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Challenges Faced by SMEs When Accessing Loans from Financial Institutions in Nigeria

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Small and Medium Enterprises (SMEs) are very important to the development of a country's economy and have been known to play a very vital role in the reduction of unemployment in countries all over the world without the inclusion of Nigeria. Despite the importance of small and medium enterprises, over the years, they have had the continuous problem of lack of finance to grow the business which mostly leads to the death of the business due to small and medium enterprises (SMEs) difficulty accessing loans from financial institutions. The objective of this thesis was to find out the challenges that faced small and medium enterprises (SMEs) when accessing loans from banks. The population of the research included the SMEs in Lagos State. Non-probability sampling technique was used to select 50 SMEs in Lagos State to fill the questionnaire, the research instrument which was uploaded on Google Forms. The results of the research show that small and medium enterprises have their loans applications rejected by banks, the banks give very short loan maturity period and even though most of the SMEs have their business plan, they are still denied access to loans by the banks. SMEs are recommended to take care of their business accounting and try other sources of financing such as venture capitalist, angel investors and crowdfunding. The research also includes recommendations to Banks and the Government.

Keywords	Commercial bank, SME, Nigeria

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1 Introduction

This research will have five (5) chapters, including the introduction, theoretical framework, research methodology, empirical study and conclusion. This introduction includes the background of the thesis topic, thesis problems and objectives, the limitations involved in writing the thesis and the importance of the topic.

1.1 Background

The important task of economic development, leading to reduction of unemployment, reduction of poverty, increase in standard of living and decrease in the cost of living, falls on Small and Medium Enterprises (Gumel, 2017: 796), Small and Medium-sized Enterprises (SMEs) are important to the development of any country's economy (Gbandi & Amissha, 2014: 327). However, these enterprises are constantly in search of access to funding as it is noted that insufficient access to funding is one of the major inhibitors of SMEs across Nigeria (Gumel, 2017: 802). Microfinance and commercial banks serve as some of the main providers of loans and external finance to SMEs and will therefore be the main focus of this thesis.

Emuwa's (2015: 1) literature review reveals that the weakness of the financial institutions and information failure together constitute most of the reasons for credit shortages, according to economics literature. The economic argument of Information failure between SMEs and the financial institutions, as the reason for credit shortages was a major point of research in North America and Europe during the 1970s and 80s.

Furthermore, the argument of financial institution weakness emerged more recently, with the development of emerging market economy being the primary driver. Majority of the research carried out on the credit market failure has been aimed towards the reforming of the financial institutions and optimizing the lending structures to reduce the constraints SMEs have with accessing loans from banks. The rapid development of SMEs in the past 20 years in advanced countries has drawn attention to the question of how this can be replicated in emerging countries.

Without a doubt, the communication failure between financial institutions and SMEs together with the financial institution weakness constitute the major challenge for SMEs to access loans from financial institutions. During the course of the research, the literature review from journals also suggest the inclusion of other factors that are not explained by the theories explained above. We begin the empirical review with the theoretical study objective of understanding SMEs' financing in Nigeria. This study argues that the peculiarity of the Nigerian business environment has an effect on the financing of SMEs and therefore needs attention.

1.2 Importance of the Research

Small and Medium Enterprises (SMEs) have impacted the Nigerian economy in so many ways over the last decade and this cannot be overlooked. SMEs are major players in several areas of the economy, and this has led to positive outcomes such as reduction in poverty, increase in tax revenue, infrastructure improvement, and increase in the Gross Domestic Product (GDP) of the country.

This thesis will highlight the challenges SMEs face in obtaining loan from financial institutions with the focus on SMEs' major lender, the banks. The thesis will suggest possible solutions that will help SMEs grow, which in turn will grow the Nigerian economy.

1.3 Research Problem

The problem of insufficient commercial bank loans for SMEs is also prominent in Nigeria, just like the rest of the world. This problem affects the growth and development of SMEs, which in a larger scale leads to unemployment, low standard of living, high cost of living and a poor economy.

The Central Bank of Nigeria (CBN) notes that globally, commercial banks shy away from financing SMEs because of perceived risks and uncertainties. In Nigeria, the competitive credit for SMEs has been worsened due to the fragile economic environment and lack of necessary infrastructures (CBN, 2020).

It is an open secret that most financial institutions set a low priority to doing business with SMEs and individuals because of their high-risks tendencies. They are considered high-risk clients due to the lack of security funds that can stand as collateral to the financial institutions.

There has been much intervention from government and non-governmental organizations through a lot of policies and programs to ease the financial burden on SMEs in Nigeria, but the problem still persists due to the inability of SMEs to access loans from the financial institutions directly.

It has become essential to dig deep to find out the main challenges that SMEs encounter while seeking loans from the various financial institutions and the factors that leads to these challenges.

1.4 Research Objectives

The aim of this research is to understand better the obstacles to SME lending in Nigeria and to investigate practical ways in which they can be addressed. This research study will have one main objective, which is to conduct a survey of commercial bank staff in Nigeria with the aim of understanding the obstacles to SME lending in Nigeria and how the problem can be solved.

1.5 Research Questions

The research questions that this thesis will answer in addition to the research objectives includes the following:

- To what extent do Small and Medium Enterprises seek loans from financial institutions?
- What are the loan facilities provided for Small and Medium Enterprises by financial institutions?
- What are the processes and procedures involved in accessing loans by Small and Medium Enterprises from financial institutions?
- What are the challenges associated with Small and Medium Enterprises' access to loans?

- What are the effects of loans on the growth of Small and Medium Enterprises in Nigeria?

1.6 Limitation of the Research

The research topic has been worked on by several researchers, which makes information readily available. However, the researcher will have to deal with the following limitations:

- Data collection will be limited to a particular area and not the whole country due to financial constraints and time limitation. Hence, the data representation will not be a representation of issues across the whole country.

- Some of the respondents might be unwilling to give in-depth information and there may be a lack of sincerity due to confidentiality and fear.

1.7 Structure of the Study

This research will be structured in five chapters. The first chapter will provide background information about the thesis, the significance of the study, the statement of problem, the research objective and the limitation of the research.

The second chapter will provide the literature review for the research. Small and Medium-sized Enterprise will be defined, and existing literatures and journals will also be reviewed.

The third chapter will explain the research methodology for the research in concise details. This will include the various sources of data for the research, method for data collection and how the research will be tested for validity and reliability.

The fourth chapter will include the empirical study, analysis of the data collected and presentation of the collected data.

The fifth and final chapter will summarise the various findings from the data collected and recommendations will be made on how the challenges faced by SMEs in accessing loans can be solved.

2 Literature Review

The literature review will address previous literatures on small and medium scale enterprises (SMEs) in Nigeria. This will serve as a good review of which 'prudent and objective' conclusions can be drawn. This chapter will include both conceptual review and empirical review. The conceptual review subheadings include the definition of small and medium enterprise in Nigeria, characteristics of small and medium enterprise, challenges of small and medium enterprise in accessing loans, and challenges of financial institutions in granting small and medium enterprises loans.

2.1 Conceptual Review

2.1.1 Definition of Small and Medium Enterprise in Nigeria

In Nigeria, the number of employees and a company's turnover per year are the most common indicators used to determine if a company is a big or small business.
That said, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), according to Fisher's (2012) interview with the Daily Independent, uses different criteria of fixed assets and company's staff size to define what constitutes a small-scale business to that of medium and large-scale business. Fisher (2012), in his interview, defined micro enterprise as one that has a staff strength between one and nine people and has an asset base of less than 5 million Naira excluding the cost of land; small enterprises are organizations of about 10 to 49 staff and have assets of 5 million to 50 million Naira; while medium enterprises have a staff strength between 50 to 199 and assets of 50 million to less than 500 million Naira.

2.1.2 Other Definitions of Small and Medium Enterprise

Over the years SME has been defined by different institutions and academics. The first institution to give a definition that was generally accepted was the UK Bolton Committee in 1971 (Avevor, 2016: 13). The committee came up with two different variations of definition from different points of view, which are the “economic” and “statistical” variations of the definition.

Avevor (2016: 13) further explained that the Bolton Committee’s “economic” definition variation set a criterion for a firm to be classified as SME:

1. It must have a very small portion of the market
2. The management of the company is by owners without a formal management structure
3. It is independent and is not part of any larger organization

The “statistical” definition defined SME using different criteria:

1. The firm sector is measured by how it contributes to the overall GDP via employment, exports, etc.
2. Comparing the change over time in the level by which the SME has contributed to the economy
3. The contribution to the economy in a cross-country comparison is applied to give a statistical definition

The United States and the United Kingdom have based their concept of SMEs on the number of workers and the return on investment (Gbandi & Amissah, 2014: 329). The diversity of nations has resulted in various meanings for small businesses worldwide. Small enterprises are also specified on the basis of employee numbers, the amount of capital invested and the management structure (Lucky & Olusegun, 2012: 488). SMEs are classified into three categories: micro, small and medium-sized enterprises (Lucky & Olusegun, 2012: 488).

The small and medium scale enterprises development agency of Nigeria (SMEDAN) was established by the Government of Nigeria to support citizens in creating small businesses, which in turn leads to growth in the economy (SMEDAN, 2013: 4).

According to SMEDAN, the small business consists of companies that have launched with 5 million Naira (US$ 10,000 per parallel market exchange rate) and not more than 50 million Naira (US$ 100,000) employing between 10 and 49 people (Ogunyomi & Bruning, 2015: 615).

SMEDAN defined medium scale enterprises in Nigeria as firms with employees from 50 to 199, and capital ranging from 50 to 100 million Naira (US$100,000 to US$1,000,000) (Ogunyomi & Bruning, 2015: 615).

Nigeria's regulatory body of monetary policies, the Central Bank of Nigeria (CBN) described small businesses with capital ranging from 1.0 million Naira to 10.0 million Naira (US$2,000 to US$20,000) and employing fewer than 50 employees (Juliana, 2013: 26).

