their banks. These lenders were further asked to discuss, what they considered to be the most significant factors which affected their bank’s ability to provide financing to growth oriented SMEs, and to mention the 5 most frequent reasons why their banks rejected financing applications from growth oriented SMEs. Analysis of the responses reveals that the most frequently mentioned reasons for declining financing applications which by implication were the key factors driving supply side financing gaps included: (i) High risk perception of SMEs (ii) followed by Credit rationing (iii) Liquidity and solvency of the bank (iv) Tenor of the loan required (v) Conditions for the lending – risk acceptance criteria (vi) Company and management characteristics (vii) The quality of banks' credit portfolio particularly the value of existing bad loans.

High-risk perception of SMEs – An overwhelming majority of the lenders (95%) felt that SMEs operate less structured businesses with fewer assets but present higher risk than larger companies. This is responsible for lenders focusing on financing so called "*less risky and more profitable large companies*" with their limited resources as there are more ancillary benefits in financing large businesses with formal structures than small businesses. SME business structural inadequacies and poor assets base result in their presenting less attractive borrowing requests underpinned by collateral inadequacy, poor management capacity, poor track record, incomplete records and information asymmetry risk. One bank manager stated:

"[…] *the same energy it takes me to structure a large ticket transaction is what it takes to structure SME financing. I make more money and meet my profitability targets more easily from financing larger firms and I can sleep with my eyes closed with less close monitoring. Financing SMEs is so much stress and they take it personal if you decline their requests. Look at the last time our bank downsized, the victims were mainly the relationship officers that have large non-performing credit exposures to the SMEs*"

Credit rationing, which was also mentioned by a large majority (90%) of the lenders, was the next most frequently mentioned reason for declining SME financing applications. The view that some good credit proposals do not receive finance is in line with the view expressed by one of the SME executive directors interviewed […]

"SME financing is under pressure due to the large number of SMEs and other companies applying for available finance. The banks cannot approve all applications [hence the need for 'credit rationing']*"*

More than three quarters (80%) of the lenders argued that high competition for external finance, liquidity problems in banks and the solvency position of the bank can lead to supply side failure even if the SMEs have viable borrowing proposals. One bank executive director stated […]

“there are too many transactions chasing the banks’ limited resources. Many of these transactions are not bankable even and if you make the mistake of putting money in them you will incur losses. The government even recognizes the difficulties banks are facing by providing on-lending finance for banks”

Tenor of the loan required – Also three quarters (70%) of the lenders expressed the view that SMEs usually require funds for periods longer than Banks are willing to lend. A bank manager stated that ….

“Difficulties in monitoring and limited bank available funds are the key reasons for keeping the tenor short. The demand depositors can take their funds without notice”

Conditions for the lending (risk acceptance criteria) - High leverage/gearing and inability of the SMEs to provide an acceptable amount of counterpart funding or contribution also affect banks’ willingness to lend even when the SMEs have viable borrowing proposals. A bank manager stated:

[…]*“yes, it is a fact that Central Bank of Nigeria provides on-lending finance to banks, but the CBN officials ultimately approve these loans. The banks are not even to release this money to the SMEs unless there is collateral and good track record. The prudential guidelines for licensed banks, [the framework for examination of banks and the Banks and Other Financial Institutions Decree (BOFID)] all have imposed sanctions on banks, lending without collateral. Moreover, banks do not accept properties in rural areas for collateral. The success rate for approval of credits is generally very low and even the approved credits often do not get disbursed because the SMEs find it difficult to meet approved conditions. The banks sanction the originators of defaulted credit facilities [which leads to credit officers avoiding SMEs financing]. Under all these limitation, we are still expected to meet our profitability targets”*

Company and management characteristics – Over two thirds (70%) of the lenders expressed the view that the characteristics of the firms and their owner managers contribute greatly to credit decisions. One of the banks managers stated that […]

“the owner manager’s character and track record, particularly; management team resources, credit history and track record of the business, as well as acceptability of the SMEs succession

plans ["Key man risk' and personality profile of potential borrowers] are fundamental issues in my credit decision making"

The quality of banks credit portfolio – A large majority (60%) of the lenders felt that the value of existing bad loans coupled with poor economic factors affect lending decisions. A credit manager in one bank stated that …

"now, we are not approving transactions for road haulage, and agriculture particularly those with long tenor. We have portfolio constrains in these areas due to large non-performing loan portfolio"

Other reasons included: (i) Government economic policies including the monetary and fiscal policies; (ii) Loan purpose; and (iii) Competition.

Government economic policies including the monetary and fiscal policies – Less than half (45%) of the lenders felt that government economic policies are a key factor impacting supply side failure. Banks Usually have portfolio constraints imposed by statutory and regulatory requirements for instance single obligor limit and cash reserve ratio requirements, although now the CBN is providing liquidity for banks for on-lending to the SMEs. The Head of Risk Management in one bank stated that:
…"regulatory requirement is tough on the banks, the CBN has now commenced risk based supervision of banks which means the banks need to comply with more requirements in lending particularly regarding to capital adequacy"

Loan purpose – Two-fifths (40%) of the lenders felt that the main financing need (loan purpose) is very important in making financing decisions. The banks have predetermined business activities they do not finance, largely due to inadequacy of resources including finance and in-house managerial capacity. There is a tendency for banks to concentrate on areas their credit staff understand to reduce the risk of credit losses due to adverse selection which is a supply side failure. A bank manager stated that:
…"our bank does not do road haulage truck related transactions. As an institution, we do not understand the business. All the truck financing transactions in our credit portfolio are now non-performing loans"…

Competition – More than one-third of the lenders felt that some SMEs with viable projects have insufficient awareness of the availability and sources of finance and how to go about applying for bank financing. On the contrary, some SMEs with less viable projects may have more financial skills in sourcing for finance. Similarly, banks with more aggressive marketing staff may approve poorly assessed loan proposals because they were in a hurry to make a credit decision to avoid losing the transaction to other banks. This increases both the adverse selection and moral hazard risks associated with such borrowing. One branch manager stated that […]

"I have my profitability targets to meet. The bank accepts no excuses from me for not meeting my targets. My job is to bring in the transactions. The credit risk management people analyse the credit applications and approve. If they [risk management staff] like let them not review well, it is their problem. Once I receive approval and the customer meets the conditions I disburse. The competition out there now is tough. One executive director collapsed and died in one of the banks last month. It is all about the pressures being mounted on relationship officers [and competition]. You can imagine how stressful it can be, I leave my house latest by 5am every day and get back at times after 11 pm."

6.5.2 Examination of Factors that explain the effect of Finance on SMEs Growth

Bank lenders were consulted about some factors from the literature review that could affect SMEs financing and growth. These include: (i) How the banks view SMEs Sector and their commitment to SMEs financing (ii) SMEs financing policies and awareness creation (iii) relationship banking and (iv) Public policy support for SMEs financing.

(i) How the banks view SMEs Sector and their commitment to SMEs financing

Lenders were asked about the position of the SME sector in their overall banks' strategy. The consensus opinion of the lenders (N=20) is that most Nigerian banks are now committing some resources towards SME financing. An overwhelming majority (over 80%), said that the Central Bank of Nigeria (CBN) is driving up banks' participation in SME financing. Overall, bank lenders perceive SMEs as being part of a prime sector of the economy which provides jobs and makes commendable contributions to the GDP and that therefore it should be supported. The sector equally provides good business opportunities for the banks, although individually small businesses may constitute high risks to banks, in terms of the potential for losses (for instance due to non-performing loans).

The head of risk management in one of the surveyed banks said … "*We have keyed into SME financing. It is consistent with" the CBN intervention in banks* […] However*, we are not focusing on growth oriented SMEs which is the ones you are researching"*

Likewise, one female bank manager explained "*the CBN's focus on SMEs is impacting competition….., the main issue for us is lack of bankable transactions as there are few good customers you can finance and have rest of mind, and also every bank is going after the few good ones"*

In examining banks' commitment to SMEs financing and growth, lenders were asked about how committed their banks were to SME financing and evidence of the commitment? Almost all (96%) of the interviewed lenders said their banks are committed to supporting the SMEs sector.

One female bank manager stated […] "*My Key Performance Indicators (KPI) include growing the bank's SMEs financing portfolio and deposits and the bank has carved out a lending policy targeted at the SMEs segment of the customers from the comprehensive credit policy to fast track transactions which uses checklists"*

In another bank, the executive director pointed out […] "*The bank has functional SME Business Banking Teams in the branches, managing SME banking relationships, as well as specialized SME Lending Teams, underwriting SME loans and supporting the business teams"*

One executive director responsible for Lagos area in one of the banks honoured for quick SMEs finance disbursement by the CBN stated …" *We hired a foreign based professional to train some dedicated relationship officers to focus strictly and specialize on SMEs financing" This bank director also* signposted the researcher to their bank's two-hour open air SMEs program with "Metro FM radio station" that they run to advertise their bank's activities to support SMEs development.

While lenders responses suggest that their banks were striving to increase their SMEs financing market share and establish policies to grow their SME lending, these do not appear to meet the specific demands of the SMEs. For instance, the owner manager of a Petroleum Products Trading firm, who had previously been employed as the "Head of Shipping" of a large oil trading company, explained his personal experience in accessing bank finance in the following terms.

[…] *"these banks' SME financing policies are not flexible in terms of their requirements for track record and collateral. They do not consider the capabilities of the SMEs and whether they can meet the specified lending criteria*".

The responses of lenders show that CBN hold the banks responsible for the loans (there are no loan guarantees), hence no lending occurs unless all conditions are met as banks bear all risks which in turn explains the apparent lack of flexibility in SME financing policies set by banks.

(ii) Origination of SMEs financing policies and creation of SMEs financing awareness

The lenders were consulted about the SMEs financing policies and awareness regarding SMEs financing. The majority (60%) of lenders expressed that the banks develop policy frameworks for SME financing which are based on their commitment to the development of the SMEs sector. A key finding of this research is that bank's approval of a loan does not imply that the SME will receive the funds. Less than half (44%) of SME financing applications received by the banks were approved, while about three quarters (72%) of the approved applications were finally consummated. The majority (60%) of the lenders explained that this situation largely occurs because of lack of bankable propositions and failure of the firms to meet loan financing criteria.

One bank executive director explained […] "*the CBN issued prudential guidelines [*which*] require each bank to have internal financing policy framework approved by the board of directors to drive the banks' SMEs financing strategy*." Most of the lenders (70%) said that their banks are implementing initiatives to create awareness of existing SME financing initiatives, empowering the staff with relevant knowledge and thus secure owner managers' engagement with SMEs financing.

Awareness of existing policies and initiatives helps to bridge information gaps. The banks' board of directors formulate policies and create awareness of these policies to get bank staff and owner managers to engage with SME financing. Twenty percent of the lenders stated that their banks were yet to implement public enlightenment programs to drive awareness of SME financing while 10% said their banks rely on the banking relationship officers to market their SME financing initiatives.

Another key finding of this research is that owner managers rely on awareness of available market information to mitigate their financing risks by doing business only with financially "safe banks". One bank manager explained […] *"customers mostly lodge their main cashflows with banks they perceive to be safe. The customers [owner managers] know each other, share information and usually follow the key players in their sector in their choice of banks. Financing their business does not guarantee they will lodge their major cashflows with your bank".*

The awareness levels of SMEs financing needs by some lenders may be limited, affecting their perception of SMEs as high risk and consequently jeopardizing SME financing decisions. The owner managers were asked whether banks have adequate understanding of the businesses of their 'growth oriented' SME customers. Almost two third (62%) of the owner managers felt that lenders do not understand SME businesses. This supports the notion of existence of supply side knowledge gaps, apart from creating trust issues, between banks and SMEs. The owner managers were also asked if there was adequate information on the availability of government financing initiatives for growth oriented SMEs. Almost two third (64%) of the owner managers, were aware of government sponsorship of public enlightenment programs to create SME sector awareness using different mass media, for instance, newspapers, radio and television. However, many owner managers do not read newspapers and electricity supply difficulties in the country limits the number of people that can receive information from television or radio, particularly in rural areas.

Further, the owner managers were asked to explain the SME financing initiatives they knew about and if they were aware of available sources of finance that they were unsure of and would like to know more about. Nearly half (46%) of the owner-managers are aware of the existence of N220 Billion MSME finance fund and the full details of the requirements for applying for the finance. Almost one third (31%) were aware of the financing initiative but did not have adequate information about how to apply for the finance while the remaining 23% did not know about the financing initiative. All the owner managers of the Oil and Gas SMEs, said there is no dedicated financing scheme backed by the government to support their businesses.

Only one quarter (25%) of the SMEs had a good knowledge of the N200 Billion Refinancing Facility for manufacturers which the Bank of Industry administers on behalf of the Central Bank of Nigeria. Mostly the large companies benefitted from this scheme which was used in refinancing their non-performing credit exposures in banks post Global Financial Crisis. The existence of Bank of Industry's loan guarantee scheme is even less known. Only a minority (7%) of the respondents had information on this scheme or how to apply for loan under the scheme. The findings reveal that the full details of the CBN financing scheme is still not clear to most of the owner managers, particularly in relation to how they work and what needs to be done to ensure the application is successful. Although owner managers are aware that applications should be passed on to the CBN for approval through the applicant's commercial bank, they felt that the process was neither clear nor friendly for SMEs. One of the owner managers said: […]
"I even thought of abandoning my application for quicker informal source of finance which gave me money the same day I put in my request. Banks do not seem to understand how swiftly a business (man) needs to act to be ahead of competition"

(iii) Development of relationship banking

An association between relationship banking and access to finance exists at 5% significance level and 2 degrees of freedom as established from this research. Qualitative information from lenders further suggests that the relationship between lenders and SMEs is mutually beneficial and lenders obtain proprietary information through relationship banking. A credit manager explained that the banks rely on relationship banking to source proprietary information on the SMEs and so to bridge information gaps which exist, for instance due to information asymmetry, Berger and Udell (1998) and because SMEs may not provide reliable financial reports. In the opinion of another lender interviewed, who is a risk manager, relationship banking at most can assist an SME in negotiating pricing of the finance but cannot influence the credit decision in terms of whether to lend or not which is policy driven in banks. This risk manager further explained that in their bank, credit decision making involves 'dispassionate opinion' of an independent credit analyst who does not relate with the owner managers and equally is not resident in the branch. In fact, over three quarters (76%) of owner managers felt their relationship with banks is mainly transactional as the lenders appear to be interested in the repayment of their loans and maximizing profits but not in the survival and growth of the SME. In essence, the relationship is about the banks keeping track of their funds rather than supporting SMEs in growing their businesses.

The lenders were also asked whether the bank's relationship with G-O SMEs affect the bank's ability to provide them with growth financing. Nearly three quarters of the interviewed lenders (72%) expressed that financing decisions are policy driven and lenders are guided by the credit policy framework of their banks in making financing decisions. SMEs are all expected to meet the relevant financing criteria as stipulated in the bank's credit policy framework (particularly collateral, track record and adequate cashflows) prior to disbursement. The majority (60%) of the owner managers felt banks finance only SMEs which maintain close relationships with their lenders.

Over 90% of the owner managers expressed that lenders seem to perceive growth oriented SME businesses as high risk which leads to refusal of some credit applications regardless of the relationship existing between the owner managers and lenders. Based on the findings of this study, it is evident that all SMEs are not measured with the same yardstick in Nigeria. Banks develop lending products tailored to the needs of specific groups of SMEs and some have employed subject specialists to consider their SME lending activities. A major finding here is that SMEs are considered for funding based on the bank's perception of their needs rather than the funds requested by the SMEs. Relationship banking serves to bridge information gaps particularly on the non-financial aspects, for instance the character of the owner managers. There is a general notion of “you take what you are given”, which is not consistent with relationship banking, and that leads to dissatisfaction among Nigeria SMEs due to lack of clarity, leading to borrowers’ discouragement.