The National Industrial Development Bank highlighted that a small business is an enterprise that does not exceed the overall cost of 750,000 Naira (USD 1,500), whereas the National Economic Reconstruction Fund describes SMEs as firms with an investment equal to or less than 10 million Naira (Juliana, 2013: 26).

Other institutions that have tried to define small enterprises in Nigeria include the Small and Medium Industries Equity Investment Scheme (SMIEIS) which defines SMEs as those with overall cost of between 1,5 million Naira and 200 million Naira and a workforce of between 10 and 300 (Lucky & Olusegun, 2012: 488).

The enterprise's promotion decree of 1989 categorized SMEs as businesses that provide the owner with jobs in retail and mechanic enterprises (Dugguh, 2015: 52). Nigeria's industrial policy considers enterprises with a total capital of between 100,000 and 2.0 million Naira to be small enterprises, and Nigeria's Center for Management Development considers enterprises with a total capital except land not exceeding 50,000 Naira and employing up to 50 individuals as small enterprises (Dugguh, 2015: 52).

I adopted the definition of small businesses by SMEDAN because it focuses on two fundamental aspects of this study: capital and employees. SMEDAN (2013) states small businesses are firms with capital of between 5 million Naira and 50 million Naira employing 1 - 49 persons.

2.1.3 Characteristics of SME in Nigeria

One of the defining structures of small and medium enterprises in Nigeria is the ownership structure of the firm (Adisa, Abdulraheem and Mordi, 2014: 4). This definition portrays that SMEs are mostly formed around one particular person or a family, which has given rise to the SME as either a solely owned company or a partnership.

Lawal, Kio, Suliaman and Adebayo (2000: 76) describe the characteristics of SMEs as listed below:

Capital is from personal savings of owner of the business

SMEs' start-up capital is mostly from the personal savings of the owner or from a small group of people (Francis, 2009: 24). Francis (2009: 24) further explained that the start-up capital, which is mostly in terms of equity holding, is raised by the owner of the business or with other owners of the business.

The capital requirement for start-up is low

SMEs require little capital, which makes the capital within the reach of the business owner (Francis, 2009: 24). Fisher (2012) puts the capital needed for the setup of small and medium businesses at less than 5 million Naira in Nigeria, with the exception of land for the financing of the business. The financing of the business is almost always within the reach of the owner of the business and mostly done by the owner of the business.

Technology is simple

The units of SMEs are concentrated on simple or low technology. These businesses are however labour intensive and are unable to maximize the efficiency or yield high productivity because of the simplicity of the technology in use (Francis; 2009: 24)

The owners have no managerial skills

Many SMEs do not reach their full potential and they fail to grow because of the quality of strategic planning and the management of the company's resources, due to the weakness of the business in innovation, marketing, knowledge of management and management of human resources (Lekhanya, 2016: 109). Hoffman, Parejo, Bessant and Perren (1998: 39) widely believes the key source of innovation is from the owner of the business and without this innovation the business yields low productivity.

Accessing eternal funds is always difficult for establishing and running the business

According to Lekhanya (2016: 109), one of the key factors that limits the growth of small businesses is lack of financial management skills. Most owners of SMEs as established by Lekhanya (2019: 109) lack various skills needed to effectively run the business, which acts as a disincentive to external funders.

There are mostly little or no accounting record for the business

SMEs have little or no accounting records due to the lack of management skill among the business owners (Lekhanya, 2019: 110). This lack of accounting records is also the reason why SMEs find it hard to get external funding (Francis. 2009: 24)

There is reluctance to take risks by the owners of the business

Hansen (1992: 39) claims that small businesses do not make contributions towards innovation and research and development. The failure of small business owners to innovate is due to their inability to take risks. Most business owners are unable to invest in research and development due to the limited funds that they have and this limits their ability to innovate.

Little influence on the marker and low marginal market share

Francis (2009: 25) explains that the area of operation of SMEs is mostly limited to one community. The area of operation of small businesses is limited to a very small market and due to the inability of the owners to secure external funding and the lack of innovation and research, the company gets a very limited share of the market.

There is a high mortality rate for SMEs

Most SMEs are poorly managed by their owners due to the lack of proper management techniques, innovation and research and development (Francis, 2009: 25; Lekhanya, 2016: 109). The poor management of the business by their owners puts the business at the risk of collapse. Francis (2009; 25) clearly states that the lack of discipline by the managers leads to the failure of businesses.

The business concentration is on one person

Francis (2009; 25) notes that the management of the business is not independent. The business is owned and managed by the same person. The business owner who is also the manager can run the business as he or she pleases, which can be harmful to the growth of the business.

There is limited or no access to long term funds

It has been established by Lekhanya (2016: 109) that SMEs find it hard to get funded externally, which is as a result of companies' lack of innovation, research and development. The inability of small and medium sized businesses to get funded externally makes it difficult for them to get access to long term funds.

There is low education and technical expertise by the owner of the business

The level of education of business owners is believed to be a major source of business innovation (Hoffman, 1998: 38). According to Frederic & Haudeville (2002: 738), the educational level of business owners determines their acceptance of external sources and their approach to innovation problems. Business owners with low educational background do not accept assistance when they are faced with problems in their business, which makes the problem remain unsolved.

There is an over reliance on imported raw materials and spare parts

One of the problems of small businesses as highlighted by Lekhanya (2016: 108) is their inability to source for raw materials and spare parts from their immediate environment. This problem limits the development of SMEs.

The cost is high as a result of bank charges and high interest rates

The Sustainable Agriculture and Rural Development (SARD) policy (2017: 8) notes that one of the difficult factors of small businesses is high transaction costs, which result from high interest rates and high bank charges.

Poor managerial skill to manage labour due to lack of funds

The capital needed for small and medium business is very small, according to Francis (2009: 24) and this leads to the inability of SMEs to recruit labour that would help the business maximize its proficiency. The businesses have to short-change staffs (employ limited staff) which means that some necessary job function will be unattended to or the staff will be given too many jobs to do, which will limit their effectiveness.

There is almost always no training and development of employees

The employees of SMEs are not trained and developed for their job function, which is a result of lack of sufficient funds to run the business properly (Francis, 2009: 24).

Lack of access to international markets

Due to the inability of small and medium business to get funded by external sources (Lekhanya, 2016: 109) they lack the capacity to produce enough to meet demands or compete with bigger companies in international markets.

Lack of succession plan

Small and medium businesses lack succession plans. The owners of SMEs do not make plans for the business to go on without them (Umidjon, Shuhua, Jayathilake & Renyan, 2014: 13).

Poor access to vital information

SMEs do not have access to vital information due to their inability to carry out research and development, which can lead to innovation and give the business a competitive edge over competitors (Umidjon, Shuhua, Jayathilake & Renyan, 2014: 15).

High production costs due to inadequate infrastructure and wastages

Lekhanya (2009: 110) notes that poor infrastructures such as roads, power shortage, and so on, leads to high production costs, which limits small and medium businesses from competing with their counterparts in international markets.

Absence of research and development effort

Umidjon, Shuhua, Jayathilake & Renyan (2014: 15) note that the absence of research and development by SMEs due to lack of funds limits their ability to innovate.

Poor product quality output

Due to the inability of SMEs to invest in research and development (Lekhanya, 2009: 108) and their lack of access to external financing, the product that is produced is often of low quality.

2.1.4 Challenges of SMEs in Accessing Loans in Financial Institutions

SMEs are yet to impact the Nigerian economy as expected or predicted, in spite of the various supports and efforts by the Government. This shows that there is a problem. The efforts and supports of the Government aimed towards SMEs and the inability of SMEs to grow at the desired rate underlines that there are fundamental issues or problems. While the government has put in place some policies to help SMEs develop, it needs to do more (Abehi, 2017; 292)

The development of SMEs is hindered by inadequate planning for SMEs in certain countries. According to Cook and Nixson (2000: 2), the role of SMEs is greatly acknowledged in the development of a nation's economy, but their growth is limited by the lack or inadequate financial resources to meet the various operational and investment needs of the country.

The managers of SMEs in Europe were questioned on what the most recurring issue is they confronted running their SMEs, it was recorded that they mostly named access to finance as the most recurring obstacle they face. Other problems mostly faced included taxation, lack of skill, public procurement limitation, unfair market, unfavorable labor laws and so on (Cook and Nixson, 2000: 4).

In Nigeria, the most recurring issue still remains access to finance or loans from financial institutions (Isern, Agbakoba, Flaming, Mantilla, Pellegrini and Tarazi, 2009: 6).

Below we will discuss more about the various issues that affects the development of SMEs.

Stringent Conditions

In a great deal of cases, SMEs are unable to access credits from financial institutions because of the stringent conditions attached to accessing these loans. Financial institutions find excuses not to lend to some SMEs because they lack the admissible collateral.

Previous researchers have noted that, bank financing depends upon securing the collateral through lending (Berger and Udell, 1998: 614). In the event of default by the SMEs, collaterals in the form of assets secure the financial institutions from losing the loan approved. Without secure collateral, financial institutions have limited avenues to protect the loan given to SMEs. The financial institutions request collateral to be able to limit the risk linked with the loans.

SMEs with great business strategy but not backed by sufficient security are usually denied credit because banks cannot afford to take any risk of non-repayment of loans. Financial institutions will always request that this sufficient security requirement is fulfilled before a loan can be approved.

Strict vetting of credit applications

Financial institutions are also strict with regard to verification of SMEs' loan applications (Avevor, 2016: 44). The process of reviewing loan applications takes so long to complete that loans are delayed and issued when the purpose for the loan application most likely has expired.

Short repayment period

In most circumstances, loans granted are much less than the requested amount and are accompanied by short limited periods for the repayment. Ricupero (2002: 34) states that financial institutions' loans granted to SMEs are often expected to be repaid within a very short period of time to cover for any long-term investment strategy, and Abereijo and Fayomi (2005: 220) note that most of commercial bank loans given to SMEs, often have a short repayment period to offload any significant investment.

Unaware of variables considered by financial institutions

SME enterprises are unaware of factors that financial institutions take into account before approving loans to their customers. Financial institutions generally do not lend to anyone who would be willing to pay higher interest rates, because doing so would only give room to riskier borrowers. They have mediums of checking credit ability of their customers. They lend to businesses, they feel comfortable or confident that they have higher probability to pay back (Ocansey, 2006: 5).

It has been noted that a key factor that limits the SMEs from access to financial assistance includes the misunderstanding of how the banks operate and vice versa. Consequently, Small and Medium Size businesses are left with the frustration of time delay in acquiring bank loans or being completely denied.

Banks request documents such as audited financial information, business plan, and bankable proposal before they lend to SMEs. Most SMEs do not have the technical ability to do such things. This makes it very difficult for them to be granted loans by these financial institutions.

No Separation between Business Funds and Owner's Fund

The issue of separating business funds from the funds belonging to the owner of the business is one of the factors that limits small and medium business from accessing loans from financial institutions (Ogbo & Nwachukwu, 2012: 97). In most cases, partnerships in SMEs are often a failure, which leads to the management of the business by one of the partners (Ogbo & Nwachukwu, 2012: 97).

SME owners often manage the finances of the business based on personal favors rather than for the development of the business, because the business owners allow personal transactions within the funds of the firm (Ogbo & Nwachukwu, 2012: 97).

When there is a situation whereby the owners of businesses interfere with the purse of the business, it makes it very difficult to secure external funding which can grow the business. The difficulty faced in accessing external funding may even lead to the death of the business (Ogbo & Nwachukwu, 2012: 97). It is critical to underline that failure of SMEs to secure funding from external institutions results in their death of the business within five years of business inception.

2.1.5 Challenges of Financial Institutions in Lending to SMEs

The growth and development of every country in the world is determined by a key factor, the country's financial system. Lemuel (2009: 27) stated that the key players in the economy of nearly every country's financial system are the traditional commercial banks and they have the potential of pulling financial resources together to meet credit.

Financial institutions in Nigeria face a large number of challenges that prevents them from giving loans to SMEs. Some of these challenges are discussed below:

High transaction Costs

The cost of credit accessing, processing and monitoring of loans is incurred by the banks. The transaction costs relate directly to the profitability of the bank. The return is low when the cost of transaction processing is high. SME loans often consume time for the banks to access, track and manage.

Zavatta (2008: 8) puts it that "irrespective of risk profile considerations, the handling of SME financing is an expensive business". The assumption by most bankers is that small and medium businesses need more advisory support than their large corporate clients, and this involves higher costs.

Unreliable information

SME owners are known not to be transparent as they do not open up their businesses to outsiders. Most times, for unknown reasons, they redraw significant information regarding their business assets, liabilities, profits and others from tax collectors, employees and outsiders.

The financial institutions and small and medium businesses need to have an open trade of information before financial institutions can give them access to loans. There is the need for more transparency and better dialogue between SMEs and financial institutions which will give solution to the difficulty SMEs are faced with when accessing loans from financial institutions.

Owners of SMEs in the process of refusing external access to their financials and giving false information about their business risk the creditworthiness of their business and make it difficult for financial institutions to loan them funds. There is the need for reliable information about the business from SME owners when supplying banks and other financial institutions as this will improve the business credit worthiness and reduce the risk of accessing funds. This would also allow financial institutions to make better payment terms available to small enterprises.

According to Ricupero (2002: 34) another reason for banks not lending to SMEs is the banks' inability to evaluate risk because of lack of reliable financial information.

Inadequate financial statements

Most SMEs are guilty of not preparing their financial statements. SMEs by law are not mandated to present financial statements. In the very developed economies, such as economies in the European Union, SMEs are not mandated to file a report based on their financial performance unless they match a certain threshold in their total assets, turnover and/or number of employees.

In developed and developing countries, many SMEs are therefore not producing credible financial information that lenders or investors might use. (Ricupero, 2002: 34). Bass and Schrooten (2005: 25) found that while there can be a long-term interaction between the borrower and the bank, the lack of reliable information contributes to a fairly high interest rate.

When faced with situations such as this, ownership of financial statements plays a key role. Audited financial statements become significant to access loans from these financial institutions. Banks usually require audited financial statements before granting credit. Berry and Brian (1994:32) found that for the purpose of dealing with loan applications from small businesses, borrowers in the United Kingdom pay a great deal of attention to accounting information. Given the reduced information risk arising from audited financial statements, potential borrowing institutions may also offer low interest rates.

Simply put, audited financial statements improve the credibility of borrowers and therefore reduce the risk to lenders. Sacerdoti (2005: 24). The capacity of borrowers to provide appropriate financial statements and to set up credible credit bureaus and financial databases is necessary in order to encourage the growth of credit, promote competition in the banking systems, and thus lower the cost of credit to borrowers.

Similarly, in several countries, banks and other financial institution find it very hard to provide credit facilities to small and medium businesses because SMEs find it difficult to provide audited accounts and other formal financial statements to show the credibility of the business. SMEs therefore need to keep their accounting books up to date and audit their accounts when due to enable them access loans from banks and other financial institutions. In some countries, the accounting profession is not well regulated, and the quality of accounts varies widely, which hinders clarity.

Opaqueness of Small Enterprise

Banks and other financial institutions are faced with two main problems, which are the opaqueness in small businesses and small size of transactions. SME owners find it difficult to relinquish control of the business to outsiders. Owners personally want to control all aspect of the business.

Zavatta (2010: 10) noted that lending funds by financial institutions to small and medium owners has been hampered by this unwillingness of the business owners to give up control of the business to outsiders. This is a common practice among SMEs, as is the failure to keep a proper accounting book for auditing.

Credit Rating Agency

One of the difficulties that financial firms encounter in investing to SMEs is making an accurate risk assessment of loans applicants without creating high expense for each application. A credit rating agency or credit bureau is one way to determine the risk of loans.

Sacerdoti (2005: 24) says that datasets consolidated on lenders are mostly built in advanced countries by the private sector. However, in several continental European countries, including France and Italy, the central bank plays this role.

The credit rating agencies produce general financial reports and a credit ranking on several businesses. On request for payment, they also create a special report on corporations' creditworthiness. When credit rating agencies are not available to use, the creditworthiness of customers become difficult to assess and information on the likelihood of repayment of prospective businesses becomes quite expensive to acquire.

Rating agencies provide information that helps to reduce risk of default and such infrastructure is not readily available in Africa. Zavatta (2010: 10) writes that the ‘’information infrastructure’’ is still largely undeveloped as there is a lack of credit rating agencies to gather and distribute performance payment information. This ultimately worsens the problem of informational asymmetries among businesses and investors.

The International Monetary Fund (IMF) Working Paper “Access to Bank Credit in Sub-Saharan Africa: Key Issues and Reform Strategies” (Sacerdoti 2005: 24), stated that a credit culture is needed for progress to be achieved concerning credit information.

2.1.6 Financing of Small and Medium Enterprise

Access to credit facilities among SMEs often takes place in the microfinance system (Sacerdoti, 2005: 32). The difficulties faced by SMEs in obtaining credit facilities are thus best viewed from a microfinance point of view.

To understand the concept of microfinance, more thoughts will be put into the prefix of the word “micro”. The Oxford dictionary defines the word “micro” in a simple way as something that is extremely small. Abiola and Salami (2010: 38) said the term “micro” connotes an item that is very small in size or value. Discussing further on the suffix of the word “microfinance”, finance stands for various services (for example, borrowing, savings management, financial advisory services and so on) offered by financial firms.

From the above definitions and insights into the word microfinance, the meaning of the term “microfinance” is obvious. However, it is worth discussing the meaning of this word by different authors.

Wrenn (2007: 4) defines microfinance as “the provision of financial services such as savings, loans and insurance to poor people, living in both urban and rural settings, who are unable to obtain such services from the formal financial sector”. Similarly, microfinance offers financial services such as loan facility, saving opportunity, money transfer, health and/or business insurance to poor or low-income individuals that are ignored by commercial banks (Ayuub, 2013: 121).

From the above definitions, microfinance is described as providing financial services including the provision of loans or credit facilities to the needy with the aim of reducing or eradicating the issue of lack of access to such services from commercial banks.

However, the majority of corporate clients and customers of commercial banks in developing countries are SMEs or small businesses in need of micro-credit (Asghar, 2012: 14), and thus commercial banks in developing nations actively engage in microfinance (Ashun, 2010: 25; Asghar, 2012: 14)

Some small businesses, especially those in preferred sectors, attract loans from development finance institutions; for example, the Bank of Industry (BOI) and the Export Import Bank. They do not extend their search for financing to the formal sector banking system (e.g. commercial banks) because of fear or concern of their limitations in operating features such as poor banking relationship, limited knowledge and insufficient collaterals to defend loan applications (Cook and Nixton, 2000: 6).

Providers of funds for small companies regard enterprises that are unable to provide requirements such as sufficient accounting records as high credit risk customers (Cook and Nixton, 2000: 6).

Excellent and constant accounting or financial management practices ensure that relevant information on business operations and status is documented and communicated to the appropriate investor when required.

Research has shown that lack of financing prevents small businesses from growing into public limited companies. Ozioma-Eleodinmuo (2013: 49) indicated that lack of financing to SMEs in Nigeria is negating their growth. Since Nigeria's independence in 1960, the Nigerian Government and its partners have initiated several funding strategies such as the National Economic Reconstruction Fund's (NERFUND) efforts to support SMEs' development alongside participating commercial banks with loans for onward distribution to SMEs at lower interest rates. (Dugguh, 2015: 55).

Another factor about financing of SMEs is undercapitalization. In Nigeria this occurs when owners rely on personal and family savings to fund their businesses (Okpara, 2011: 158). Therefore, owners and managers of SMEs must look beyond their personal and family resources in order to realize their visions of a new start-up (small) business in order to raise the necessary funds that will make the company a success. Inadequate records and unreliable collateral by SMEs are among the key reasons why financial institutions are reluctant to provide financing to them (Okpara, 2011: 158).