Relationship banking is said to facilitate lending decisions because the bank officials may already have most of the qualitative or non-financial information including character of the borrower (Berger and Udell, 1998). In addition, information can be obtained on the prevailing condition of the business for the assessment of financing applications. Over two thirds (68%) of lenders felt borrowers always repay loans from their friendly banks first and owner managers are more likely to confide in bank managers if they are also “friends”. Hence, good relationship between the bankers and the owner managers enhances willingness to repay loans by the customers.

In examining the main factors that determine which banks the SMEs prefer to maintain (good) relationships with, an overwhelming majority (86%) of the owner managers said the most important factor in choosing their bankers is the financial risk associated with the bank, which is more related to safety of their deposits. For example, the owner manager of a table salt refining business pointed out: “…*the prime consideration in choosing my bank is my perception of the financial risk associated with the bank. Whether the bank will be able to approve enough money to support my business and whether the bank will disburse after documentation come second. The third consideration is whether the executive management are accessible*”

To explore this, further, owner managers were consulted about the level of contact they maintain with various categories of bank officials. A large majority (83%) of owner managers said their bankers make regular calls to them. However, the consensus opinion is that the main motive driving most of the calls is information sourcing and loan monitoring, not ensuring success and growth of the SME. One owner manager stated “[…] Once the [bank’s] loan is safe they [lenders] are fine; they [lenders] don’t really care about the success of the business”.

(iv) Public policy support for SMEs financing

An overwhelming majority of the owner manager respondents, (80%) expressed that government support for SMEs financing is very imperative for the growth of SMEs. The consensus opinion among owner managers is that, in addition to providing finance, government should also implement policies to build an enabling business environment for the SMEs. These may include business mentoring, financing ecosystems, fiscal policy initiatives and strengthening the legal framework.

In turn, the large majority of the policy makers (87%) believed SMEs should be financed by the banks while the government provides an enabling environment for the businesses to succeed. This is consistent with the CBN's provision of N220 billion MSME fund for on-lending to SMEs by banks. Almost three quarters (73%) of the owner managers expressed that provision of only loans to SMEs through banks is insufficient. These owner managers advocate for more inclusive government support for instance through provisions of grants, enabling business environment, fiscal policies and strengthening the regulatory and legal policy frameworks. A key finding is that owner managers resent further approval of their applications by government officials after bank due diligence, which increases costs and waiting time for approval of applications. In many instances, such funds are received by the owner managers far too late relative to the need, resulting in abandoning applications for other less attractive financing alternatives.

The policy makers were asked about the 3 top financing needs of the G-O SMEs that government initiatives aim to address and the rationale for it. The three most mentioned financing needs included:
Plants and Machinery - more than three quarters (82%) of the policy makers mentioned this as SMEs top most financing need government policy is targeting, notably because government understand that most SMEs operate with old and obsolete machinery. Financing eco-systems was next in the scale of preference of the government as confirmed by over two thirds (72%) of the policy makers. Specific eco-system issues discussed include improvement and maintenance of enabling infrastructure (electricity, good roads, office space, portable water and information communication technology). Over three quarters (83%) of owner managers stressed the need for improved electricity network. The owner manager of a palm plantation and oil mill expressed […] "if *only the government can address the infrastructure problems we face* [referring to financing ecosystem issues] *the demand for bank loans will drop"*. More than half of the policy makers (54%) mentioned the formulation of monetary policies that reduce the cost profile of SMEs as well as promoting the institution of good corporate governance structures by SMEs as the third topmost needs of the SMEs the government initiatives aim to address.

More than two thirds (68%) of the owner managers expect the government to implement policies to provide easier access to finance by SMEs, particularly relaxing the requirements for collateral by banks. The owner manager of one of the building material producers while expressing frustrations regarding access to finance problems, said *"…. difficulty in accessing finance forces one to try to "cut corners" and taking cost saving measures which impact on quality* [about bootstrapping]"

Reflecting on the findings of this research, trust related issues are still impacting lenders' financing decisions as safety of the provided finance is paramount to the lenders. There are information gaps which tend to encourage relationship banking enabling lenders to gain proprietary information to enhance financing decisions particularly non-financial aspects. The lenders operate within a regulated system with the CBN only providing on-lending finance to banks and holding the banks responsible for credit default risk associated with SME financing. Regulatory provisions prohibit financing SMEs without adequate collateral which makes the banks focus more on the provisions of their credit policy frameworks in making financing decisions. Under the above scenario, SMEs growth may require commitment of the lenders to SME financing which requires development of enabling policy frameworks and ensuring awareness of the policies and available initiatives. In this context, public policy support for SMEs financing becomes relevant particularly as majority of owner managers seem to require financing with more relaxed collateral conditions.

6.6 Summary

The research revealed that almost two thirds (63%) of financing needs presented by SMEs were approved in part with the bank demanding the owner managers to make a counter part contribution to finance the proposals. These contributions range between 20% to 40% of the amount approved notwithstanding whether the proposals are viable. This is evidence of supply side failure. This research provides a basis for public policy decision making relating to SMEs financing in Nigeria based on successful examination and reporting of the financing gaps experienced by the sampled SMEs.

The bank's commitment to supporting SMEs at the broad level emerged in the research as a very influential factor affecting SME financing and a bank puts in place policies to drive SME lending decisions when it is committed to SMEs financing. Similarly, commitment drives a bank's endeavour to train staff on SME policy initiatives and going all-out to create public awareness of the available finance sources and similarly, develops banking relationships with owner managers to obtain relevant information for making lending decisions.

The owner managers similarly base their financial decisions regarding the lenders they approach on their awareness of the available finance sources, relationship with the lenders, perception of lender's financial stability and ability to disburse approved finance at the point of need. The factor that influences the choice of banks by owner managers the most turned out to be their perception of the bank's associated financial risk which is about safety of deposits. There appears to exist good mutually beneficial relationship between Growth Oriented SMEs in Nigeria with their bankers. However the relationship is more transactional. Most of the respondents believe the banks are interested in the repayment of their loans and maximizing profits rather than in the survival and growth of these SMEs, hence the relationship is about the banks keeping track of their funds rather than supporting SMEs in their development.

Over 90 % of the SMEs are of the opinion that the account officers are aware of their financing needs but do not understand them. The issue of a bank not understanding the financing need of the SME arise from banks not agreeing to underwrite most risk assets for SMEs due to policy considerations based on general assertion that SMEs are high-risk businesses. It is evident that SMEs are not measured with the same yardstick in Nigeria. Banks have developed product/programs tailored to the needs of specific SMEs businesses and some have employed subject specialists to consider their SME lending activities on a case-by-case basis. This generally leaves a huge amount of dissatisfaction among Nigeria SMEs due to lack of clarity. A major finding here is that SMEs are considered for funding based on banks perception of their needs rather than the funds requested by the SMEs. There is a general notion of "YOU TAKE WHAT YOU ARE GIVEN"

Banks make calls to the SMEs for both marketing relationship and transactional purposes. Majority of these calls are for transactional purposes targeted at collecting daily cash and cheque lodgements from these SMEs. The SMEs are not enjoying these multiplicity of visits as they are not motivated towards assisting or finding creative ways to grow their businesses. The owner managers rather prefer to avoid these banks and source funds from family and friends. This is why the amount of lending by SMEs has consistently been significantly lower than amounts provided for SME financing by the Central bank. There is lack of confidence on the SMEs and their ability to perform.

There is general awareness of the existence of the N220 Billion MSME finance fund among owner-managers and that they have to apply for the finance through their commercial banks even though approval is done by the CBN. What is lacking is an in-depth understanding of the procedure to follow in order to make a successful application for the fund. The average time for conclusion of the approval is about 4 months which discourages patronage of the funds by the SMEs. The Oil and Gas sector surprisingly does not have any dedicated financing scheme backed by the government to support their businesses. Most of the requests that finally got approved were based on recommendations of the CBN officials, which majority of the SMEs believe to be based on interpersonal relationships rather than financing needs or business proposals. The awareness of the availability of finance for the SMEs under the Agriculture Guarantee scheme is relatively low in the country particularly in the South West – Lagos zone where only 5% of the respondents knew about the scheme. In total, only 30% of the respondents interviewed in the Agricultural sector were aware of the loan scheme, though none of the respondents applied for the finance.

The responses reveal that the full details of the CBN financing scheme is still not clear to most of the respondents, particularly how it works and what needs to be done to ensure the application is successful. Although they are aware that applications should be passed on to the CBN for approval through the applicant's commercial bank, they still believe that the process is neither clear nor friendly. They most popular source of information was the 'insider source' at the CBN and the banks. These financing initiatives were not given very wide publicity in terms of media advertisements and campaigns. Even when there are information on the CBN and bank's website the SMEs hardly visit those websites for lack of trust on the information available. There is a general view that before the information gets to the public, the funds would have been distributed. The information was seen as a public 'show of hands'. There is also the issue of infrastructure which makes it difficult for SMEs in remote areas to access information on a timely basis. There is evidence that the general norm is that GO SMEs do not plan their future financing requirements. They believe that they will apply or go for the funds when required. No formal processes including business plans, projections, consultation of business consultants and external advisors are being used in the ordinary course of business. However, the banks continue to request these documents and information from SMEs for lending.

A major argument provided across the SMEs interviewed is that the country's economy has been experiencing instability and makes planning over a long term unrealistic as most of the time the projections may not be realized which implies a waste of management time and resources. Against this position, the banks believe that the high level of illiteracy, lack of expertise and respect for credit terms continue to pose a major limitation to SMEs providing relevant information. This is a major reason why banks decline credit requests. Having looked at the very few cash flow projections produced by SMEs, they do not have any bearing to the actual circumstances of the business and unsuitable for the banks' credit analysis.

The public policy support for SME financing affects the availability of funds to support lending to SMEs, issues relating to financing ecosystems and creation of an enabling business environment. Other areas in which government support is needed to focus based on outcomes of the owner manager interviews included: collateral, creating markets for SMEs products, capacity building to enhance financial management practices, monetary policy to reduce financing costs, financing agricultural resource inputs, and introduction of concessions to reduce production costs for SMEs. There is overall poor experience among SMEs on their applications for financing from the government. SMEs are not happy with the fact that they cannot access financing directly through government agencies. They will much rather deal directly with the CBN who they believe will understand and empathise with their needs more than commercial banks which are in business to make profits. There is a general view that lending to SMEs will be easier if administered directly by the government through grants and support schemes rather than commercial loans with high interest rates.

Almost three quarters (72%) of the owner managers believe they are disconnected from the banks when it comes to credit relationships. They are not adequately educated by the banks with regards to the differences that exist when they have to meet additional requirements when borrowing under a government–backed financing initiative. This therefore contributes significantly to the rejection of their funding application. A key finding which should be highlighted here is the fact that SMEs do not see any financing obtained from commercial banks as a help from government. There has never been any invitation extended to SMEs from the government or its agencies to apply for financing. The media including the daily newspapers, radio and television however carry information on such government financing initiatives when they are first put in place. The most popular source of information is the account officers in the banks. Although the majority of the SMEs obtained information informally from friends and relatives who may be civil servants working with the government agencies and departments. This represents an important information gap and a policy opportunity. Almost three quarter (73%) of the respondents mentioned providing finance as a role they expect the government to play to support their businesses. Most (62%) of the owner managers are of the view that if infrastructure is adequate their financing needs will be reduced. This group of owner managers argue that most of the money they spend in financing their infrastructural facility needs can be put into financing the growth of their businesses.

CHAPTER SEVEN – DISCUSSION OF RESEARCH FINDINGS

7.1 Introduction

This research addressed three main research questions. These are: (i) Does a 'debt finance gap' exist among "growth oriented SMEs" in Nigeria? (ii) If so, what is the nature of this "debt finance gap"? (iii) to what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"? To answer the research questions a bespoke methodology was adopted. Examination of SMEs financing, considered the perspectives of: (i) lenders (ii) owner managers (iii) policy makers and (iv) key informants who are independent but knowledgeable in SME financing. This helped develop an in-depth assessment of the subject of study. This is because the interviewees engaged with the research and provided rich information based on their personal experiences. This approach facilitated triangulation of the data obtained in order to ensure validity and reliability. The chapter is structured into three sections. Section 7.2 is discussion of the main findings of this research which drive the contributions of the research to theory and practice. The discussion of the main research findings is grouped into four as summarised below: (i) finance gap (ii) association of access to finance with research variables (iii) demand -side and supply -side factors that affect SMEs financing. Section 7.3 is the summary of the chapter.

7.2 Discussion of Main Research Findings

7.2.1 Finance gap

The research provides empirical evidence which supports the conclusion that growth oriented SMEs are experiencing debt financing gaps in Nigeria. The data used in the research covered the three-year period commencing from the 2012 baseline year to the end of the 2014 financial year. This gives the data greater robustness over time rather than taking a snapshot of just one year. Using the mathematical model, developed by the researcher, the debt financing gap was dimensioned in terms of demand side debt financing gap (52%) and supply side debt financing gap (48%). The total debt financing gap is estimated to be 36% of the financing needs of these SMEs. By implication, the demand side gap which is associated with demand side failures is slightly more prominent, however, both are vital to the study of SMEs financing in Nigeria.

The research found that Nigerian SMEs experience six different forms of 'demand side failures' which include: First, where owner managers fail to apply for finance because of the fear that the finance provider may disclose the firm's business secrets to competitors. In one case, the owner manager believed that the finance provider failed to approve his firm's proposal but instead diverted the business proposal to another firm. The new firm implemented the proposal after receiving finance. Second, where the owner managers fail to apply for finance because they would not want their business associates to perceive them as relying on bank loans because of financial difficulties giving rise to cashflow problems (i.e. "going to the bank to beg for money"). Third, is abandonment of credit requests due to delays in processing the applications, particularly in the case of government initiatives which the CBN is required to approve after bank due diligence. The owner managers see the need for additional approvals from the CBN as additional cost in terms of time and cost of processing the loan. Fourth, where owner managers fail to apply for finance because of discouragement arising from their belief that the bank lending criteria are difficult to meet. These owner managers do not want to waste their time and resources where they expect their applications to fail. They therefore seek to avoid losses arising from failure in obtaining the finance due to inability to meet lending criteria. Fifth, owner managers avoid lodging their business cashflows into their bank accounts, and prefer to disburse funds in cash to their suppliers to avoid bank charges. This implied that their business turnover based on the bank account statements were poor and hence would not support bank borrowing. Sixth, arises from owner managers' perception of the financing risk associated with the banks. One of the owner managers recounted how he spent time and money processing finance from a bank, received approval, met relevant conditions precedent to draw down, but never received the finance because the bank was subsequently liquidated in 2009 by the Central Bank of Nigeria. This owner manager also lost the cash sales lodged into the bank which supports the finding that firms since the 'Global Financial Crisis' (GFC) have become risk averse (Giles 2013).

These varieties of discouraged borrowers vary however from those reported in Fraser (2009; 2013) for developed countries and supports the view in Brown and Lee (2014) that complex interplay between demand side and supply side issues affect SMEs financing. Those owner managers who fear bank failure would rather not apply for finance than lose their business cashflows by banking with failing or unstable banks. They prefer to deposit their cash with the strongest banks to ensure safety of their business cashflows, notwithstanding, the fact that the strongest banks are perceived to focus mainly on financing large corporate customers. By implication these firms were avoiding banks which were perceived to be weak or unstable.