The debt funding solutions available to SMEs in Nigeria include Loans from commercial banks, loans from Microfinance banks, and loans from cooperative societies (Gbandi & Amissah, 2014: 329). A quantitative study conducted in two North-Central States of Nasarawa and Benue, Nigeria indicated that SMEs are mostly funded by informal sources rather than formal financial institutions (Terungwa, 2012: 11).

Research involving West Africa has shown that the most noticeable sources of financing for SMEs are personal savings and credit supplies (Boateng & Abdulrahman, 2013: 131). Researchers have provided evidence that suggests that lack of financial institutions' funding for SMEs is a reason for the rate of failure of their businesses in emerging economies such as Nigeria (Obokoh & Asaolu, 2012: 185).

Research by Franca (2013: 78), involving 450 participants to investigate how microcredit institutions influence the growth of SMEs in Nigeria, indicated that there is a close link or correlation between SMEs' growth and microcredit institutions.
Also, SMEs avoid microfinance loans because of high interest rates that make it difficult for them to make profits (Kanayo, Jumare, & Nancy, 2013: 615).

Nigerian financial institutions require reliable collateral, well documented financial records, a healthy business, expert management, and a good business relationship before providing loans to SMEs (Ayuub, 2013: 120).

Nigeria's SMEs' difficulty in accessing finance from financial institutions is a key factor affecting their performances, which is why they do not make an adequate contribution to the country's economic growth and development (Boapeah, 2003: 55).

The benefit of corporate debt financing in business includes companies taking advantage of debt financing to receive tax incentives, businesses avoiding financial distress, and businesses using debt ratios to escape from an optimal target ratio (Gumel, 2017: 771). The importance of debt financing is as it relates to its benefits towards the growth of small business. The goal of this study is to investigate the relationship between financial institutions funding and growth of small businesses in Nigeria. The study further investigates whether owners' and managers' knowledge of processing long-term loans helped small business to secure financial institutions' loan.

2.2 Empirical Review

Individuals, institutions and some non-governmental organizations have carried out various studies related to the research topic. This topic, SMEs' lack of access to finance, has been consistently researched by researchers in the past decade. This section of this chapter will analyze some of this research.

Boateng and Abdulraham (2013: 148) focused on small business in developed countries. Their research didn't include Sub-Saharan Africa where the financing of SMEs is different from those in developed countries. They found that companies' characteristics such as age, size and ownership type as well as relationship banking, have had an impact on lending decisions in their research on factors influencing bank lending to micro and small-sized enterprises in Nigeria and Ghana. Also, their work highlights a number of noteworthy studies by African scholars in this area.

Aryeetey, Hettige, Nissanke and Steel (1994) worked on the financial market in Ghana while the same authors in 1997 examined Ghana, Malawi, Tanzania and Nigeria. Their first paper proposed that the solutions to the issues of access to finance for small businesses require adaptation in the financial system in order to be conducive to SME lending, plus educating SMEs in financial management and business skills. In the second paper, Aryeetey and others. Aryeetey, Hettige, Nissanke and Steel (1997) concluded that banking sector liberalization and reform should be followed up by institutional reforms in contract endorsement and informational availability, whilst integrating formal and informal financial markets.

“Access to finance remained a dominant constraint to small scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials were cited by respondents” (Aryeetey et al., 1994: 93).

> It is reported that 38% of the SMEs surveyed mention credit as a constraint. This stems from the fact that SMEs have limited access to capital markets, both locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity. (Evans, Josephine and Yeboah 2015: 33)

Neshamba (2003: 7) studied the decision of bank managers when approving credits for small businesses in Kenya and Tanzania. He noted that even more than making sure there is provision of the needed loans for small and medium businesses, financial institutions have the social responsibility to the communities where they operate by assisting SMEs to grow through the provision of training and skill developing for the business owners.

Research by Quaye, Abrokwah, Sarbah and Osei, (2014: 351) was carried out in Ghana to discover the gap in the financials of SME sector and the large corporations. The research concluded that the financial gap between small and medium business and large corporations in Ghana exists because the SMEs are denied access to loans to develop their business by financial institutions.

All these studies have helped in their own way to identify the relationship between the financial institutions and lending to small and medium business in Nigeria and Africa. This solidifies the need to take into great consideration the need for financial institutions to expand their lending provision to SMEs.

3 Research Methodology

This chapter will deal with the research methodology. This will include the different research methods that can be used, and the particular one used in this research thesis. This chapter will also give details of the various sources of data and the test of reliability and validity of the study.

3.1 Research Definition

Research, as defined by the Business Dictionary (2020), is the planned or systemized process of investigating with the aim of improving existing knowledge or uncovering new facts. Research is categorized as either basic research and applied research. Basic research is mainly to improve scientific knowledge while applied research makes use of the basic research knowledge that has been acquired to develop new techniques, products and solve new problems.

Naresh (1992: 38) defined research as the systematic and objective identification, collection, analysis and the dissemination of information for improving making of decisions related to the identification and solution of problems and opportunities in marketing. This definition by Naresh can be said to be in two phases, which further explain how research is done and the research why it is done. The first phase includes systemized planning, identifying what the research problem is with accuracy, making use of the right data sources for collecting data, analysis and accurate interpretation of the data and then finally, presenting the results or findings.

Rajasekar (2006: 11) lists the following steps as the stages in the process of a formal research:

1. Pick the research topic

2. Define the research problem. This includes identifying the numerous literature and references of previous works on the selected topic
3. Design the research
4. Investigate the research. To investigate the research, the validity and reliability of the research topic is conducted while also collecting and using the selected sampling technique to collect data.
5. Analysis of the data
6. Final interpretation of the findings

The second phase of the definition puts in detail the purpose for conducting research. The purpose of conducting a research is to improve the chances of taking a better decision, which is also applicable. A study will be said to be applicable when it is able to provide an insight for further researchers. Information makes up the major intent of research purpose and therefore the need to use the best technique for finding and collecting the most necessary information that will support and solve the problem stated in the research.

Chapter 1 above defined the topic of the research and stated the problem. This chapter will concentrate more on the design that will be used in the research, the various sources of data for the research, the different types and the differences between the types of research method and lastly the reliability and validity of the research work.

3.2 Population

The populations to be used in this thesis will include the SMEs in Lagos State, Nigeria. This will include SMEs from diverse industries such as manufacturing, agriculture, retail and wholesale. According to Kale (2019: 9), as of 2017 the total number of medium and small sized businesses in Nigeria was 41,543,028. Lagos State had the highest number of micro, medium and small businesses with a total of 8,395.

3.3 Sample size

The number of SMEs that will be sent a research questionnaire will be fifty (50) to get a broader image and knowledge about the research problem.

3.4 Sample techniques

The sampling technique employed in this thesis is non-probability sampling. This is the method where the probability of a particular sample being selected is unknown. Non-probability sampling is defined as 'a sampling technique where the researcher selects the sample units based on subjective judgement' (Saunders et al. 2009: 212). This sampling technique was used due to the inability of the researcher to get a comprehensive list of SMEs in Nigeria. This sampling technique will also make the research easier, quicker and cheaper to complete.

3.5 Sources of data

In this research study, data sources for the study will be the mixed method of data collection using the primary data collection method and the secondary data collection method.

3.5.1 Primary data

Primary data will be collected for this thesis using questionnaires from small and medium business owners.

Primary data can be said to be first-hand data. This is the data type that is collected by the researchers without any middleman (Hox & Boeije, 2005: 595).

Aside from primary data being first-hand information, primary data can be said to be very easy to handle and feasible, this is the reason why a large population of researchers consider it as the first choice when considering sourcing for data. Primary data can be collected by researchers through 3 different ways; observation, in-depth and group interview, and also by the use of structured questionnaire.

In enhancing the reliability and validity of a research the various sources of primary data are of great help due to its consistency with the research questions and in spite of this, the various ways to gather primary data can be time-consuming and is very expensive. Aside from these, researchers have to be very conscious of the efficiency of data collection and other factors that can be a problem, such as the respondents giving insincere answers and respondents' unwillingness to respond.

3.5.2 Secondary data

Secondary data will be collected for this thesis using textbooks, magazines, and journals, newspaper articles, published previous research work, etc.

The prefix "second" from the word "secondary" gives a clear explanation of the meaning of the word. Secondary data is the data collected from a tertiary, secondary or other different from the first source, which is the primary source. This also means that the researcher is not involved in the collection of data from the primary source.

Secondary data can be said to be the type of data that is collected from a researcher who has the same research purpose and has collected data relating to the study. An example of this is when a business operating in one country wants the data and information on the market size and buying behaviour of a particular product in another country, the easy and fast way pf getting this kind of data within a very short period of time is to use secondary data. Secondary data are sourced from the internet or research professional organizations such as the International Social Survey Program (ISSP).

Secondary data is very open for others to access if there is a need for confirmation (Denscombe, 2007: 61). In spite of the many advantages attached to secondary data, accessing the information however doesn't mean that the information will serve the research objective (Denscombe, 2007: 61). Secondary data are easily accessible but many of them are expensive to access.

3.6 Research methods

Quantitative data will be collected from the respondents using a structured questionnaire. Quantitative method was used because of the sample size. The use of this method will allow the researcher to collect the data needed from a large sample population over a short period. The items in the questionnaire and in-depth interview will be arranged in the right format with the aim of limiting the unwillingness of the respondents to reply which will lead to an increase in the response rate from respondents.

3.7 Reliability and Validity

The reliability of research can be defined as the ability of an item, apparatus, and idea, etc., to present consistently its intended or expected function. “The level to which measurements can be repeated – the same thing will be consistently gotten when different individuals perform the measurements, on different occasions, under diverse conditions, with supposedly alternative instruments” (Drost, 2011: 126).

The validity of research however measures how well an outcome of a research reflects reality or intended measurement. Validity is testing whether a study really measures that which it was intended to measure or how true the research results are (Joppe, 2000: 39). It also refers to how well the research outcome gives a solution or satisfies the objective of the research. Mostly, researchers measuring the validity of their work by asking number of questions and look for the answers in the work of other researchers.

In this study, the researcher made several attempts to ensure the reliability and validity of the research: First and foremost, the researcher used several references to support the theoretical study of the thesis. The reference is from different topics to give an insight into the empirical study of the research.