The large firms employing 25+ employees experienced the most financing gaps. Almost two thirds (64%) of the financing gaps related to working capital. This is because the sampled SMEs have all passed their start-up stage where fixed assets financing needs are most prominent. Relative to the types of finance needs the SMEs presented, Term Loan financing accounted for the highest financing gaps, representing more than three quarters (79%) of the total financing gaps experienced by the surveyed SMEs. Overdraft financing gaps account for less than one fifth (15%) of the financing gaps experienced by the SMEs. Most of the applications for finance were for term loan financing, which make up the largest financing requirements by the SMEs and consequently responsible for the large financing gaps experienced. The success rate for term loan approval was 82% against overdraft success rate of 11%. This is because the banks were more disposed to structuring term loans for the SMEs for monitoring reasons rather than overdraft. One of the owner managers confirmed he was signposted by a bank relationship officer to apply for term loans instead of overdraft facility to increase the chances of success in obtaining the required finance. Another bank manager confirmed that his bank developed product paper financing facilities structured as term loans to meet the financing needs of SMEs, such as: Local Purchase Order Financing Facility (LPOFF); Contract Financing Facility (CFF); Import Financing Facility (IFF) and Receivables Financing Facility (RFF). All these product papers are structured as short-term loan financing facilities for ease of monitoring. The financing needs which the bank meets using product papers are limited to an upper limit of N100 million and no minimum limit. The maximum delegated lending authority required to approve these product paper facilities is the Executive director and the approval process required completing a pre-designed checklist. More than three quarters (80%) of the financing needs occurred in the later growth stage (11 - 15 years) and in larger SMEs employing 25+ employees.

These SMEs are mainly led by experienced owner managers which, in-line with findings in (Owen et al., 2016) have more resources particularly collateral and capabilities to attract external financing. This evidence supports the Resource Based Value theory (Barney, 1991; Mac an Bhaird, 2010) in that the characteristics of the growth oriented SMEs and the personal characteristics of the owner managers are fundamental to the financing decisions of the finance providers. These SMEs also provided the greater percentage of all newly created jobs in the research which is consistent with Anyadike-Dane et al., (2009) and Hart and Anyadike-Dane (2014), which confirm that finance is related to SMEs growth. Regarding access to financing it was determined that the success rate of SMEs in accessing finance was 63% by value of applications. Inability of banks to fully fund the financing needs of SMEs is largely due to "supply side failures".

In exploring the supply side perspectives to finance gap, the findings of the research showed that majority of the SMEs that failed to obtain the finance they required was due to their inability to meet requirements of the lenders. SMEs are required to provide counterpart contribution to finance their proposals as part of financing criteria, ranging from 20% to 40% of the funding required. The contribution is required notwithstanding proposals' viability. This is a banking practice, required in order to secure owner managers' commitment to the success of projects financed by the banks and reduce financial leverage. This practice is rooted in the existence of market imperfection which implies that lenders are usually sceptical to lend in conditions where the SMEs are unwilling to contribute to their financing needs. This scepticism hence leads to refusal to lend and hence supply side failure.

SMEs are required to provide collateral for all bank loans and there were no government backed guarantees available to support SMEs that are unable to provide collateral. The government of Nigeria does not guarantee unsecured SME financing for Nigerian SMEs. This is a key finding of this research and represents a point of difference in policy between SMEs financing in Nigeria and the United Kingdom. Unlike the Nigerian government, the UK government supports unsecured SMEs financing with the Enterprise Finance Guarantee scheme, though capped to 75% of loan default. If the banks' risk perceptions are to be mitigated, government support in the form of guarantees is necessary (Cowling et al., 2012; UK EFG scheme review; OECD, 2015). The banks lack adequate supply of long term finance to support SMEs financing. This places restrictions on the types of finance lenders can provide to SMEs and affects the pricing and tenor which lenders offer for loans.

The CBN is also reported in this research to have placed restrictive conditions for on-lending financing provided by banks in support of SMEs. They also insist on CBN officials approving such financing requests after the banks complete their due diligence. This bureaucratic process increases the cost of procuring finance as well as 'turnaround time' which results in the abandonment of some loan applications. This research provides a basis for public policy decision making relating to SMEs financing in Nigeria. The absence of government guarantees for unsecured SMEs financing, as determined in this research, has contributed to the increasing financing gap experienced by the Nigerian growth oriented SMEs.

7.2.2 Association of access to finance with Research Variables

Access to bank finance is associated with SME growth

The research revealed the existence of an association between access to bank finance and SME growth at two degrees of freedom and 5% significance level. Establishing an association between finance and SMEs growth gives credence to the role of finance in SMEs growth. Having established the existence of an association between finance and growth in this research, it is therefore concluded that the availability and take-up of sufficient external finance can make a positive difference to the growth of SMEs. This supports the views expressed by Lerner (2010); Hughes (2009) and Hwang and Horowitt (2012), on the need for external support for SMEs growth and development.

Access to bank finance is associated with SMEs' business characteristics – Resource Based Value Theory

These characteristics of the SMEs which are measures of the resources of the firm which are revealed to be associated with access to finance in this research are as follows:

i. Sector - There is an association between the business sector of the SME and access to finance based on Chi Square testing, at 2 degrees of freedom and significance level of 5%.

ii. Location - There is an association between SME's business location and access to finance based on Chi Square testing, at 2 degrees of freedom and significance level of 5%.
iii. Trading age - There is no association between trading age of SMEs and access to finance based on Chi Square testing, at 2 degrees of freedom and significance level of 5%.

Based on this analysis it is concluded that the lenders prefer to lend to SMEs in certain sectors and locations. Again, banks focus more on lending to the real sector which include agricultural and manufacturing sectors, regarding disbursement of the CBN's on-lending N220 MSME fund in line with the conditions of the intervention. There is no government backed financing initiative available to SMEs in the oil and gas sector. In terms of location, SMEs in the rural areas have more difficulties in accessing finance. The lack of association between number of trading years and access to finance was largely explained by the fact that SMEs were selected based on their growth stage, coupled with the fact that start-up businesses were not part of the sample. The sampled SMEs are established surviving firms.

Access to bank finance is associated with Owner managers' personal characteristics - Resource Based Value Theory

The personal characteristics of the owner managers, which are measures of the resources of the firm which, are revealed to be associated with access to finance in this research are as follows:

i. Age - There is an association between SMEs' owner managers' age and access to finance at 5% level of significance and 2 degrees of freedom.
ii. Track record - There is an association between track record of the owner manager in business and access to finance at 5% level of significance and 2 degrees of freedom.
iii. Education - There is no association between the level of education of SME's owner managers and access to finance at 5% level of significance and 2 degrees of freedom.

iv. Gender - There is no association between the gender of SME's owner managers and access to finance at 5% level of significance and 2 degrees of freedom.

The existence of an association between the owner manager's age and track record to access to finance at two degrees of freedom and 5% confidence level means older owner managers with more business experience succeed more in accessing finance. This supports the resource based value theory (Barney, 1991). No association is found to exist between both gender and level of education of the owner managers and their access to finance at two degrees of freedom and 5% confidence level. The sampled SME owner managers being highly educated with most of them attaining university degrees seems to be the reason why there is no association between education of the owner managers and access to finance. High level of education attained by all the owner managers in the sample is a resource which impacts on their ability to engage with lenders (Anderson and Miller, 2003), confirming class and network social mobility as key to the success of SMEs with growth orientation.

Sociocultural reasons are responsible for most SME owner managers in Nigeria being male. Dominance of the SME sector by male owner managers resulted in the CBN advising banks to ensure they give some preference to female led SMEs in disbursement of the N220 billion MSME fund. The research findings indicate that female owner managers are less able to provide collateral for their borrowing which is partly responsible for their access to finance problems. The research showed women found it more difficult to provide collateral because property ownership rights in the country still favour men. It is the men that inherit family properties, which can be used as collateral for lending. Evidence from this research confirms that the link between personal track record and banking relationship is important in successful sourcing of finance (Fraser et al., 2013)

7.2.3 Demand-side and Supply–side factors that affect SMEs financing

i. Borrowers' Discouragement

The research found that Nigerian growth oriented SMEs experience six different forms of 'demand side failures' which include:

i. Owner managers failure in applying for finance even when they have viable projects that require financing because of the fear that the finance provider may disclose the firm's business secrets to competitors. This circumstance is underpinned by lack of trust. The case of the owner manager discussed in this thesis who did not received finance but discovered that his competitor related to the lender that assessed and declined his proposal got finance and implemented the same project is indicative of diversion of proposals by lenders.
ii. The second, where the owner managers fail to apply for finance because they would not want their business associates to perceive them as relying on bank loans because of financial difficulties giving rise to cashflow problems (i.e. "going to the bank to beg for money").
iii. The third, is abandonment of credit requests due to delays in processing the applications, particularly in the case of government initiatives which the CBN is required to approve after bank due diligence. The owner managers see the need for additional approvals from the CBN as bureaucratic and additional cost in terms of time and cost of processing the loan. This third case is indicative of regulatory failure leading to borrower discouragement.
iv. Fourth is where owner managers fail to apply for finance because of discouragement arising from their belief that the bank lending criteria are difficult to meet. These owner managers do not want to waste their time and resources where they expect their applications to fail. They therefore seek to avoid losses arising from failure in obtaining the finance due to inability to meet lending criteria.
v. Fifth, is that owner managers avoid lodging their business cashflows into their bank accounts, and prefer to disburse funds in cash to their suppliers to avoid bank charges. This case of incomplete accounting of sales proceeds implied that their business turnover based on the bank account statements were poor and hence would not support bank borrowing.
vi. Sixth, arises from owner managers' perception of the financing risk associated with the banks and disappointment arising from a bank failing to disburse funds at the point of need. By implication these firms were discouraged from borrowing due to financial instability due to prior years failure of some banks particularly during the global financial crisis.

The research provides evidence that trust issues, bureaucracy arising from need for multiple approvals, avoidance of bank charges, and perception of financial risk associated with bank failures are major issues that cause borrowers discouragement among growth oriented SMEs in Nigeria.

ii. Bank commitment is critical to SME financing

In addressing the research questions, further analysis yielded four main categories of key findings: (i) How the banks view the SME Sector and banks' commitment to SME financing (Mason and Brown, 2013; Mason and Pierrakis, 2013). (ii) SME financing policies (North, 1990) and creation of awareness among the SMEs (Amini et al., 2012; Mueller et al., 2014) aimed at making them investment ready (Mason and Kwok, 2010). (iii) Relationship banking (Berger and Udell 1995; 2004) (iv) Public policy support for SMEs financing (Mazzucato and Penna,2009) as key factors that affect development of entrepreneurial ecosystems and SMEs financing and growth in Nigeria (Hughes, 2009; Hwang and Horowitt, 2012). The banks' commitment to support SMEs at the board of directors' level emerged in this research as a very influential factor affecting SME financing.

The implication of this finding is that commitment of the banks at board level is fundamental to the formulation of any policy aimed at driving SME financing and it is evident that banks in Nigeria are committed to supporting SME financing.

iii. SME financing policies and creation of awareness

It was determined that commitment drives banks' enthusiasm in instituting internal policies to drive SME financing as well as create public awareness of the available finance sources. The owner managers base their financial decisions regarding lenders on their awareness of available finance sources, perception of lender's financial stability and ability to disburse approved finance at the point of need. The owner managers' perception of the banks' associated financial risk is a key determinant of the choice of their main bankers. The fact that a bank is financing an SME does not guarantee that the SME will route its main operational cashflows through that bank, rather the research showed that it could guarantee the SME will meet its maturing loan repayment obligations with the bank.

iv. Relationship banking

The research found that access to finance is associated with relationship banking at two degrees of freedom and 5% level of significance. There is evidence to support the conclusion that SMEs with close relationship with lenders had better chances of being successful in obtaining approvals for their loan applications. This is in agreement with (Hoshi, Kashyap and Scharfstein, 1991; Watson, 1986; Berger and Udell, 1995; 2006; Bachamann and Zaheer, 2008). However, to all the lenders, relationship banking was determined to be more important as a source of proprietary information based on which lenders make financing decisions on whether to lend or not. The lending decisions were revealed in the research to depend on the bank's internal lending policies and not relationship banking. It was also evident that relationship banking influence the ability of owner manager in negotiating pricing but does not determine whether the financing application will be approved or not.

Further evidence of the lower relevance of relationship banking in lending is that even after approval of financing application, the owner manager is expected to meet all financing criteria specified in the offer letter as conditions precedent to loan draw-down or disbursement of any funds. This situation led to the failure to disburse a considerable number of the approved loans as previously reported in this research.

A major limiting factor in SMEs financing is lack of trust (Uzzi 1997; 1999; Lyon and Baldock, 2014; Sepulveda, 2004; Amoako, 2012). This affects relationship (Berger and Udell, 1995; 2004) between lenders and owner managers and also increases information gaps and asymmetry risk (Binks and Enew, 1996; Berger and Udell, 1998; Deakins et al., 2008; Brown and Lee, 2014). This research confirmed that lack of trust is a major reason why lenders perceive SMEs financing as highly risky, which contributes to financing gaps and financing criteria set in order to mitigate lending default risk. Lenders were sceptical as financing decisions were based on unaudited financial reports which may not be reliable, hence contributes to the lenders requiring owner managers to provide counterpart contribution to transactions, higher interest rates, collateral and in some instances, personal guarantees of the owner managers (Storey, 1994; Carpenter and Peterson, 2002; BIS, 2012).

v. Public policy support for SMEs

Provision of public finance, to create liquidity for banks' on-lending to SMEs, addressing issues relating to financing ecosystems (Hughes 2009; Lerner, 2010; Hwang and Horowitt, 2012) and enactment of public policies to create an enabling business environment (Mazzucato and Penna, 2009) were determined to be key areas where public policy support is required for SME financing. This has been confirmed by an overwhelming majority of owner managers.

Other areas requiring government attention and support include:

Collateral – The legislation governing banking practice in Nigeria – BOFID and the prudential guidelines for licensed banks in Nigeria issued by the Central bank, both make it mandatory for banks to demand collateral for commercial loans. The research revealed that provision of government guarantees for SMEs financing is a major point of difference between Nigeria and some advanced countries, for instance the United Kingdom which has the Enterprise Finance Guarantee in place to assist SMEs. In the case of Nigeria, the Agricultural Guarantee Scheme provides a window for banks to discount their already well secured agricultural loans up to 75% implying that firms that are unable to provide collateral in Nigeria are never able to secure bank financing which is a major factor responsible for the endemic nature of the financing gaps in Nigeria.

Creating markets for SMEs products – There is no existing program in Nigeria that is specifically targeted at creating markets for SMEs products. Such a scheme can ensure that SMEs are making products to pre-agreed quality and specifications and the SMEs can sell their products at competitive prices.

Good security network – The security situation in the country needs major improvement. Many respondents on both the demand side and supply side expressed major concerns for security of lives and property in the country and security was evidently impacting on businesses negatively.

Capacity building – The research also uncovered the need to develop the financial ecosystem (Mason and Kwok, 2010) which involves entrepreneurial education, including business and financial management support (Baldock et al., 2015). Over three quarters of the lenders felt most of owner-managers did not have adequate capacity for the level of business they operate. Similarly, over two thirds of the policy makers stated that capacity building is a major limitation to the development of the SMEs sector. Though there was evidence of capacity building programs being conducted by SMEDAN, but these are grossly inadequate.

Fiscal policy and monetary policies - Another key area requiring government policy support is harmonization of the fiscal policies. It was evident that multiplicity of government fees and charges has been impacting on business.

Legal framework – Another area revealed by the research where government support is needed by SMEs is in strengthening the legal framework.

Development of the SME external financing escalator – The research revealed the need for conscious effort to develop the business financing networks in order to facilitate provision of relevant resource inputs based on available types of funding (Baldock and Mason, 2015). The research also revealed the need for government initiatives to facilitate formation of well-informed business networks (Lerner, 2010; Hwang and Horrowitt, 2012) to link the owner managers, financial intermediaries and finance providers as well as provide a platform for meaningful interaction with policy makers. This will help the government in providing relevant resources required by SMEs in line with their main business activities and sector.

Setting up cottage industries – Based on evidence from this research, government support for SMEs in the form of setting up cottage industries to undertake the initial processing of agricultural products is important. This will help to ensure agricultural products are better harnessed.

Providing business protection for growth oriented SMEs – Concessions for SMEs – it is also evident from this research that implementation of business protection measures in the form of concessions for SMEs is important for Nigerian SMEs to grow.

The findings of this research also lead to the conclusion that bank financing play an important role in addressing financing gaps facing growth oriented SMEs in Nigeria. It has specific impact on employment/staffing and sales turnover.

7.3 Summary

The findings reveal the relevancy of New Institutional Economics (NIE) in SMEs financing. The procedure applied by banks to consider and decide on whether to finance an SME or not and the terms and conditions to attach to their credit approvals are driven by policy. Some of these policies are in fulfilment of regulatory and statutory requirements, and are underpinned by the NIE theory. The research used credit process driven model to determine the existence of debt finance gaps among Nigerian growth oriented SMEs as well as dimension the nature of the debt finance gaps. The NIE theory also underpins the need for public policy and provision of institutional financing initiatives to support growth and development of SMEs in Nigeria. The key elements that explain the SMEs financing in Nigeria based on the outcomes of this research include: (i) SME financing landscape (Business Environment / Financial Ecosystems; Institutions; Government financing initiatives; Policy framework) (ii) Demand side perspectives (SMEs, SME's Business characteristics, SME's Owner Manager Personal Characteristics, SMEs Main business activities, Demand side theories, Demand side failures) (iii) Supply side perspectives (Finance providers, Financing terms, Supply side theories, Supply side failures) (iv) SME financing factors (Financing needs, Financing applications and Finance approvals) (v) Total Debt Financing Gap (Demand side debt financing gap, Supply side debt financing gap) (vi) Access to finance (Full finance, Part finance, No finance) (vii) SMEs growth (Employment growth, Sales turnover growth) (viii) Economic growth (GDP contribution, Employment)

The financing landscape provides the platform for SMEs to obtain external financing to support their business activities. Based on the findings of this research the financing landscape can be dimensioned into four including - Business Environment / Financial Ecosystems; Institutions; Government policy support and financing initiatives. The Business Environment / Financial Ecosystems include SMEs owner managers, Lenders, Policy makers, Key Informants, Business networks and Infrastructural facilities (ICT, Electricity, Roads, Water). The Financing Institutions include Bank of Industry (BOI), Central Bank (CBN) and Business Management Organizations (BMO) e.g. Manufacturers Association of Nigeria (MAN). The Government financing initiatives and other initiatives which support SMEs including the N220 billion MSME fund. Policy framework include: Statutory (BOFID, CAMD), Regulatory (Prudential guidelines, Bankers tariffs, Banking examination), Fiscal and Monetary Policies that affect the financing practices of lenders and the costs owner managers incur in obtaining and using external finance.

Demand side perspectives guided the examination of the growth oriented SMEs as business entities, their available resources, their business characteristics (sector, location and trading age) and owner managers' personal characteristics (age, gender, education and track record). SMEs main business activities are the key operations in which the firms engage. This is usually the activities for which they require finance. Demand side theories are theoretical underpinnings of the actions and activities of SMEs and their owner managers relative to financing of their businesses. The key demand side theories in this research which explain the financing of SMEs are firm theory, pecking order theory, resource based value, discouragement theory. The demand side failures examine the key factors that determine whether SMEs with commercially viable proposals will apply for finance or not. The decision on whether to apply for finance or not by the SMEs is underpinned by the discouraged borrowers theory.

Supply side perspectives guided the examination of the provision of external debt finance to the growth oriented SMEs. The dimensions of supply side perspectives include finance providers, financing terms, supply side theories and supply side failures. Finance providers are the commercial banks who provide finance. The CBN use these banks in executing government financing initiatives to SMEs even though the final decision on approval of the credit applications resides with the CBN. This situation is established to be creating undue delays in the process of SME financing. The Financing terms are the terms on which the finance is provided to SMEs. These include, (i) Purpose of the financing (fixed assets, working capital, and contingent liabilities) (ii) Finance Types (term loan, overdraft, finance lease, bonds and guarantees) (iii) Finance amount which is the level of financing the SMEs apply for. The supply side theories examine the theoretical underpinnings of the supply of finance to SMEs. The key theories that explain the supply of finance to SMEs based on the findings of this research include: (i) Credit Rationing – the financial providers because of scarcity of funds and the large number of applications received practice credit rationing. These finance providers have to adhere to regulatory requirements of capital adequacy and liquidity ratio in order to maintain financial stability of the financial system. (ii) Finance Escalator- determines the amount of financing made available by the lenders to the growth oriented SMEs. The banks prefer to approve smaller amounts of finance to large amounts of finance. The banks also prefer to request the SMEs to make financial contributions to reduce the financing leverage and secure commitment of the owner managers to the transaction. (iii) Relationship Banking the finance providers try to relate with the owner managers of the SMEs in order to obtain proprietary information that facilitate their financing decisions. (iv) Information Asymmetries – the lenders are always at a disadvantaged position because the owner managers have more information that the lenders relating to the transactions. The information issues lenders face led to Adverse Selection and , Moral Hazard risks. Supply side failures explain the reasons why there may be limited supply of external finance relative to demand for finance by SMEs. These supply side failures are the key factors that determine whether finance providers will provide the required finance or not, as well as the terms under which they will provide the finance. SME financing factors are the variables used in modelling SME financing. There are three dimensions to SMEs financing in this research and these include debt financing needs, debt financing applications and debt finance obtained. Financing needs are the main finance needs of SMEs which may or may not have been presented to finance providers due to various demand side failures highlighted in this research. Financing applications are the actual finance needs that are presented to finance providers after due consideration of individual/specific SMEs financing circumstances. Finance obtained are the final outcomes of finance providers' decisions based on their commitment, policies, internal processes and other considerations including relationship banking. These financing factors form the bases for the determination of debt financing gaps experienced by SMEs. The total debt financing gap experienced by SMEs is dimensioned into two; including demand side debt financing gap and supply side debt financing gap, based on the financing gap model developed in this research. The total debt financing gap is the aggregate of both the demand side debt financing gap and the supply side debt financing gap.

Access to finance is linked to the debt financing gap and is an outcome of the finance provider's decision as to whether to provide the needed finance or not. The finance provider may decide to provide the required finance in full or in part for the outcome to be classed as successful. The impact of SMEs' success in obtaining finance is seen in their ability to grow their businesses, such as increase in sales turnover and creation of new employment. SMEs growth in this research is therefore measured in terms of employment growth and growth in sales turnover. The growth of SMEs based on the finance they received enables them contribute to the economic development of their host countries.

CHAPTER EIGHT - REFLECTION, CONCLUSIONS AND IMPLICATIONS

8.1 Introduction

This final chapter provides reflection, conclusions and implications of the study in the following sections: Section 8.2 presents the researcher's reflection regarding his personal learning journey in undertaking the study. Section 8.3 provides a summary of findings and conclusions. This section discusses the main contributions of this research to theory, grouped into: (i) Finance gap theory; (ii) Role of Finance for SMEs Growth; (iii) and SMEs growth finance supply and demand factors. Section 8.4 sets out the implications for researchers, practitioners and policy makers. Section 8.5 states the key limitations of the study. Finally, Section 8.6 presents suggestions for future research.

8.2 Reflections on the study

Reflecting on the PhD study gives me joy that I have been able to complete it. When I started reading and writing on SME financing in Nigeria, little did I know this will actually end in a PhD study. I thought it will be at best a weekly newsletter within my bank. Having said that, I can conveniently say that the effort and attention I gave the subject definitely go beyond a basic level. I devoted so much time to reading and researching the dynamics of SME financing in Nigeria that my interest quickly transformed into a huge appetite to contribute to the subject area in a formal and academic way.

As a banker of 20 years within the Nigerian banking sector, I came in contact with many SMEs going into liquidation or having major financial difficulties soon after they are established or just before they are classed as well-established. From a lender's point of view, there are always funds available for these SMEs which do not get taken up, yet SMEs decry lack of funds. When asked, the SMEs claim they do not have access to resources needed for their growth, especially finance. This created an inquiry in my mind and I saw a scope for investigation. My readings and interactions with SMEs suggested major need to advance existing knowledge on SME financing, especially in Nigeria. It was also evident that Nigeria lacks adequate institutional framework for SME development. It was not clear as to why the few existing SME financing initiatives have not helped the entrenched financing problems faced by Nigerian SMEs. With these questions in mind, I decided to pursue a PhD which was an unusual progression route for an experienced banker. I was convinced PhD will provide me an opportunity to study this subject in-depth. It was also a very good excuse to experience another form of life, a student's life, after 20 years in the banking industry. The decision to proceed to the United Kingdom was not difficult as my wife and children were already settled in the UK.

My experience on the PhD programme was not always palatable, especially when I think of my experiences in field work but it was definitely rewarding and fulfilling. I got to interact with very knowledgeable professors and academics. I have learnt so much, gained confidence and I believe I have contributed to the body of knowledge as explained below. It was a worthwhile experience for me in developing and honing existing personal skills and attributes. I can comfortably say I have found a new life in academia and intend to continue researching SME financing and publish research papers.

8.3 Summary of findings and conclusions

8.3.1 Implications of Research Findings for Theory

A summary of findings and conclusions of the thesis are provided in this section. This research addressed three main research questions as follows:

1. Does a 'debt finance gap' exist among "growth oriented SMEs" in Nigeria?
2. If so, what is the nature of this "debt finance gap"?
3. To what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"?

In addressing RQ1, findings from 48 interviews conducted on owner managers of growth oriented SMEs in three sectors of the economy and two zones of the country purposively selected for the research revealed the existence of debt financing gap among the SMEs.

In addressing RQ2, findings from modelling the debt financing gaps revealed the debt financing gap is dimensioned into demand side and supply side debt financing gaps. The developed model was successfully applied in estimating the debt financing gap and it revealed the demand side debt financing gap affects SME financing more than the supply side debt financing gap. Findings from examination of the debt financing gap relative to the growth oriented SME business characteristics, owner managers' personal characteristics and the financing terms provided further information on the nature of the debt financing gap affecting the growth of the SMEs.

In addressing RQ3, findings from the examination of the debt financing gap relative to the SMEs growth factors (Employment Growth and Sales Turnover Growth) provided information that addressed the issue "to what extent is the "debt finance gap" affecting growth of these "growth oriented SMEs"? The research revealed that financing gap impacts negatively on the performance of growth oriented SMEs and is responsible for failure of the businesses of some of these growth oriented SMEs.

In conclusion, the main contributions of this research to theory are grouped into (i) Finance gap theory (ii) Role of Finance for SMEs Growth (iii) SMEs growth finance supply and demand factors.

i. Finance gap theory

This research has contributed to the advancement of the theory of SMEs financing gaps (Deakins et al., 2008) by empirically establishing the existence of debt financing gaps in Nigeria. These debt financing gaps are negatively affecting economic development (Cowling et al., 2012; Armstrong et al., 2013; Fraser et al., 2013; Brown and Lee., 2014). The mathematical model for the determination of debt financing gaps developed in this research was successfully applied in dimensioning the gaps into demand side and supply side debt financing gaps in addition to estimating the size of the financing gaps. The relevance of determining the nature of the gap and quantifying it, is critical to public policy formulation and optimal allocation of government scarce financial resources.

In explaining the debt financing gaps, this research also empirically established the existence of an association between access to finance and business characteristics (sector, location) and personal characteristics of owner managers (age, gender, track record). This is an original contribution of this research to the theory of SMEs financing in Nigeria. The implications of these to theory are in the need to put in place public policy to support SMEs financing. Similarly, existence of inequalities in access to finance arising from variations in the characteristics of SMEs and owner managers' call for proper resource allocation and to bridge the access to debt finance gap in Nigeria.

ii. Role of Finance for SMEs Growth

The research has contributed to theory by empirically establishing that access to finance is associated to SMEs growth (Owen et al., 2016) which is a confirmation of the role of finance in SMEs growth. Finance is a sine-qua-non-condition for the growth of SMEs. The growth of SMEs enables them play relevant role in the economy including creation of jobs, contributing to the GDP, innovation and being the springboard for skills development and empowerment. The implication is that finance plays a fundamental role in the development of Nigerian SMEs (Owen et al., 2016). There are also non-financial factors such as commitment and policy, which this research determined as playing supporting roles to finance in driving SMEs growth, without which the ability of these SMEs to create jobs and contribute to the economy will be impaired.

iii SMEs growth finance supply and demand factors

This research has also established that access to finance is associated with relationship banking (at two degrees of freedom and 5% level of significance). It has advanced the theory of relationship banking in Nigerian context by establishing that relationship between lenders and owner managers is more of transactional, irrespective of cordial relationship between lenders and owner managers. The maintenance of cordial relationships between lenders and owner managers reduces information asymmetries. The lenders operationalize the relationship with SMEs through regular relationship management calls to SMEs although these SMEs view the calls as loan monitoring activity (Agbakoba et al., 2009). The relationship existing between SMEs and lenders has no impact on lending criteria and conditions imposed by lenders. This is because lending conditions are determined by the internal lending policy frameworks which lenders develop in compliance with regulatory requirements (Onyeiwu, 2012). Although, relationship banking could assist in loan analysis as veritable source of proprietary non-financial information such as character and life style related information.

The theoretical implication of this finding regarding SMEs-lenders' relationships is that knowledge and communication of information serves to signal public policy support for

SME financing. This can be made more effective within the framework of relationship banking. Further theoretical implication of these findings is that larger and more established SMEs with better resources (Barney, 1991) obtain more financing when lenders can obtain, positive information regarding their businesses through relationship banking.

This research also contributes to theory by identifying six dimensions to demand side theory which constitute “a Nigerian perspective” on “borrower discouragement”. These are: i) failure of owner managers to demand for finance due to fear of losing business secrets or lenders’ diversion of submitted business plans to competitors (ii) fear of loss of prestige by owner managers due to perception of the business by peers as going to the bank to beg for money to do business (iii) abandonment of credit applications due to loss of time, cost of loan and requirement of additional regulatory approval after securing approval from lenders/banks (iv) fear of inability to meet banks’ ever changing lending criteria (v) avoidance of bank charges leading to incomplete banking / recording of business cashflows (vi) perception of financial risk associated with weak banks. These are the key factors that lead to demand side failure.

The existence of demand side failure may equally, connote inadequacies in the SMEs management resources (Barney, 1991) as well as inefficiency in the financial system and consequently, lack of faith in lenders’ willingness to support SMEs financially. In some instances, demand side failure arise from lack of trust which may be linked to possible losses SMEs could face by accepting external finance including control, profits, business secrets and lack of awareness of available finance and how to access them. This is an important and interesting contribution to theory in the Nigerian context, because it is different from the thesis for mature economy presented by Fraser (2009; 2013) for discouraged borrowers. For Fraser (2013), discouragement is centred on owner managers not believing they will get the required funding or perceiving financing terms as unsuitable. In Nigerian, it is also about lack of faith in the banking services provided by the lenders.

The research also contributes to theory of supply side failure by concluding that in the Nigerian context (i) government does not provide loan guarantees to support finance provided for SMEs (ii) owner managers are required by banks to make mandatory counterpart equity contribution to project costs in order to secure owner manager commitment and reduce leverage (iii) provision of collateral for lending is a regulatory requirement on banks as well as SMEs. There is also requirement for additional regulatory approval of on-lending government backed financing initiatives subsequent to bank approval (iv) there are two levels of due diligence conducted for government backed financing initiatives. The first is done by the banks while the second level of due diligence is done by CBN officials.

8.3.2 Implications for researchers, practitioners and policy makers

Three main implications for practice emerged from this research. The first is the need for a good understanding of the financing needs of SMEs and determination of the debt financing gaps SMEs experience. The debt financing gaps model developed in this research provides a means for dimensioning these debt financing gaps which can aid budgeting, funding allocations to SMEs sector and implementation of SME financing decisions. Based on evidence from this research, support for SMEs financing should be high on the priority of the government because the economic benefits of the SMEs are enormous. This has been recognized in the literature (Mazzucato and Penna, 2009; 2014). They explored market-shaping roles of State Investment Bank (SIB) in implementation of public finance initiatives under imperfect market conditions. Other researchers (Breedon, 2012; Cumming, 2011; Gill, 2015; Van der Schans, 2015) also support this finding.