While the researcher was designing the items of the questionnaire, he added a few but important items to the questionnaire. The purpose of this is to improve the response rate of the questionnaires. The items are well arranged, and the language in designing the questionnaire is easy to understand.

4 Data Presentation and Analysis

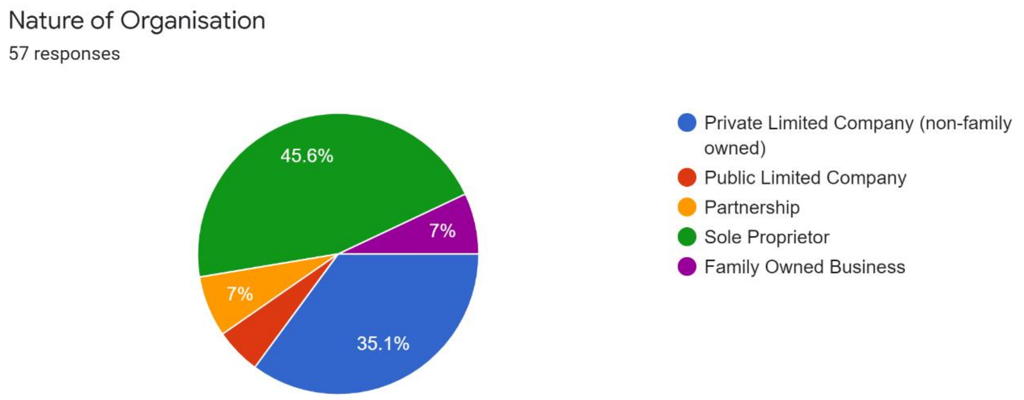
This chapter of the research deals with the presentation, description and analysis of the research data collected from the research respondents using the questionnaire. The questionnaire was divided into two sections, the first section collected respondents' biodata while the second section collected data on the challenges SMEs face in accessing loans from financial institutions. The questionnaire was uploaded with Google Forms with a link provided to some SME owners in Nigeria. Fifty-seven (57) small and business owners completed the online questionnaire.

4.1 Biodata

This section of the research questionnaire has ten (10) items, which help to give an insight into the small and medium businesses and their characteristics.

4.1.1 Nature of the Organization

Figure 1. Nature of Business

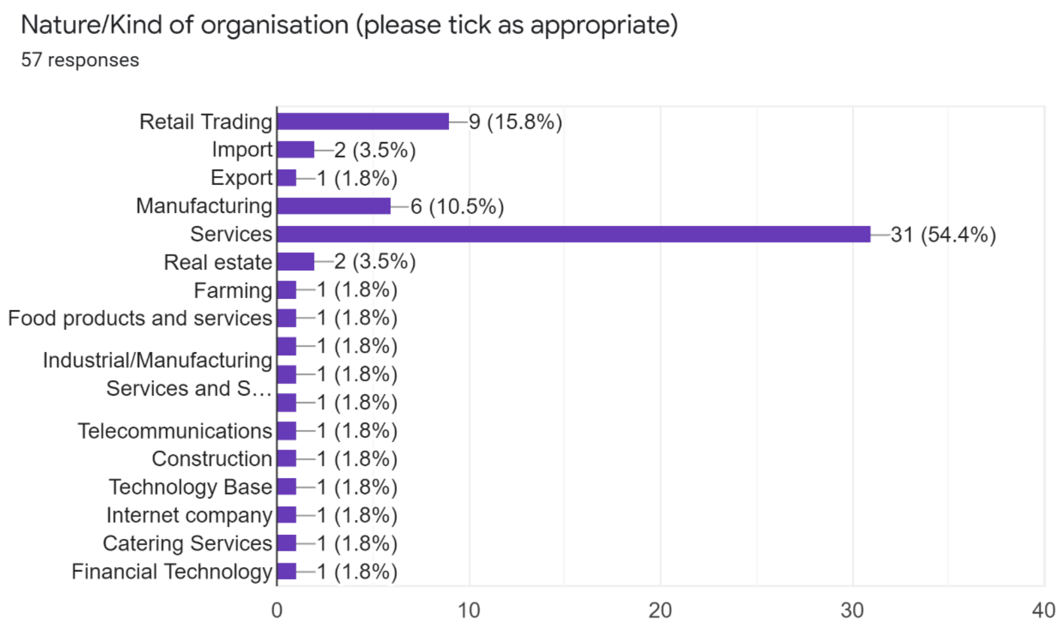


Source: Field Data, April 2020

The analysis from Figure 1 shows that most of the SMEs were registered as a sole proprietor business with a percentage of 45.6% followed by private limited company that is not owned by family with 35.1% of the respondents. Family owned businesses and partnerships had the same number of respondents with 7% each. The least represented nature of business was public limited company.

Figure 2 below shows the kind of business each of the represented SMEs engage in.

Figure 2. Nature/Kind of Organization

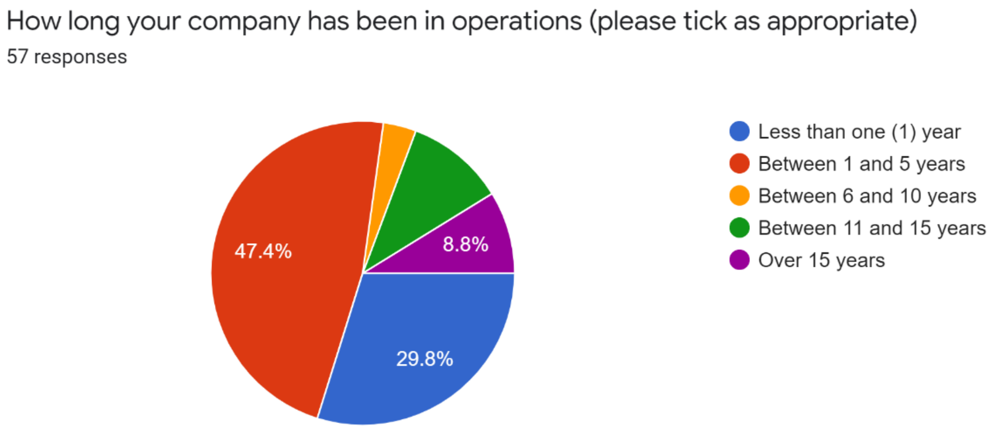


Source: Field Data, April 2020

Majority of the SMEs represented were engaged in rendering services with 54.4% followed by retail trading with 15.8% of the respondents. 10.5% of the SME respondents were engaged in manufacturing, 3.5% of the respondents in import and real estate, 2.8% in export while 1.8% each for other organisations.

4.1.2 Company’s Operation Duration

Figure 3. How long your company has been in operations?

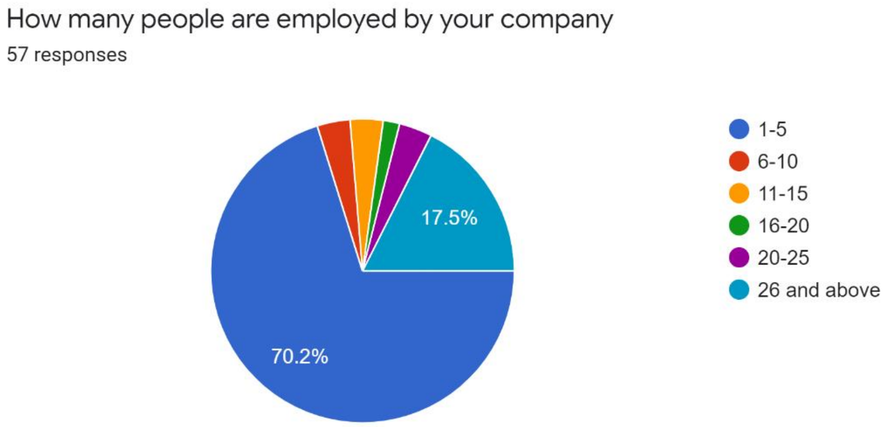


Source: Field Data, April 2020

Most of the SMEs have been running between 1 and 5 years with 47.4% and less than one year (29.8%). 8.8% of the respondents have been running the business for over 15 years with a few respondents registering their business as having been in existence between 11 and 15 years, with the fewest number of respondents registering between 6 and 10 years.

4.1.3 Number of Staff

Figure 4. How many people are employed by your company?

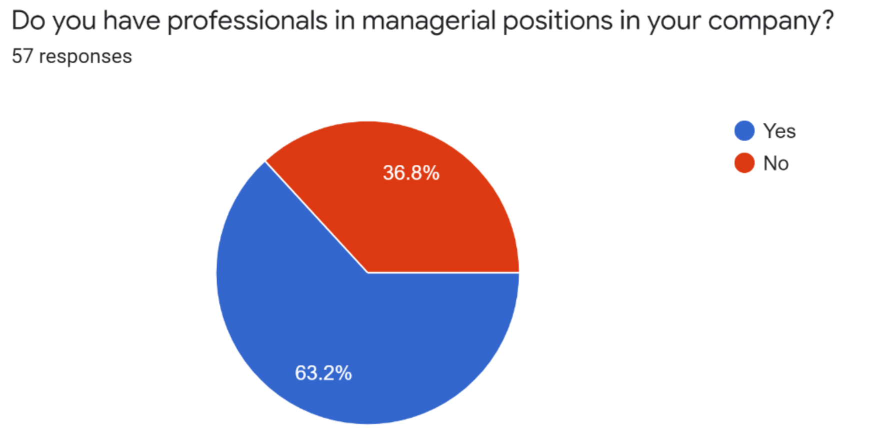


Source: Field Data, April 2020

An overwhelming number of respondents (70.2%) registered that their business staff strength was between 1 and 5 staff, which was followed by 17.5% of the respondents registering between 26 and above.

4.1.4 Management of the Company by Professionals

Figure 5. Do you have professionals in managerial positions in your company?

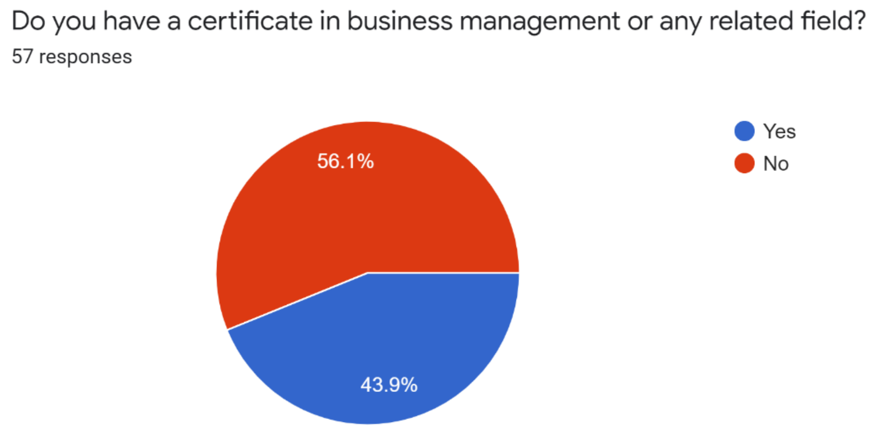


Source: Field Data, April 2020

The number of SMEs respondents run by professional managers doubled the number of respondents whose businesses are not run by professional managers.

4.1.5 Business Management Certificate

Figure 6. Do you have a certificate in business management or any related field?

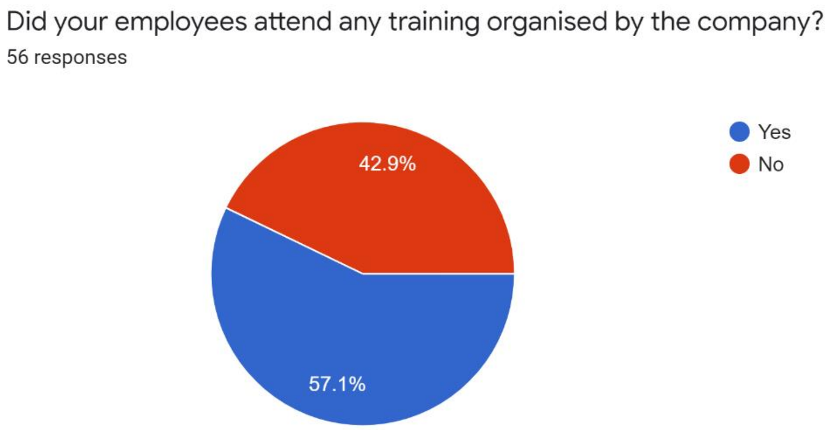


Source: Field Data, April 2020

Most of the SMEs respondents do not have a certificate in business management or any related field with 56.1% of the respondents not possessing a certificate in business management while 43.9% of the respondents possessing a certificate in project management or any other related field.

4.1.6 Employee Training

Figure 7. Did your employees attend any training organized by the company?

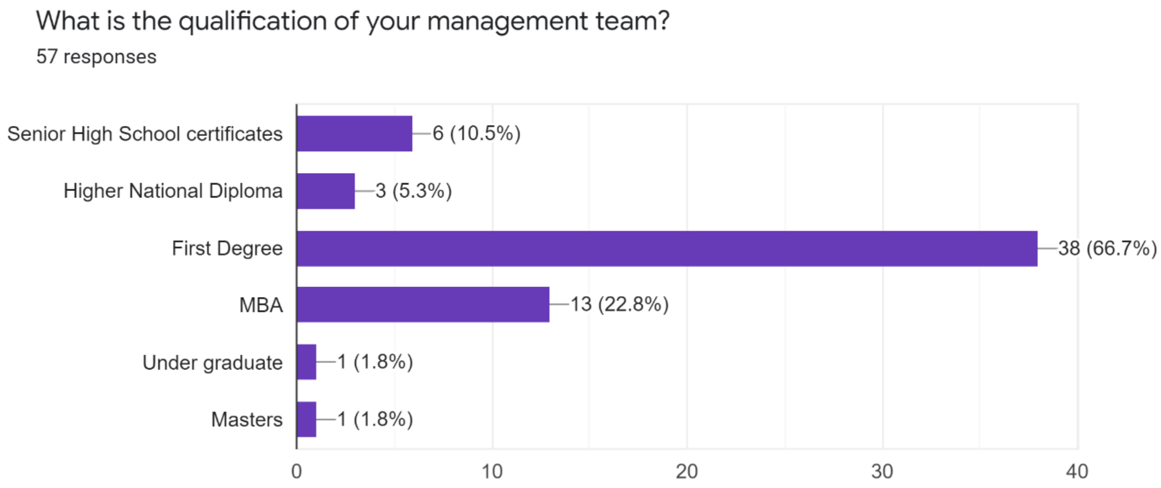


Source: Field Data, April 2020

Most of the SMEs' employees have attended trainings organized by the company with a percentage of 57.1% while 42.9% do not attend any training organized by the company.

4.1.7 Management Qualifications

Figure 8. What is the qualification of your management team?

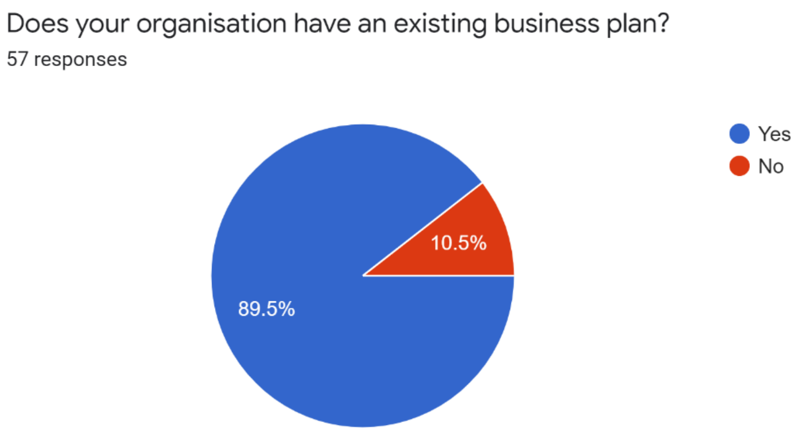


Source: Field Data, April 2020

The management team of most of the SME respondents had gotten their first degree with over 66.7% of the respondents. 22.8% of the respondents had completed their Master's in Business which is the second highest. 10.5% of the respondents had Senior High School Certificate and only 5.3% had Higher National Diploma. Only 1.8% of the respondents were undergraduates and had their Master's in courses.

4.1.8 Business Plan

Figure 9. Does your organization have an existing business plan?

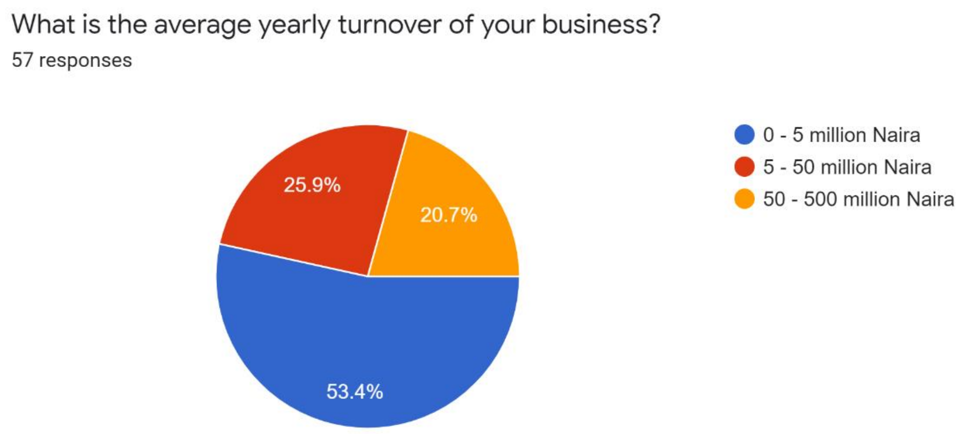


Source: Field Data, April 2020

A majority of the respondents surprisingly noted that their businesses has an existing business plan with 89.5% of the response a ”Yes” to if their business has an existing plan with only 10.5% of the response negative.

4.1.9 Yearly Turnover of Business

Figure 10. What is the average yearly turnover of your business?



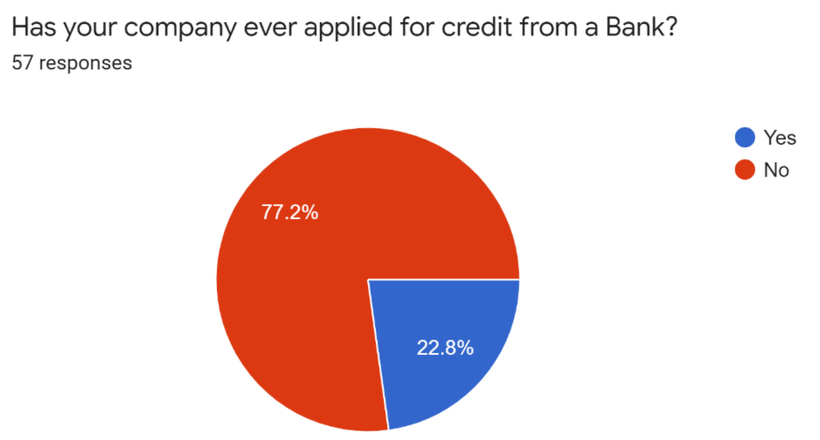
Source: Field Data, April 2020

The response gotten from the respondents has more than half of the respondents (53.4%) running a micro business with a yearly turnover of less than 5 million. 25.9% of the respondents run a small business while 20.7% of the respondents run a medium size business.