The findings of this research also have practical implications for the development of SMEs financial ecosystems since SMEs growth is directly affected by availability of adequate financial support. Implementation of public policy support for SMEs would benefit from a holistic approach (Hughes, 2009) to develop entrepreneurial financing ecosystem while recognizing the importance of some other non-finance factors which facilitate SMEs growth and development. These measures boost investment readiness among owner managers and reduce financial bootstrapping (Ekanem, 2002; Winborg and Landstrom, 2001; Jones and Jayawarna, 2010; Deakins et al., 2008). The provision of adequate support for SMEs would also include formation of viable professional networks (Lerner, 2010) which can interact with policy makers, financial intermediaries and other stakeholders within the financial landscape, helping to avoid possible setbacks arising from management policy making inadequacies leading to agency failures. In addition, the provision of adequate financing should be complemented with programs that ensure finance gets to the appropriate SMEs who need financing and monitoring to ensure the finance provided is not diverted to unrelated activities. The program should be a total package requiring the buy-in of all the tiers of government. It should also provide creative solution to the requirements of banks' lending criteria and conditions particularly as it relates to collateral and track record requirements. In addition, the program should demand for SME accountability in terms of desirable outcomes and ensure proper co-ordination of efforts supporting SMEs financing by the government.

Furthermore, the policy makers should implement measures to support development of business management associations, mentoring networks and improve capacity building programs which will develop the knowledge and management resource base of SMEs (Baldock et al., 2015; Mac an Bhaird, 2010; North et al., 2013). The lenders need more training and experience in SMEs financing, since it relies less on the traditional analysis of financial statements. Further on the supply side, the relatively small size of the designated amount of financing which translates to insufficient provision of risk finance also impacted negatively on success. Programs that focus on trust-building between SMEs and lenders will aid the development of SMEs and ensuring they attract finance more readily. This is because lenders perceive SMEs as high risk businesses largely due to trust issues (Uzzi, 1997; 1999). On the demand side, the extensive nature of SMEs owner managers' discouragement from borrowing revealed in this research contribute to the endemic nature of financing gaps (North et al., 2013) and constitute major barrier to SMEs profitability, growth and their ability to create employment. These policy initiatives should also address issues relating to capacity building to boost SMEs management resources, knowledge base, fiscal and monetary policies and inadequacies in the legal and regulatory framework supporting SMEs financing in Nigeria. The research concludes that developing trusting relationships between SMEs and lenders in addition to regulatory review of collateral provision requirements will benefit SMEs financing. In addition, ensuring proper co-ordination of the efforts supporting SMEs financing of the various organs of government to ensure these efforts are not duplicated will also enhance SME financing.

8.4 Limitations of the Study

While this research has been successful in achieving valuable results, the researcher experienced some setbacks in the conduct of this research mainly related to timing of fieldwork and scheduling of interviews.

The fieldwork was planned for three months but the researcher was forced to extend it to six months. This meant two trips to Nigeria from the UK. The reason was that the Nigerian government elections and handover of power to incoming president happened within the time. In Nigeria, people travel around during elections, as some individuals decide to cast their votes in their towns and villages of origin. Others avoid major cities for fear of social unrest. This made it difficult to follow already planned interview and fieldwork schedule.

Other limitations faced were unstable electricity and internet connectivity. While these factors did not affect the actual volume of data collected or its quality, it certainly contributed to the extended time spent on fieldwork and total cost incurred. Due to problems with internet connection, it was difficult at times to make optimal use of technology including connecting to the university on-line resources. Despite all these limitations, the researcher was able to successfully complete fieldwork, obtaining very robust and complete data which enabled the successful and timely completion of this research.

8.5 Suggestions for Future Research

Suggestions for future research fall into two main categories: (ii) examination of the main phenomenon of the research from different contexts such as sectors and locations not covered in this research to further test the research findings (ii) suggestions relating to the wider generalization of the research findings.

Geographical coverage of the study

The research studied two zones which have contrasting features representative of the entire country which is of benefit to the research in terms of generalization of the findings. However, further research can cover any of the remaining zones.

Sectoral coverage of the study

The research has examined SMEs from three sectors: agriculture, manufacturing and oil and gas. These are the sectors classified by CBN as the real sector of the Nigerian economy which represent the sectors that produce the primary products upon which the economy of the country depends. These are also the sectors which most of the government SMEs supporting initiatives target. While, the findings of this research are generalizable, further research can be conducted in other sectors of the economy.

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Appendix 1: Letter of Introduction from Director of Studies

10th July 2015

To Whom It May Concern,

This letter is to certify that **Mr Stanislaus Maduka** is enrolled as a full-time student pursuing a PhD degree in the Business School at the University of Middlesex, London, United Kingdom. Stanislaus is conducting research on Small and Medium-sized Enterprise financing in Nigeria.

Mr Maduka is currently in good standing and is in the data collection stage of his studies. He will be travelling to Nigeria for research field work purposes between July and December 2015 and will be conducting interviews with entrepreneurs, public and private support agencies, bank managers and policy makers and government officials. Your support is greatly appreciated.

For additional information, please contact Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University, UK (see contact details below).

Yours sincerely,

Dr Leandro Sepulveda

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Appendix 2: Business Interview - Qualitative Interview Topic Guide

Centre for Enterprise and Economic Development Research Middlesex University

An examination of financing of growth oriented SMEs in Nigeria

Interview Reference Number (IRN): ……… Mode of interview: ……… Date: …………….

Introduction:

I am conducting this research to examine the financing of Growth Oriented SMEs in Nigeria. The study is being undertaken to enable the collection of data for my PhD degree thesis at Middlesex University London.

The research will use aggregate data from several interviews and result in potential policy recommendations that could help businesses like yours in improving their access to external finance.

<u>SECTION A:</u>

Summary Profile - The questions included in this section are seeking general company and owner manager information to ensure the right interviewees are selected in line with the research protocol.

<u>A1. General Information</u>

1.Company name:		2.Business Sector:	
3.Company Location:			
4. Year incorporated: 5.Year trading commenced:			
6. Main business activities of the company/ Target market:			

NOTE: Stress absolute confidentiality of the interview – that interviewee/organisation will not be identified in any report or details forwarded to any other party without permission. Also the interviewee is allowed to opt out of the interview at any time if he/she so wishes.

A2. Owner Manager

1.Gender:	2. Job title and number of years in the business Title: Years:	3. Age range of owner manager:
4. What is the highest level of formal vocational/educational qualification attained by the owner manager		

B. FINANCE NEEDS

S/n	Issues relating to the growth oriented SME's finance needs in the last 3 years
1	(a) In the last 3 years, what was the MAIN growth-related finance need you have had? By growth-related finance need I mean the need to finance: (i) human resources, (ii) production, (iii) procurement, (iv) develop sales of goods and services, (v) working capital, (vi) R&D, (vii) process improvement, (viii) opening of new office, (ix) plant & machinery, (x) building, (xi) information communication technology, (xii) infrastructure, (xiii) exports, (xiv) merger or acquisition of another company, (xv) investment in other assets, (xvi) or other form of business funding - please explain). (b) Please provide a brief explanation about why this need occurred?
2	(a) More specifically, please can you explain what you required finance for, within your business? (Prompt from above list – write up all answers and code) (b) Where multiple reasons provided: What was the main, most important, reason?
3	Did you require external funding to address this growth need? (YES/NO) – **If not, ask if they have had any external financing requirement in the last 3 years, return to Q1 & 2 and focus on this**: - Approximately when (month/year) did you recognise the need for external finance? If so, how much external funding was required? What proportion of the overall funding need related to your external funding requirement? Did you actively seek external finance? (YES/NO)
4	If NO: (a) Please explain why you did not seek external finance? (b) What types of funding were you thinking of requesting (but did not)? (*go to next section*)
	If YES:
5	(a) Which types of finance did you seek? (please mention all types applied for) (b) If applied and turned down by provider, why was this the case? (What organisation was this? What explanations were you provided for their decision?) (c) Were you offered any finance which you rejected? If so, please explain why this was the case? (*If applied and did not receive external funding go to Q11*)
6	If received external funding: Which organisation (specific bank or other financier) did you receive external funding from? How much funding was received? What was the data (month/year) when funding was received?
	More specifically, I would now like to check the following points with you, please:
7	Did you secure the full amount of funding requested? (YES/NO)
8	If not: (a) which percentage of the total funding requested was approved? (b) what reasons were provided for only providing partial funding?
9	Was the lender your main bank for your business operation?

	Ask all successful and unsuccessful applicants:
10	How many bank/lenders did you approach (before receiving some funding, giving up, or still continuing)?
11	What information did the finance provider request from you?
12	Which of the information requested was not provided?
13	What conditions were attached to approval? –
14	What collateral was demanded for the finance?
	Where at least some finance offered, and accepted:
15	What type and value of collateral was provided by you or your business?
16	Where only part of external funding received: Have you continued to search for further funding? (if yes please explain what you have done) *Go to Q23*
	Where external funding received: Impacts of funding received
17	How did the external finance obtained impact on your business? (please explain how the business has developed since funding) –
18	More specifically, overall, what do you consider to be the main impacts of the funding you have received on: numbers of jobs created - increase on sales turnover performance (i.e. estimated value of sales turnover generated by this investment)? – Proportional increase in profitability (net of tax) – Improvements to R&D (please explain in what ways – e.g. speeded up development and market entry) – Other impacts – please explain? –
19	Considering all these issues, what would have happened to your business if you didn't obtain this funding?
20	How would the finance need been addressed without the obtained external finance? (Prompt different/possible strategies to follow) –
21	Have you ever regretted having taking this finance and accepted the conditions given? Why?
22	Was there any other growth-related finance need in the last 3 years? (if yes, above questions are repeated for each finance need) No. (*go to next section*)

23	**Where some or no external finance received –please can you estimate to what extent this has constrained your business development in terms of:**	
A	Numbers of jobs that would have been created ?	
B	Increase in sales turnover performance (i.e. estimated value of sales turnover generated by proposed investment)?	
C	Proportional increase in profitability (net of tax) that would have taken place?	
D	Improvements to R&D (please explain in what ways – e.g. speeded up development and market entry) that would have taken place?	
E	Other impacts that would have taken place – please explain?	
C	**AWARENESS / BANKING RELATIONSHIP**	
1	How would you define the relationship you have with your bank manager and branch? Does your account relationship officer understand your business and your financing needs? How often do you have contact with them?	
2	Are you aware of some available sources of finance in the market for SMEs that you are unsure of and would like to know more about? (please explain what you need to know, what might help you to apply?)	
3	How do you obtain information on the available sources of finance for SMEs and how to apply for them?	
4	How do you plan for your future external financing requirements? (Probing for formal processes, use of business plan / projections, use of external advisors/accountants)?	
5	What factors lead you to choose the bank where you are going to request funding from? Is there any type of external finance your bank does not offer SMEs which could help you? If yes which of the finance types is your bank unwilling to offer SMEs and why? Is there any upper or low limit for the loans your bank offers SMEs? What are these limits?	
6	Please can you describe the application process for the loans at your bank for each of the types of finance you applied for? Are there aspects of this which you found problematic, if so please explain?	

D.	**Government Financing Policy Initiatives**
1	Which of the government SME financing initiatives do you know about if any? If person knows some:, What is your view of such initiative/s?
2	Have you applied for some of these government backed financing initiatives in the last 3 years?
3	If not, why have you not applied for government backed financing initiative?
4	If yes, what factors made you consider applying for government backed financing initiative to finance your business?
5	Can you briefly explain your experience with applying for financing from the government backed finance sources in terms of success or failure?
6	What was your overall experience with this government funding? In terms of: (a) ease of application process, (b) terms and conditions offered?
7	Have you ever been invited by the government to bid or apply for new financing initiatives? How do you get to know about new government backed financing initiatives?
8	Do you expect to receive any form of government assistance within the next 12 months? If yes what form of assistance do you expect receive? How would you value this assistance to your business in terms of: (a) the nature of the assistance provided and (b) potential impact on your business development?
9	If you received government assistance in the form of a loan / guarantee or grant did it improve your credibility of receiving external finance later? If so, in what ways did it support your application for external finance? How could you have proceeded without the government assistance at that time?
10	How adequate was the government support you received relative to your business financing needs?
11	What should be the role of government in supporting SMEs in your area of activity? In terms of what the government should be doing and what they should not be involved with? Probe on their assessment of what would be best to assist them?
12	Are there ways you think the government can better support your business to have more access to external financing in terms of implementation of existing or new financing initiatives? i.e. (i) different forms of finance (ii) costs of finance (iii) scale of finance available (iv) export assistance (v) innovation assistance (vi) loan guarantee (vii) duty concessions (viii) support advice /training for your applications (ix) financial management training (x) better information about assistance available (xi) Others (please specify)

E. FIRM GROWTH AND FINANCE IN THE NEAR FUTURE					
S/n	Variable	Last 3 completed financial years	Last completed financial year	Next completed financial year (Projected subject to external financing)	Next 3 completed financial years (Projected subject to external financing)
1	Total employment – Full time				
2	Total employment – Part time (<30 hours per week)				
3	Annual sales turnover N'million				
4	Fixed Assets N'million				
5	Current Assets N'million				
6	Net profit N'million				
7	Retained earnings (re-invested surplus) N'million				
8	What levels of growth do you plan to achieve next year in terms of number of staff employed, sales turnover and assets?				
9	What will be the most important growth finance need of the firm for next year? –				
10	How do you plan to meet the financing need?				
11	How much will be required to meet the finance need? –				
12	What will the firm do if you fail in obtaining finance to meet the need?				
13	What impact will the finance make to the firm's business growth plan? –				
14	What factors will determine whether you will seek external finance or not? –				

MANY THANKS FOR YOUR TIME

Appendix 3: Lender Interview - Qualitative Interview Topic Guide

Centre for Enterprise and Economic Development Research Middlesex University

An examination of financing of growth oriented SMEs in Nigeria

Interview Reference Number (IRN): ………. Mode of interview: ………. Phone Date: ………

Introduction:

I am conducting a research to examine financing of Growth Oriented SMEs in Nigeria. The study aims to examine the financing needs associated with Growth Oriented SMEs and the role of public policy in supporting Growth Oriented SMEs. This research is being done to enable me collect data for my PhD degree thesis at Middlesex University London.

SECTION A:

Summary Profile - The questions included in this sector are seeking information on the lender to ensure the right interviewees are selected in line with the research protocol.

Name of interviewee:		Name / Type of Finance Provider	
Gender	Male / Female	Finance Provider's Location	
Position in Bank	Owner manager / Others	Length of time spent as a lender	

NOTE: Stress absolute confidentiality of the interview – that interviewee/finance provider will not be identified in any report or details forwarded to any other party without permission. Also, the interviewee can opt out of the interview at any time if he/she so wishes.

Questions

a. **THE BANK AND THE SME SECTOR**

1. What place the SME sector have in the overall strategy of your bank? Prompt compare to that of micro and large firms?) Has this changed more recently or not?
2. How committed would you say your bank is to SME financing? What is your evidence? What else?
3. I am particularly interested in growth-oriented SMEs (G-O SMEs). Is there any specific bank policy about this particular segment of SMEs? What are the main elements of this policy and how this translate into actions by the bank? (By Growth-Oriented SMEs I mean the SMEs that plan to grow their businesses, this category of SMEs also have the ability and resources to grow their businesses)
4. Roughly, what proportion of the bank lending to businesses goes to SMEs? Has this changed at all in the last 3 years? If so why?
5. Specifically, what proportion of these loans to the SME sector went to G-O SMEs?

b. **GROWTH-ORIENTED FINANCE INITIATIVES**

6. Is there any specific debt finance product for G-O SMEs? (bank debt finance products, government backed financing initiatives, product qualifying criteria etc.) If yes, how do SME owner-managers often learn about these products?
7. Does the bank apply the same criteria to assess G-O SMEs for both commercial bank loans and government backed SME financing initiatives? If so, why?
8. Does government routing of G-O SMEs financing through your bank pose additional difficulties for SMEs financing? If yes, in what ways?
9. Briefly explain your bank's application process for loans to G-O SMEs, particularly the requirements? Is there any exception to this application process?
10. Can you explain how your bank assess loan applications from G-O SMEs? Does credit rationing apply? If yes, over what limits? – what scoring processes and tests are used? Are decisions made at the branch level or at a central level – is there a cut-off point or reason why this is centralised?

11. Do you consider owner manager characteristics (or management team resources), location of SME, type of SME, business sector, length of existence of the SMEs in approving applications for finance by SMEs?
12. **12.** What do you consider to be the most significant factors which affect your bank's ability to provide financing to G-O SMEs?

c. <u>FINANCING NEEDS / ACCESS TO FINANCE BY G-O SMEs</u>

1. What are the top five most frequent financing needs G-O SMEs presented to your bank in the last 3 years in order of occurrence?
2. How the type of need presented by SMEs affect the bank decision? Why?
3. Are there particular financing needs presented by G-O SMEs your bank would not approve under any circumstance? If yes, what are the financing needs of G-O SMEs your bank may not consider? Why is this the case?
4. Were some G-O SMEs refused financing by your bank in the past 3 years?
5. If so what are the 5 top most frequent reasons why the bank rejected these applications from G-O SMEs in order of occurrence?
6. What proportion of the applications presented by G-O SMEs received approval from the bank in the last 3 years? What proportion were from first time applicants and what proportion of the first time applications were approved?
7. Have you been disbursing all funds provided under government backed G-O SMEs financing initiatives in the past 3 years? If not why?

d**. <u>GROWTH ORIENTED SMEs RELATIONSHIP WITH LENDERS</u>**

1. Does the bank's relationship with G-O SMEs affect its ability to provide them with financing?
2. If so does this have to do with their ability to provide you with adequate level of information required? Or possession of proprietary information?
3. Do some G-O SMEs enjoy different pricing and charges in order to encourage them to apply? Does banking relationship affect pricing of loans in your bank? If yes, how?
4. Are there G-O SMEs that have presented economically viable proposal to your bank but could not access bank finance because they lack track record and collateral?
5. If the answer to question d.4 is yes, were the affected G-O SMEs offered any government backed financing instead? If not, why was this the case?

Please do you have any policy document, studies or relevant evidence you can provide which will assist me with the research (e.g. bank reports, government scheme reports etc).

Appendix 4: POLICY MAKERS - Qualitative Interview - Topic Guide

Centre for Enterprise and Economic Development Research Middlesex University

An examination of financing of growth oriented SMEs in Nigeria

Interview Reference Number (IRN) : …… Mode of interview:……… Date: …………………

Introduction: I am conducting a research to examine financing of Growth Oriented SMEs in Nigeria. The aim of the research is to examine the financing needs of Growth Oriented SMEs and the role of public policy in supporting these SMEs. The study is being done to enable me collect data for my PhD degree thesis at Middlesex University London.

<u>SECTION A:</u> Summary Profile - The questions included in this sector are seeking general information on the policy maker and the government body he/she represents in order to ensure the right interviewees are selected in line with the research protocol.

Name of interviewee:		Sector	
Gender		Locations Covered	
Government Ministry, department and agency represented		Job function	

NOTE: Stress absolute confidentiality of the interview – that interviewee/organisation will not be identified in any report or details forwarded to any other party without permission. Also the interviewee is allowed to opt out of the interview at any time if he/she so wishes.

c. RATIONALE FOR PUBLIC POLICY SUPPORT FOR G-O SMEs FINANCING

13. What place would you say the SME sector has in the government's economic and growth strategy? What is your evidence? And how does this translate into concrete policy actions targeted at SMEs?
14. Does government make a distinction between different types of SMEs for example concerning their different growth orientation and intention? Yes/No? Why? How important is this? How does this distinction translate into policy action?
15. What are the 3 top most financing needs of the G-O SMEs the government policy initiatives aims at addressing? Why do G-O SMEs experience lack of access to external finance? What is the rationale for government support for G-O SMEs?
16. To what extent would you say the government is committed to supporting growth-oriented SMEs? What is your evidence?
17. Does the government consult with G-O SMEs on the formulation of financing policies that affect them? How do you make G-O SMEs aware of new and existing financing initiatives?
18. I am aware that government financing initiatives for SMEs are generally routed through commercial banks to the SMEs. Can you explain what was the rationale for this intervention strategy?
19. Is there any specific factor/s that affect public sector support for G-O SMEs?
20. What other financing sources have been legalised in Nigeria to help G-O SMEs financing? Is there any reason alternative financing (e.g. micro lenders / equity, crowd lending, business angles etc?) is still not being supported by government policies as viable financing options for G-O SMEs?
21. Do you think G-O SMEs will always grow simply by having the required financing? What other measures do G-O SMEs need in order to do well in their businesses? (probe on mentoring and business management training services and support…)

d. <u>GROWTH-ORIENTED SMEs FINANCE INITIATIVES</u>

1. Can you provide examples of government initiatives to support the access to finance of G-O SMEs? Can you expand on these initiatives and particularly their impact on the growth of the sector?

2. How do you assess such initiatives? Were they successful? Why? If not why? In what ways were they more successful and in what ways did they fail?

3. How does the government drive the disbursement of the public sector backed financing initiatives that support G-O SMEs?

4. How do you monitor G-O SMEs financing by banks to know whether the banks are actually patronizing the government financing initiatives for G-O SMEs?

5. What measures are being used in controlling G-O SMEs financing initiatives to ensure uniformity among the participating banks?

6. Are there ways efforts of the various arms of government in supporting G-O SMEs are coordinated to optimize outcomes and avoid duplications?

7. Can you say a bit more about safeguards government policies have provided Nigerian G-O SMEs in order to ensure that they obtain the financing they require at all times?

8. Are there other initiatives relating to business funding which government policy have used to support G-O SMEs such as tax reliefs, advice and guidance, exemptions and reduced borrowing fees and charges, lending guarantee schemes?

Please do you have any policy document, studies or relevant evidence you can provide which will assist me with the research (e.g. bank reports, government scheme reports etc).

Appendix 5: KEY INFORMANTS INTERVIEW - Qualitative Interview Topic Guide

Centre for Enterprise and Economic Development Research Middlesex University

An examination of debt financing of growth oriented SMEs in Nigeria

Interview Reference Number (IRN): K06 Mode of interview: FTF Date: 14-Aug-2015

Introduction:
I am conducting this research to examine the financing of Growth Oriented SMEs in Nigeria. The aim of the research is examination of financing needs of Growth Oriented SMEs and the role of public policy in supporting these SMEs. The study is being undertaken to enable the collection of data for my PhD degree thesis at Middlesex University London.

SECTION A: **Summary Profile** - These questions seek general information from the key informant and the firm represented in order to ensure the right interviewees are selected in line with the research protocol.

Name of interviewee:		Name of firm	
Gender		Location / Sector	
Position in the firm		Line of business (detail fully)	
Details of SMEs sector relevant experience		No of years of SMEs sector relevant experience	

NOTE: Stress absolute confidentiality of the interview – that interviewee/organisation will not be identified in any report or details forwarded to any other party without permission. Also the interviewee is allowed to opt out of the interview at any time if he/she so wishes.

a. RATIONALE FOR GROWTH ORIENTED SMEs FINANCING

1. What are the 3 top most financing needs of G-O SMEs public policy should focus on addressing in order of importance to improve access to finance by G-O SMEs in Nigeria?
2. Which categories of G-O SMEs are affected most by limited access to finance? (i.e. size, sector, location, stage etc.) What types of finance do the G-O SMEs lack most?
3. What are the 3 most important factors that affect the demand for finance by G-O SMEs in order of importance?
4. Do you think there may be some SMEs with viable proposals that require financing but are not demanding for external finance in Nigeria? If so what are the various reasons that may be responsible for this demand side failure?
5. Do you think government policies should support SMEs to access external finance? If you do, how can you justify government support for SMEs in Nigeria?

b. RELATIONSHIP BANKING AND G-O SMEs

6. How do you assess the relationship between G-O SMEs and the banks in Nigeria? Do you think the banks have adequate understanding of the businesses of their G-O SMEs customers?
7. What are the 3 most important factors that affect the supply of finance to G-O SMEs by the banks in order of importance? Do you think there may be some SMEs with viable proposals that apply for finance but are not receiving adequate supply of external finance in Nigeria? If so what are the various reasons that may be responsible for this supply side failure?
8. How does the loan approval processes of the banks affect the ability of SMEs to access external financing in Nigeria?
9. How does the requirements for collateral and other loan conditions like performance track record of G-O SMEs by banks affect access to external finance by these firms in Nigeria?
10. Are you aware of any government backed financing initiative to support access to finance by G-O SMEs and how to apply for it in Nigeria?
11. What are the rationale for any such government backed financing initiative for G-O SMEs?

12. Is there any program in place to ensure adequate information is provided to the public on the availability of financing initiatives for G-O SMEs by government? If yes, How would you assess the effectiveness of any such information program?

c. GROWTH ORIENTED SMEs FINANCING INITIATIVES

13. Should the government continue to administer SME financing initiatives through banks? There is a feeling that the funds provided by government are not usually disbursed fully to SMEs. What is your opinion on this? Who should provide the funds?
14. Do you think G-O SMEs will always grow and do well in business simply by having the required financing?
15. What other measures do G-O SMEs need in order to grow and do well in their businesses?
16. To what extent do you think G-O SMEs require mentoring and business management training services and support in their businesses?
17. Are there any lessons on G-O SMEs financing you think Nigerian government should learn from?
18. Do you have any suggestions apart from financing, on how G-O SMEs businesses may be best supported in Nigeria?
19. What impact do you think introducing a more suitable range of financing for G-O SMEs – including developing equity markets and creating awareness about government backed G-O SMEs financing initiatives would make in supporting G-O SMEs?

Please do you have any policy document, studies or relevant evidence you can provide which will assist me with the research (e.g. bank reports, government scheme reports etc).

<u>Appendix 6: SUMMARY OF THEORETICAL UNDERPININGS TO THE RESEARCH/ PROPOSITIONS / KEY RESEARCH QUESTIONS</u> i) DEMAND SIDE THEORIES

	THEORY	*PROPOSITION*	*KEY RESEARCH QUESTION*	*INDICATORS / VARIABLES*
	i.) THEORY OF THE FIRM	SME access to finance and SME growth are strongly correlated	What is the role of finance in the development of Growth Oriented SMEs (GOS)?	<u>Indicators</u> i. Number of rejections / Number of Loan proposals i. Growth / Size / Sales turnover / ii. Ownership iii. Business Sector iv. Geographical Location v. Growth stage
	ii) PECKING ORDER THEORY	SME financing preferences affect their development.	What is the role of finance in the development of Growth Oriented SMEs (GOS)?	<u>Indicators</u> i. Total amount of finance ii. Amount of long term finance iii. Amount of short term finance iv. Internal finance v. Amount of investments vi. Size Growth / Sales turnover
	iii) RESOURCE BASED VALUE	SMEs use available finance to acquire both tangible and in tangible assets (resources) used in developing their dynamic capabilities to identify and exploit profitable business opportunities and develop sustainable competitive advantage.	What is the role of finance in the development of Growth Oriented SMEs (GOS)?	<u>Indicators</u> Strategic resources of the SMEs – Intangibles assets Cognitive – Education and Experience of the owner manager and management team Motivational – Attitude of the ownership and management Dynamic capabilities – Ability to identify and exploit business opportunity Tangible assets – External finance Profitability Sales turnover Sustainable Competitive advantage

SUPPLY SIDE THEORIES			
THEORY	*PROPOSITION*	*KEY RESEARCH QUESTION*	*INDICATORS / VARIABLES*
iv) FINANCE GAP	There is a gap between the demand and supply of finance to Nigerian SMEs.	Does a ''finance gap'' exist in Nigeria? If so, what is the nature of this gap and to what extent is it affecting Growth Oriented SMEs (GOS)?	<u>Indicators</u> Amount of finance required Amount of finance applied for Amount of finance received Amount of finance approved Amount of finance disbursed Type of finance required Type of finance applied for Type of finance received
v) FINANCE ESCALATOR	SME access to finance is affected by certain factors.	What are the supply- and demand-side factors that explain the positive and negative effects of SME financing on the development of SMEs in Nigeria?	<u>Indicators</u> i. Ownership ii. Sector iii. Geographical location iv. Development stage.
vi) RELATIONSHIP LENDING	There is currently increasing reliance on relationship lending among finance providers in making financing decisions.	What is the nature of the relationship existing between the Growth Oriented SMEs (GOS) and finance providers and how does this relationship affect SME financing?	<u>Indicators</u> i. Number of years of banking relationship ii. Number of banking relationships maintained iii. Length of time it takes to receive finance iv. Number of service complaints v. Number of Loan repayment defaults vi. Amount of Non-Performing Loans (NPL) vii. Average number of contacts with the bank per month by the borrower viii. Average number of visits to the borrower by bank officials per month

	vii) INFORMATION GAP	SMEs are not requesting for financing despite the availability of various formal and informal sources of finance because of lack of awareness due to the existence of information gap.	To what extent do Nigerian Growth Oriented SMEs (GOS) explore the various funding opportunities available to them? Is there a demand-side failure?	<u>Indicators</u> i. Availability of finance – Formal & Informal ii. Awareness of the available sources of finance iii. Number of applications for each of the available source of finance iv. Number of approval received for each of the available source of finance
	viii) INFORMATION ASYMMETRY THEORY	Lending decisions by finance providers are prone to adverse selection and moral hazard risks due to information asymmetry which gives rise to credit rationing.	To what extent do the actions or inactions of various providers of finance affect the development of Nigerian Growth Oriented SMEs (GOS)? Is there a supply side failure?	<u>Indicators</u> i. Number of credit applications received ii. Number of credit applications received with incomplete information iii. Number of credits approved with incomplete information iv. Number of credit defaults
	ix) NEW INSTITUTIONAL ECONOMICS	There is need to focus government efforts on SME financing to support development of the SMEs sector.	To what extent does government policies support SME access to finance? and how could it be improved to better support SME development?	<u>Indicators</u> i. Availability of formal & Informal institutions ii. Existing policy initiatives iii. New policy initiatives iv. Awareness of the existence of the policies v. Implementation of policy initiatives vi. Monitoring of policy vii. Funding of policy viii. Coverage of policy

Appendix 7 – Association of Access to Finance with Employment

ASSOCIATION OF EMPLOYMENT WITH ACCESS TO FINANCE					
		ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS			
SIZE	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
MEDIUM	30	9	54	24	87
SMALL	81	36	118	33	187
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
9	14.288	-5.288	27.966	1.957	
36	30.712	5.288	27.966	0.911	
54	54.613	-0.613	0.376	0.307	
118	117.387	0.613	0.376	0.303	
24	18.099	5.901	34.827	1.924	
33	38.901	-5.901	34.827	0.895	
			CHI SQUARE	6.298	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2	LEVEL OF SIGNIFICANCE - α = 0.05	CHI- SQUARE = 5.991			
ASSOCIATION					

Appendix 8 - Association of Access to Finance with SMEs Business Characteristics

ASSOCIATION OF SME BUSINESS LOCATION WITH ACCESS TO FINANCE					
		ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS			
LOCATION	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
SOUTH WEST ZONE	65	16	111	39	166
NORTH CENTRAL / FCT ZONE	46	29	61	18	108
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
16	27.263	-11.263	126.850	4.653	
29	17.737	11.263	126.850	7.152	
111	104.204	6.796	46.180	0.443	
61	67.796	-6.796	46.180	0.681	
39	34.533	4.467	19.955	0.578	
18	22.467	-4.467	19.955	0.888	
			CHI SQUARE	14.395	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE TABLE = 5.991					
ASSOCIATION					