4.2 Challenges Facing SMEs in Accessing Loans from Financial Institutions

4.2.1 Credit Application

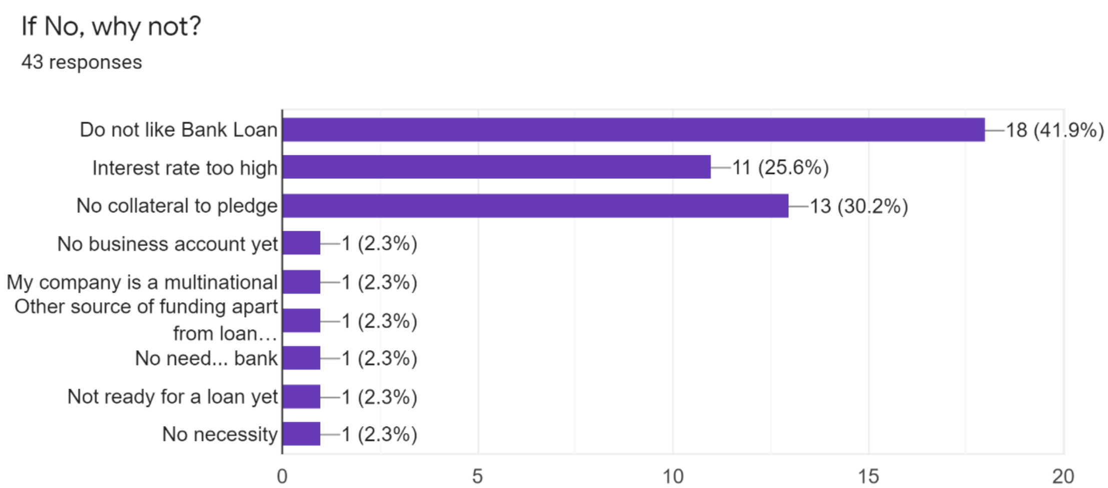
Figure 11. Has your company ever applied for credit from a bank?



Source: Field Data, April 2020

Majority of the respondents with an overwhelming number, 77.2% have not applied for credit from a bank with only 22.8% of the respondents responding that their company has applied for a bank credit before.

Figure 12. If No, Why Not?

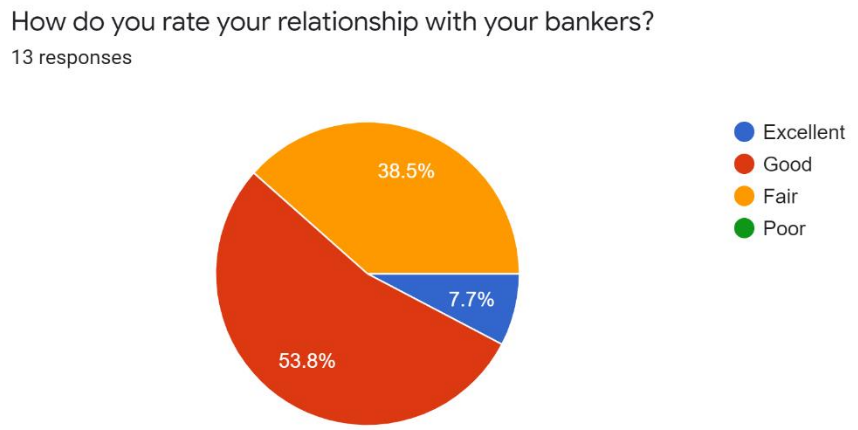


Source: Field Data, April 2020

Figure 12 shows the reason why most of these businesses haven't approached the bank for a loan. 41.9% of them do not like bank loans and 30.2% of the respondents do not have collateral to pledge. 25.6% believe the interest rate by bank is always too high. Other responses include no business account, not ready for a loan, no need for a bank loan, company is a multinational and there is no necessity for a bank loan.

4.2.2 SMEs Owner Relationship with Bankers

Figure 13. How do you rate your relationship with your bankers?

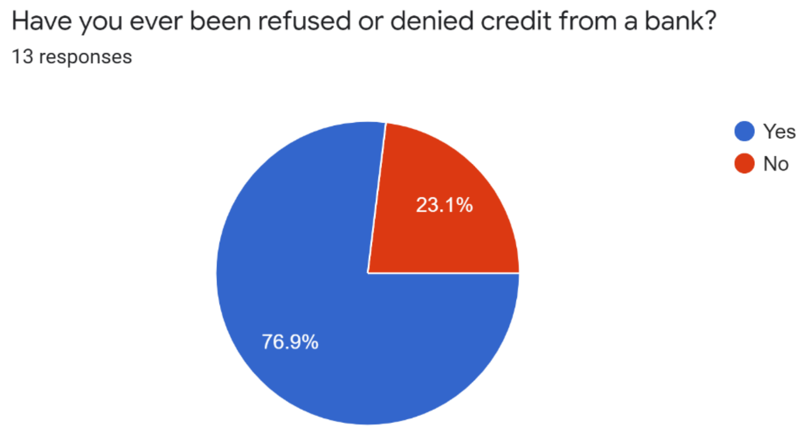


Source: Field Data, April 2020

Majority of the responses from Figure 13 shows that the respondents have a good relationship with their banks, with 53.8% claiming that they have a great business relationship with their banker, and 38.5% of the respondents have a fair relationship with their bankers. Whereas the response for excellent relationship was 7.7%, none of the respondents have a poor relationship with their bankers.

4.2.3 SME Credit Denials

Figure 14. Have you ever been refused or denied credit?

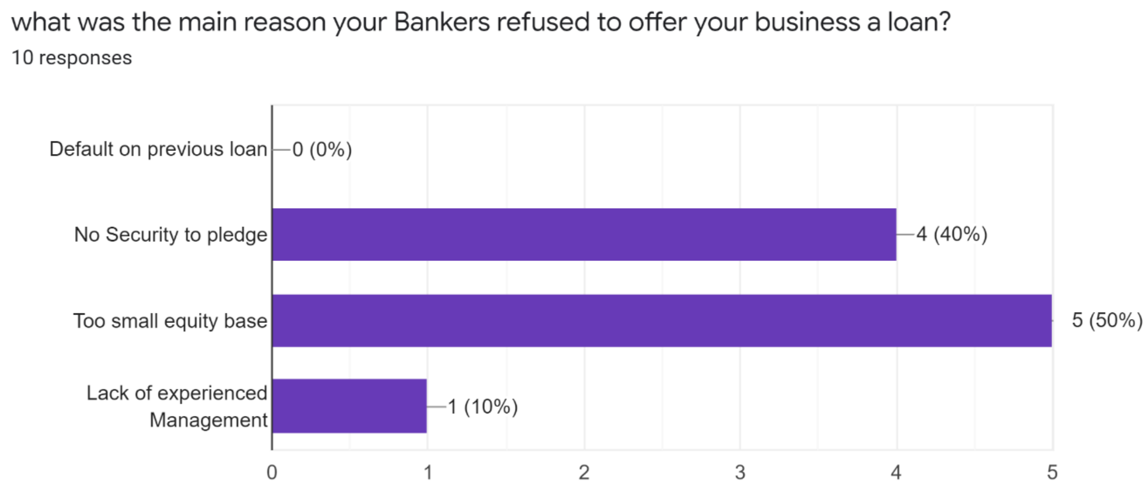


Source: Field Data, April 2020

The question as to whether respondents have ever been denied credit by banks captured in Figure 14 shows that majority of the respondents has been denied credit with 76.9% of the respondents while a smaller number of the respondents 23.1% has not been denied credit from a bank.

4.2.4 Reasons for Loan Denials

Figure 15. What was the main reason your bankers refused to offer your business a loan?

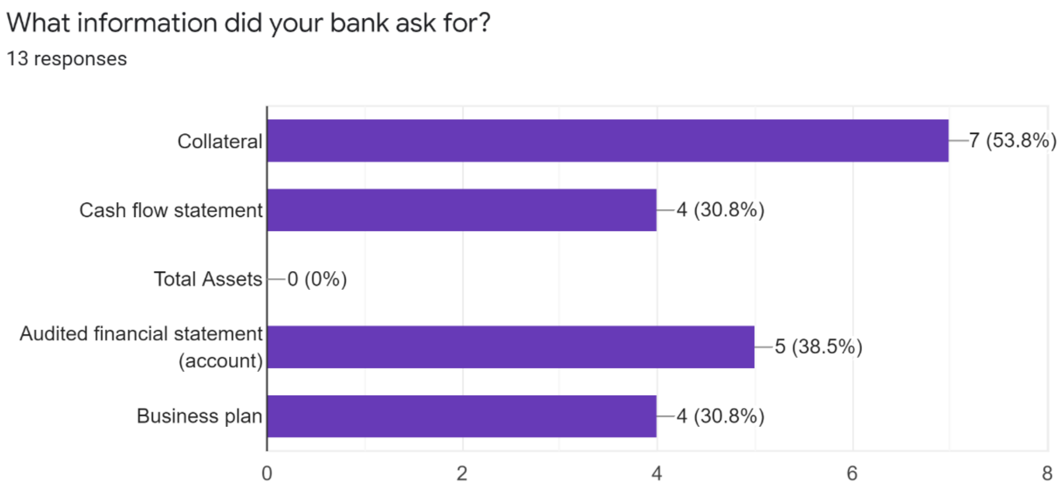


Source: Field Data, April 2020

From the responses shown in Figure 15, most of the businesses that were denied access to credit by the banks were denied because their equity base is small, representing 50% of the respondents. 40% of the respondents had no security to pledge and 10% of the loan denial by banks was due to the lack of experienced management. None of the respondents was denied because of defaulting on a previous loan.

4.2.5 Relevant Documents

Figure 16. What information did your bank ask for?