ASSOCIATION OF SME BUSINESS SECTOR WITH ACCESS TO FINANCE					
		ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS			
SECTOR	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
AGRICULTURE	31	12	42	14	68
MANUFACTURING	33	18	49	24	91
OIL AND GAS	47	15	81	19	115
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
12	11.168	0.832	0.692	0.062	
18	14.945	3.055	9.331	0.624	
15	18.887	-3.887	15.108	0.800	
42	42.686	-0.686	0.471	0.0110	
49	42.686	6.314	39.865	0.9339	
81	72.190	8.810	77.620	1.0752	

14	14.146	-0.146	0.021	0.0015	
24	18.931	5.069	25.698	1.3575	
19	23.923	-4.923	24.239	1.0132	
			CHI- SQUARE	6.879	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	2	2	4		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE TABLE - 5.991					
ASSOCIATION					
ASSOCIATION OF SME TRACK RECORD IN BUSINESS WITH ACCESS TO FINANCE					
		ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS			
LENGTH OF TIME IN BUSINESS ACTIVITY - YEARS	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
MATURE	71	31	113	41	185
GROWING	40	14	59	16	89
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
31	30.383	0.617	0.380	0.013	
14	14.617	-0.617	0.380	0.026	
113	116.131	-3.131	9.806	0.084	
59	55.869	3.131	9.806	0.176	
41	38.485	2.515	6.323	0.164	
16	18.515	-2.515	6.323	0.342	
			CHI SQUARE	0.804	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE - TABLE = 5.991					
NO ASSOCIATION					

Appendix 9 - Association of Access to Finance with Owner Managers' Personal Characteristics

ASSOCIATION OF SME OWNER MANAGERS' AGE WITH ACCESS TO FINANCE					
ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS					
OWNER MANAGERS' AGE – YEARS	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
NOT MORE THAN 47	78	28	119	29	176
MORE THAN 47	33	17	53	28	98
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
28	28.905	-0.905	0.819	0.028	
17	16.095	0.905	0.819	0.051	
119	110.482	8.518	72.561	0.657	
53	61.518	-8.518	72.561	1.179	
29	36.613	-7.613	57.960	1.583	
28	20.387	7.613	57.960	2.843	
			CHI SQUARE	6.342	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE - 5.991					
AGE OF THE OWNER MANAGER IS ASSOCIATED WITH ACCESS TO FINANCE					

ASSOCIATION OF SME OWNER MANAGERS' TRACK RECORD WITH ACCESS TO FINANCE					
		ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS			
LENGTH OF TIME IN BUSINESS ACTIVITY – YEARS	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
NOT MORE THAN 13	80	29	125	30	184
MORE THAN 13	31	16	47	27	90
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
29	30.219	-1.219	1.486	0.049	
16	14.781	1.219	1.486	0.101	
125	115.504	9.496	90.181	0.781	
47	56.496	-9.496	90.181	1.596	
30	38.277	-8.277	68.515	1.790	
27	18.723	8.277	68.515	3.659	
			CHI SQUARE	7.976	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE = 5.991					

THERE IS ASSOCIATION BETWEEN TRACK RECORD AND ACCESS IN FINANCE					
ASSOCIATION OF SME OWNER MANAGERS' LEVEL OF EDUCATION WITH ACCESS TO FINANCE					
	ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS				
LEVEL OF EDUCATION	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
NON-DEGREE HOLDER	8	2	12	4	18
DEGREE HOLDER	103	43	160	53	256
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
2	2.956	-0.956	0.914	0.309	
43	42.044	0.956	0.914	0.022	
12	11.299	0.701	0.491	0.043	
160	160.701	-0.701	0.491	0.003	
4	3.745	0.255	0.065	0.017	
53	53.255	-0.255	0.065	0.001	
			CHI- SQUARE	0.396	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGINFICANCE - α = 0.05					
CHI- SQUARE – TABLE		5.991			
NO ASSOCIATION					
ASSOCIATION OF SME OWNER MANAGERS' GENDER WITH ACCESS TO FINANCE					
	ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS				
OWNER MANAGERS' GENDER	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
MALE	81	32	128	47	207
FEMALE	30	13	44	10	67
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
32	33.996	-1.996	3.985	0.117	
13	11.004	1.996	3.985	0.362	
128	129.942	-1.942	3.770	0.029	
44	47.708	-3.708	13.749	0.288	
47	43.062	3.938	15.507	0.360	
10	13.938	-3.938	15.507	1.113	
			CHI SQUARE	2.269	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE		5.991			
NO ASSOCIATION					

Appendix 10 – Association of Access to Finance with Relationship Banking

ASSOCIATION OF SME OWNER MANAGER - ACCOUNT OFFICER RELATIONSHIP WITH ACCESS TO FINANCE					
	ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS				
ACCOUNT RELATIONSHIP OFFICER	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
WEEKLY	89	35	150	15	200
MONTHLY	22	10	22	42	74
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
35	32.847	2.153	4.637	0.141	
10	12.153	-2.153	4.637	0.382	
150	125.547	24.453	597.927	4.763	
22	46.453	-24.453	597.927	12.872	
15	41.606	-26.606	707.871	17.0137	
42	15.394	26.606	707.871	45.9831	
			CHI SQUARE	81.154	
	R-1	C-1	DEGREE OF FREEDOM		
DEGREES OF FREEDOM - df	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE – TABLE	5.991				
ASSOCIATION					

ASSOCIATION OF SME OWNER MANAGER - BANKING OPERATIONS RELATIONSHIP WITH ACCESS TO FINANCE					
	ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS				
ACCOUNT RELATIONSHIP OFFICER	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
WEEKLY	78	35	129	25	189
MONTHLY	33	10	43	32	85
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
35	31.040	3.960	15.680	0.505	
10	13.960	-3.960	15.680	1.123	

129	118.642	10.358	107.281	0.904	
43	53.358	-10.358	107.281	2.011	
25	39.318	-14.318	204.991	5.214	
32	17.682	14.318	204.991	11.593	
			CHI SQUARE	21.350	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE – TABLE	5.991				
ASSOCIATION					
ASSOCIATION OF SME OWNER MANAGER - EXECUTIVE MANAGEMENT RELATIONSHIP WITH ACCESS TO FINANCE					
	ACCESS TO FINANCE - FREQUENCY OF APPLICATIONS				
EXECUTIVE MANAGEMENT	APPLICATION	APPROVED IN FULL	APPROVED IN PART	NOT APPROVED	TOTAL
WEEKLY	100	36	163	47	246
MONTHLY	11	9	9	10	28
TOTAL	111	45	172	57	274
Oi	Ei	(Oi - Ei)	(Oi - Ei)*(Oi - Ei)	((Oi - Ei)*(Oi - Ei))/Ei	
36	40.401	-4.401	19.373	0.480	
9	4.599	4.401	19.373	4.213	
163	154.423	8.577	73.559	0.476	
9	17.577	-8.577	73.559	4.185	
47	51.175	-4.175	17.432	0.341	
10	5.825	4.175	17.432	2.993	
			CHI SQUARE	12.687	
DEGREES OF FREEDOM - df	R-1	C-1	DEGREE OF FREEDOM		
	1	2	2		
DEGREES OF FREEDOM - df = 2					
LEVEL OF SIGNIFICANCE - α = 0.05					
CHI- SQUARE – TABLE	5.991				
ASSOCIATION					

Appendix 11 - Profile Information of the Growth Oriented SMEs - Cross Tabulation of SMEs Characteristics – Sector, Location and Trading Age

Cross Tabulation of SMEs Sector and Location						
Sectors	**NC / FCT zone**	**%**	**South West zone**	**%**	**Total**	**%**
Agriculture	9	19	4	8	13	27
Manufacturing	3	6	13	27	16	33
Oil and Gas	7	15	12	25	19	40
Total	19	40	29	60	48	100

Cross Tabulation of SMEs Sector and Trading Age								
Sectors	**Early Growth**	**%**	**Later Growth**	**%**	**Mature**	**%**	**Total**	**%**
Agriculture	5	10	5	10	3	7	13	27
Manufacturing	4	8	8	17	4	8	16	33
Oil and Gas	8	17	9	19	2	4	19	40
Total	17	35	22	46	9	19	48	100

Cross Tabulation of SMEs Location and Trading Age								
Sectors	**Early Growth**	**%**	**Later Growth**	**%**	**Mature**	**%**	**Total**	**%**
North Central / FCT zone	11	23	6	13	2	4	19	40
South West zone	6	13	16	33	7	14	29	60
Total	17	36	22	46	9	19	48	100

Appendix 12 - Profile Information of the Growth Oriented SMEs - Cross Tabulation of Owner Managers Personal Characteristics - Gender, Education, Age and Track Record

Cross Tabulation of Owner Managers Sector and Gender

Sector	Male	%	Female	%	Total	%
Agriculture	6	13%	7	15%	13	27%
Manufacturing	14	29%	2	4%	16	33%
Oil and Gas	15	31%	4	8%	19	40%
Total	35	73%	13	27%	48	100%

Cross Tabulation of Owner Managers Sector and Age

Sector	Young	%	Middle age	%	Elder	%	Total	%
Agriculture	1	2%	9	19%	3	6%	13	27%
Manufacturing	7	15%	8	17%	1	2%	16	33%
Oil and Gas	0	0%	8	17%	11	23%	19	40%
Total	8	17%	25	52%	15	31%	48	100%

Cross Tabulation of Owner Managers Sector and Track Record

Sector	Less Experienced	%	Experienced	%	More Experienced	%	Total	%
Agriculture	5	10%	6	13%	2	4%	13	27%
Manufacturing	7	15%	4	8%	5	10%	16	33%
Oil and Gas	7	15%	11	23%	1	2%	19	40%
Total	19	40%	21	44%	8	17%	48	100%

Cross Tabulation of Owner Managers Sector and Education

Sector	Higher than bachelor degree	%	Not more than bachelor degree	%	Total	%
Agriculture	4	8%	9	19%	13	27%
Manufacturing	9	19%	7	14.5%	16	33.5%
Oil and Gas	12	25%	7	14.5%	19	39.5%
Total	25	52%	23	48%	48	100%

Appendix 13 - Profile Information of the Lenders, Policy Makers and Key Informants

Business Characteristics	
(i) Location	- North central / FCT zone (14); South west zone – (31)
(ii) Position	– Executive management (18); Senior management (12); Middle management (15)
Personal Characteristics	
(i) Age	– Young - 21 to 40 years (7); Middle aged – 41 to 50 years (24); Elder – 51+ years (14)
(ii) Track record	– Experienced – 1 to 9 years (6); More experienced – 10 to 19 years (18); Most experienced – 20+ years (21)
(iii) Gender	– Female (16); Male (29)
(iv) Education	– Post graduates (Masters & PhD) (31); Graduates and below (14)

Appendix 14 - Profiling the Business Characteristics of Lenders, Policy Makers and Key Informants

Location of the Lenders, Policy Makers and Key Informants

Row Labels	**NC / FCT**	**%**	**South West**	**%**	**Total**	**%**
Banks - Lender (Tier 1)	4	9%	16	36%	20	44%
Policy maker – Lender (Tier 2)	5	11%	10	22%	15	33%
Key Informant	5	11%	5	11%	10	22%
Total	14	31%	31	69%	45	100%

Position of the Lenders, Policy Makers and Key Informants

Row Labels	**Executive Management**	**%**	**Middle Management**	**%**	**Senior Management**	**%**	**Total**	**%**
Banks - Lender (Tier 1)	4	9%	9	20%	7	16%	20	44%
Policy makers – Lender (Tier 2)	10	22%	4	9%	1	2%	15	33%
Key Informant	4	9%	2	4%	4	9%	10	22%
Grand Total	18	40%	15	33%	12	27%	45	100%

Appendix 15 - Profiling the Personal Characteristics of Lenders, Policy Makers and Key Informants

Age of the Lenders, Policy Makers and Key Informants

Row Labels	Elder	%	Middle age	%	Young	%	Total	%
Banks - Lender (Tier 1)	4	9%	12	27%	4	9%	20	44%
Policy makers – Lender (Tier 2)	4	9%	8	18%	3	7%	15	33%
Key Informant	6	13%	4	9%			10	22%
Grand Total	14	31%	24	53%	7	16%	45	100%

Track Record of the Lenders, Policy Makers and Key Informants

Row Labels	Experienced	%	More experienced	%	Most experienced	%	Total	%
Banks - Lender (Tier 1)	3	7%	10	22%	7	16%	20	44%
Policy makers- Lender (Tier 2)	3	7%	3	7%	9	20%	15	33%
Key Informant	-	-	5	11%	5	11%	10	22%
	6	13%	18	40%	21	47%	45	100%

Gender of the Lenders, Policy Makers and Key Informants

Row Labels	Female	%	Male	%	Total	%
Banks - Lender (Tier 1)	10	22%	10	22%	20	44%
Policy makers- Lender (Tier 2)	3	7%	12	27%	15	33%
Key Informant	3	7%	7	16%	10	22%
Total	16	36%	29	64%	45	100%

Level of Education of the Lenders, Policy Makers and Key Informants

Row Labels	Post graduates (Masters & PhD)	%	Graduates and below	%	Total	%
Banks - Lender (Tier 1)	14	31%	6	13%	20	44%
Policy makers – Lender (Tier 2)	12	27%	3	7%	15	33%
Key Informant	5	11%	5	11%	10	22%
Total	31	69%	14	31%	45	100%

Appendix 16: Main Financing Needs of Growth Oriented SMEs

<table>
<tr><th>S/N</th><th>Financing factors</th><th>Company Code</th><th>Location</th><th>Sector</th><th>Business Code</th><th>Main Line of Business</th><th>Company name</th><th>Types of finance</th><th>Main growth-related finance need / Why finance was required</th></tr>
<tr><td>1</td><td colspan="9">Financing factors - Financial bootstrapping and extensive use of internally generated finance
B01/SW/Manufacturing/Cosmetics & Chemical Products/Refining and packaging of Table Salt/Jumbee / Term loan for Import finance
Import finance – for purchase of raw materials</td></tr>
<tr><td>2</td><td colspan="9">Financing factors - Financial bootstrapping and extensive use of internally generated finance
B02/SW/Manufacturing/Food & Drinks/Bread Baking Business/Deebees / Term Loan
We bought a new building for the second production facility of the company at No. 99 Awolowo Way, Ikeja Lagos. Our existing location became small for the volume of business we do. The use of the premises starting causing inconveniences to our neighbours as we did not have space to park our vehicles properly. We also did not have adequate storage and could therefore not make bulk purchases of raw material to take advantage of lower prices and logistics was getting tough due to very frequent purchases of small quantities of raw materials. The cost of transportation was also rising.</td></tr>
<tr><td>3</td><td colspan="9">Financing factors - Financial bootstrapping and extensive use of internally generated finance
B03/SW/Manufacturing/Food & Drinks/Manufacturing of Chocolates/IMIT / Term loan
We need to finance electric power generation, upgrade our plant machinery, procure raw material and packaging materials. There is mismatch in our cashflows. The buyers want to collect good on credit and often do not keep to payment obligations. The suppliers are big players an insist on cash prior to supply of raw materials.</td></tr>
<tr><td>4</td><td colspan="9">Financing factors - Refusal of finance due to inadequate cashflows and incomplete information.
B04/SW/Manufacturing/Food & Drinks/Brewing of Tropical Wine/Pel / Overdraft facility to finance working capital requirements
The company needs money to procure raw materials in bulk and provide electric power to run the factory.</td></tr>
<tr><td>5</td><td colspan="9">Financing factors - Refusal of finance due to inadequate cashflows and incomplete information.
B05/ SW/Manufacturing/Food & Drinks /Brewing of Wine/Roses / Working capital – Overdraft
We need to more modern plant equipment and increase our production and increase our market share. The company needs money to procure raw materials in bulk and provide electric power to run the factory as well.</td></tr>
<tr><td>6</td><td colspan="9">Financing factors - Use of contingent liabilities to reduce cost of financing
B06 /NC / FCT/Manufacturing/Food & Drinks/Bread Baking Business/Morning Glory / Bid Bond
To facilitate the company's bid for a contract worth N200 million annually for the supply of bread to various prisons in the country for which 10% Bid Bond was required.</td></tr>
</table>

7	Financing factors - Use of contingent liabilities to reduce cost of financing B07/SW/Manufacturing/Building & Electrical /Manufacture of Roofing Sheets / Dagasteel / Term loan / Overdraft and Contingent Liabilities To finance the acquisition of New Plant and Machinery - N20 million - Term loan. The company is growing its market share following wide spread acceptance of the company's products over competition. There is need to acquire an additional production line to serve as a back up to the existing line.
8	Financing factors - Use of contingent liabilities to reduce cost of financing B08 / NC / FCT / Manufacturing / Building & Electrical/ Manufacturing of electrical equipment / Foltechs / Term loan and Contingent Liabilities Exports Financing Facilities to finance the production of electric poles to be sold in neighbouring countries – Chad and Niger Republic
9	Financing factors - Financial bootstrapping and extensive use of internally generated finance B09/ SW/Manufacturing/Food & Drinks/ Manufacture of non-alcoholic drinks and bottled water./ Tasty Time / Working Capital Financing Facility To finance company's working capital requirements, particularly salary payments, diesel and other operational overheads
10	Financing factors - Project failure due to lack of finance. B10/ SW / Manufacturing/Cosmetics & Chemical Products /Manufacturing cosmetics and toiletry./ Tradenet / Term loan facility To part finance the importation of Chemicals and other raw materials. Loan refusal due to information asymmetry risk, a case of adverse selection leading to abandoned project and trading to generate internally generated finance.
11	Financing factors - Loan refusal due to adverse selection risk B11/SW/Manufacturing/Cosmetics & Chemical Products/Manufacturing of Pharmaceutical products/Mecure / Term loan To finance the acquisition of the a power generating set to provide regular electricity supply to the factory
12	Financing factors - Using finance lease to reduce costs B12/SW/Manufacturing/Cosmetics & Chemical Products/Manufacturing of soaps and toiletries products/Pavan / Finance lease
13	Financing factors - Financial bootstrapping and extensive use of internally generated finance B13/SW/Manufacturing/Cosmetics & Chemical Products/Manufacturing of cosmetics products – Body and Hair creams/Scotts / Term loan Term loan to finance purchases of raw materials for manufacturing of cosmetics products – Body and Hair creams.
14	Financing factors - Relationship banking and lack of financial planning by SMEs leading to temporary cashflow problems B14/SW/Manufacturing/Cosmetics & Chemical Products/Manufacturing of Toilet Rolls and Paper products/Konrald / Term loan To finance the acquisition of delivery trucks for the company. Delivery trucks – 4 No. 10 Tons Trucks
15	Financing factors - Financial bootstrapping and extensive use of internally generated finance B15/NC / FCT/Manufacturing/Food & Drinks/Manufacturing of fruit drinks and table water/Dansa / Overdraft facility The company needs to finance raw materials for processing of the products as well as overheads. Raw materials and packaging products, diesel and other overheads expenses

16	Financing factors - Financial bootstrapping and discounting of company's receivables and use of supplier credit. B16/SW/Oil & Gas/Oil Vessel Operator/Oil Vessel Operator/Slok / Term loan To part finance the acquisition of MV IBOM Single Point Mooring (SPM) Multipurpose vessel from Horizon Shipbuilding, Alabama, USA. The company needed to take advantage of the opportunities in the upstream sector of the oil and gas industry in Nigeria. There were no available indigenous vessels to undertake oil spillage cleaning up operations in Nigeria hence the company wanted to engage in the businesses by acquiring brand new SPM vessel from Horizon Shipbuilding, Alabama, USA.
17	Financing factors - Financial bootstrapping and failure of owner manager to collect salaries. B17/NC / FCT/Oil & Gas/Filing Station Operator /Liquefied Natural Gas (Cooking Gas) refilling plant/Vinee Gas/ Term loan To finance the acquisition of an integrated gas refilling plant for the company
18	Financing factors - Information asymmetry risk, overstatement of financing needs, collateral inadequacy and impact of economic factors on SMEs borrowing B18/SW/Agriculture/Poultry Farming Business/Poultry Farming Business/Adebitie / Term loan To finance the acquisition of poultry equipment to house the birds
19	Financing factors - Boot strapping, minimizing financing costs and maximizing cashflows B19/NC / FCT/Agriculture/Fish Farming Business /Fish Farming Business/Janel / Term loan To financing importation of fish meal used in feeding the company's fish and selling to other fish farmers in the open market
20	Financing factors - Boot strapping, minimizing financing costs and maximizing cashflows B20 / SW / Manufacturing / Food & Drinks / Food processing/ Ayoola / Term loan To finance the construction of access road to the company's factory
21	Financing factors - Boot strapping, Discouraged borrower and Incomplete financial records B21/ NC / FCT/Agriculture/Fish Farming Business /Fish Farming Business/Delight / Not applicable To finance the company's working capital requirements including staff salary payments, Overhead maintenance costs and diesel. I required about N20 million in all. But more critically, I required working capital and a stand by Generating set to back up one we bought to start the business and both were N2 million and N4 million respectively. The remaining N16 million was to refinance some of the cost of setting up the business
22	Financing factors - Boot strapping and decline of request due to bank risk acceptance criteria B22/NC / FCT/Agriculture/Poultry Farming Business/Poultry Farming Business/Adaobi / Term loan To refinance the acquisition of poultry equipment for the farm.
23	Financing factors - Relationship banking B23/NC / FCT/Agriculture/Livestock Farming /Livestock Farming Business/Oguike / Finance lease To finance the takeover of a farm. The owner of the business was retiring and offered to sell the business as none of the children was interested in the farming business
24	Financing factors - Financial bootstrapping B24/NC / FCT/Agriculture/Livestock Farming /Livestock Farming Business/Liberty / Term loan Finance Lease for 3 years to lease a generating set for the farm.

25	Financing factors - Using finance lease to reduce costs and provision of collateral B25/NC / FCT/Agriculture/Crop Production Business/Crop Production Business/Eda Musa / Finance lease To part finance the acquisition of power generating set to serve as back up to an aging generator and guarantee regular power supply to the farm
26	Financing factors - Using finance lease to reduce costs and provision of collateral B26/NC / FCT/Agriculture/Crop Production Business/Crop Production Business/Niger / Finance Lease To part finance the acquisition of a power generating set for the farm
27	Financing factors - Financial bootstrapping B27/SW/Agriculture/Poultry Farming Business/Poultry Farming Business/Atlantic / Overdraft Facility To finance the working capital requirements of the farm particularly salaries, diesel and payment for other overhead expenses in the farm.
28	Financing factors - Financial bootstrapping B28/NC / FCT/Agriculture/Crop Production Business/Livestock Farming Business & Crop Farming/Mercury / Term Loan To part finance the construction of grains storage silos for the company to enable the farm preserve its products and also take advantage of lost cost of grain during the harvesting season.
29	Financing factors - Using finance lease to reduce costs and provision of collateral B29/SW/Agriculture/Poultry Farming Business/Poultry Farming Business/Olive Glory / Finance Lease To part finance the acquisition of a power generating set for the farm
30	Financing factors - Boot strapping and Raising of finance from friends, and family members, bank risk acceptance criteria and creativity in providing collateral B30/SW/Agriculture/Fish Farming Business/Fish Farming Business/Green Angel / Term Loan To finance the acquisition of poultry equipment for the farm
31	Financing factors - Relationship Banking B31/NC / FCT/Agriculture/Crop Production Business/Agriculture and Horticulture/A & H / Term loan To finance upgrading of the company's oil palm mill.
32	Financing factors - Use of contingent liabilities to reduce cost of financing B32/NC / FCT/Oil & Gas/Petroleum Products Trading/Oil & Gas Trading and Logistics Services/Yemi Oil / Term loan and Contingent Liabilities To finance the acquisition of petroleum products dispensing pumps for the company's filling stations.
33	Financing factors - Financial bootstrapping and Using finance lease to reduce costs and provision of collateral B33/NC / FCT/Oil & Gas/Oil Rig Supply Services /Petroleum Products Marketing and Oil Rig Supplies/Kolo / Finance Lease Finance Lease – To finance the acquisition of electric power generators for the company's Petroleum Products Filling Stations

34	Financing factors - Financial bootstrapping B34/SW/Oil & Gas/Petroleum Products Trading/Petroleum Products Delivery and Trading/HM Resources / Term loan To finance the acquisition of Petroleum Products Delivery Tankers (5 No. 33,000 Litres) for supply of diesel to customers. We signed a major contract with MTN Telecommunications to supply diesel to their sites. We needed the working capital support very critically after signing the contract.
35	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B35/NC / FCT/Oil & Gas/Oil Rig Supply Services /Petroleum Products Trading and Oil Rig Supply Services/BOC / Term loan To finance the payment for large bulk of petroleum products from major importers for trading in the open market.
36	Financing factors - Financial bootstrapping B36/NC / FCT/Oil & Gas/Petroleum Products Trading/Petroleum Products Trading, Oil Rig Supply Services and Logistics/ Follugee / Term loan / Finance Lease To finance the acquisition of Tugboats for Oil Rig Suppliers
37	Financing factors - Use of contingent liabilities to reduce cost of financing B37/SW/Oil & Gas/Oil Rig Supply Services /Petroleum Products Trading, Oil Rig Supply Services and Logistics/Arasus / Overdraft, Bank Guarantee and Term loan facilities To finance the acquisition of Petroleum Products Delivery Tankers (15 No. 33,000 Litres) for supply of Petroleum Products to customers. The finance was needed at different times to (i) Position for the haulage contract of Petroleum products for major oil companies. The working capital was required to enable the company continue trading on petroleum products in the open market i.e. transactions that are not backed by confirmed local purchase orders from reputable oil companies. The generator was required to enable the company have uninterrupted power supply.
38	Financing factors - Financial bootstrapping B38/SW/Oil & Gas/Oil Rig Supply Services /Petroleum Products Trading, Oil Rig Supply Services and Logistics/Armour / Term Loan and Finance Lease To finance the acquisition of Petroleum Products Delivery Tankers (10 No. 33,000 Litres) for supply of diesel to customers
39	Financing factors - Financial bootstrapping B39/SW/Oil & Gas/Oil Rig Supply Services /Petroleum Products Trading, Oil Rig Supply Services and Logistics/Zone / Term loan for import finance To finance the importation of refined petroleum products
40	Financing factors - Financial bootstrapping B40 /SW/Oil & Gas/Oil Rig Supply Services /Petroleum Products Trading, Oil Rig Supply Services and Logistics/Deerfield / Term loan facility To finance the importation of refined petroleum products

41	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B41/SW/Oil & Gas/Tank Farm Operator/Petroleum Products Tank Farm Operator/Shorelink / Term loan facility To finance the construction of Petroleum Products Storage tank farm for the storage of the company's products and leasing to other companies. The company in 2011 decided to strategically reposition its business by acquiring a tank farm and filling stations and tankers in other to operate in these segments of the oil and gas business. In doing that the company can receive large quantities of petroleum products from ocean going vessels in the tank farm and use its own tankers to deliver the products to its various filling stations and then sell to the public. The working capital was required to drive the retail business of the company as it is used to finance the purchasing of petroleum products from the tank farm and then sold to motorists at the filling stations. The bank guarantee was required to enable the company take delivery of petroleum products on the basis of trade credits. The debits the overdraft facility to make payment for the purchased petroleum, diesel and kerosene if the company is unable to generate adequate cashflows to pay for the products collected on credit at the end of the credit period.
42	Financing factors - Financial bootstrapping B42/SW/Oil & Gas/Oil Vessel Operator/Oil Vessel Operator/Jevcon / Term loan facility To finance the acquisition of Oil Vessel for the marine transportation of petroleum products within the countries waters
43	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B43/SW/Oil & Gas/Tank Farm Operator/Petroleum Products Tank Farm Operator/Aquitane / Term loan Facility and Contingent Liabilities To finance the acquisition of Petroleum Products Tank Farm. The company got an offer to buy a tank farm from a bank in respect of a transaction that went bad an d decided to take the opportunity. The company has LPOs for supply of petroleum products to MTN, Airtel and some other corporate customers which required the use of the working capital support facility. The company was able to source the products using supplier credit facilities backed by a reputable bank's payment guarantee.
44	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B44/NC / FCT/Oil & Gas/Filing Station Operator /Petroleum Products Filing Station Operator/Powerhouse / Term loan facility and Contingent Liabilities Term loan facility to finance the procurement of supply of petroleum products to major telecommunication companies and other corporate organizations. The company started doing LPO financing in 2012 which Diamond bank has developed a product program for the dealers to facilitate access to finance. We took the opportunity to secure LPOs from MTN and Airtel in the first instance and the bank did it for us. We only showed evidence of having successful done 3 jobs previously and provided equity contribution of 30% and it was okay for the bank to lend us money. Diamond bank has carved a niche for itself in Oil & Gas LPO financing and many companies are now going to them like we did. We are currently reinvesting all our profits to grow the business. We did not got to increase our loan since 2012. We signed major contracts with Airtel and MTN Telecommunications to supply diesel to their sites.
45	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B45/SW/Oil & Gas/Petroleum Products Trading/Oil and Gas Trading/Civic / Term loan Term loan facility to finance the procurement of supply of petroleum products to major telecommunication companies and other corporate organizations. The company obtained some LPOs from reputable companies in 2012 and needed to use external finance execute the orders. We used our retained earnings in 2013. No dividend was paid. In 2014 the company also reinvested all our prior years profits in the business and did not go for additional loans to save costs and enable us operate more profitably. The company obtained some LPOs from reputable companies in 2012 and needed to use external finance execute the orders. We used our retained earnings in 2013. No dividend was paid. In 2014 the company also reinvested all our prior years profits in the business and did not go for additional loans to save costs and enable us operate more profitably

46	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B46 / NC / FCT/Oil & Gas/Petroleum Products Trading/Oil and Gas Trading/Shonga / Term Loan Facility Term loan facility to finance the procurement of supply of petroleum products to major telecommunication companies and other corporate organizations. The company's business volume increased in 2012 and the company needed to use external finance to argument its working capital to enable it meet supply orders from major telecommunication companies to their locations. In 2013 the company reinvested in total its prior year profit and did not see a need in increasing its facility with the bank. In 2014 the company got more customers and new LPOs which required increasing its bank facility from N40 million to N60 million coupled with increase in costs of operations.
47	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B47/SW/Oil & Gas/Filing Station Operator /Petroleum Products Trading/Eternal / Term Loan Facility The company needed to expand its business by acquiring filling stations in order to retail petroleum products to final consumers. The company also has contracts to supply refined petroleum products to major oil and telecommunication company's installations throughout the country. The company needed to acquire filling stations in order to be able to acquire the license for importation of refined petroleum products for the Nigerian National Petroleum Corporation. The company also needed the working capital support to enable it sign the contract for these suppliers as the off takers needed to see evidence of bank's support.
48	Financing factors - Financial bootstrapping and Use of contingent liabilities to reduce cost of financing B48/SW/ Oil & Gas/Petroleum Products Trading/Petroleum Products Trading/Olak / Term Loan Facility The company needed to expand its business by importing petroleum products and acquiring filling stations in order to retail petroleum products to final consumers. The company also has contracts to supply refined petroleum products to major oil and telecommunication company's installations throughout the country.