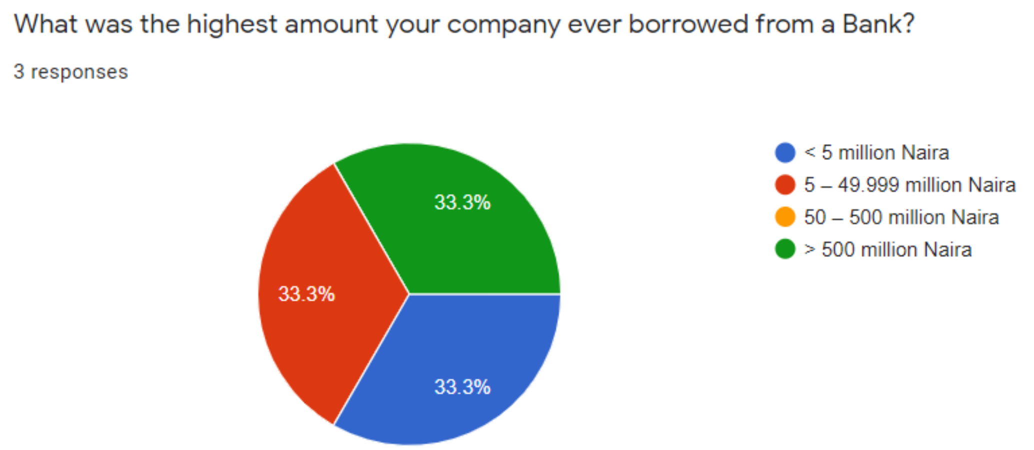


Source: Field Data, April 2020

During the credit application of the respondents, the requested by banks includes collateral, audited financial statement of account, business plan and cash flow statement while none of them were asked to submit their total assets according to Figure 16.

4.2.6 Loan Information

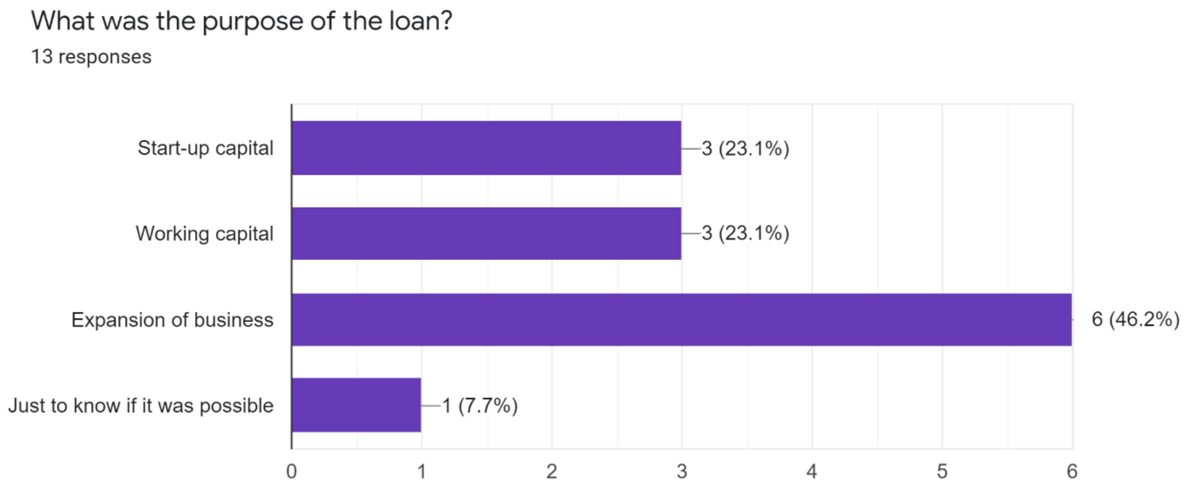
Figure 17. What was the highest amount your company ever borrowed from a bank?



Source: Field Data, April 2020

The response gotten from Figure 17 shows that respondents have gotten more than 500 million Naira, between 5 and 50 million Naira and less than 5 million Naira from their banks as loan for their businesses.

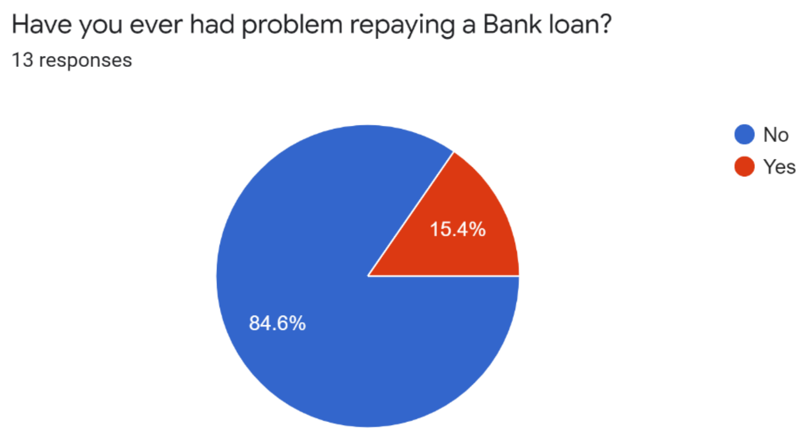
Figure 18. What was the purpose of the loan?



Source: Field Data, April 2020

The purpose for loan according to Figure 18 shows that a majority of the respondents 46.2% needed the loan to expand their business, 23.1% of the respondents needed the loan as a start-up capital and as a working capital while 7.7% of the respondents wanted to know if it was possible.

Figure 19. Have you ever had problems repaying a bank loan?



Source: Field Data, April 2020

The response from Figure 19 shows that a majority of the respondents have never had problems repaying a bank loan with 84.6% of the respondents while 15.4% of the respondents have had problems repaying a bank loan.

Figure 20. If yes, what created the problem?

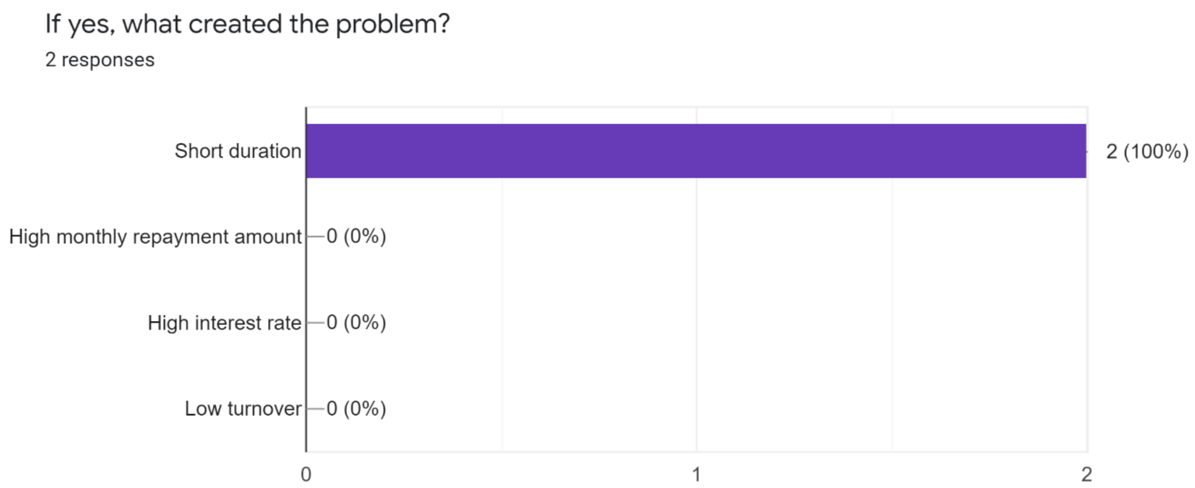
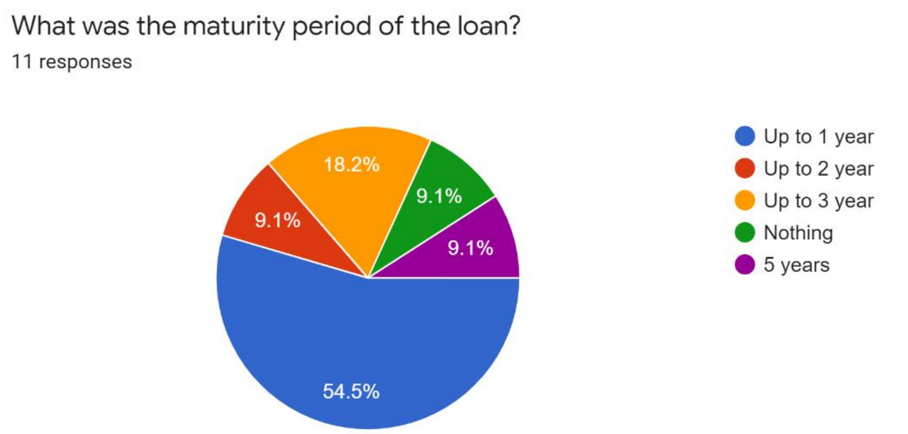


Figure 20 shows that the short duration of repayment was the only reason why the respondents defaulted with their bank loan repayment with 100%. None of the respondents defaulted due to high monthly repayment amount, high interest rate or low turnover.

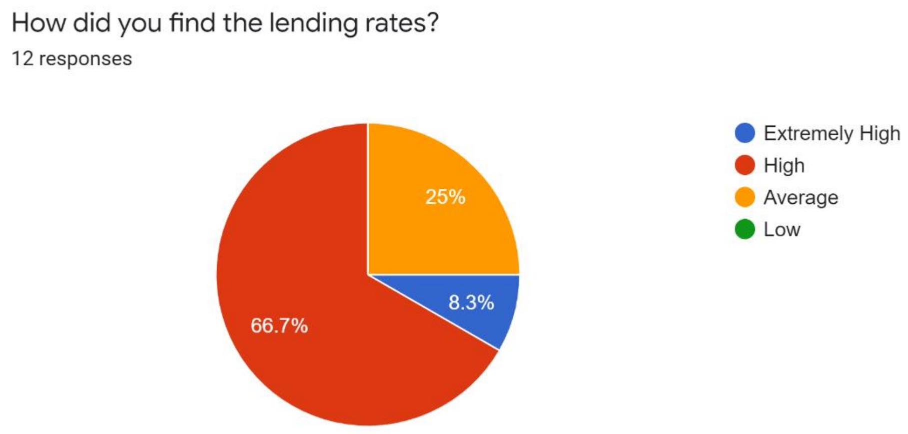
Figure 21. What was the maturity period of the loan?



Source: Field Data, April 2020

The maturity period of the loan given by bank according to Figure 21 was mostly 1 year with more than 54.5% of the respondents. 18.2% of the respondents had up tp 3 years to repay their loan while 9.1% of the respondents had up to 2 years, 5 years and no maturity period.

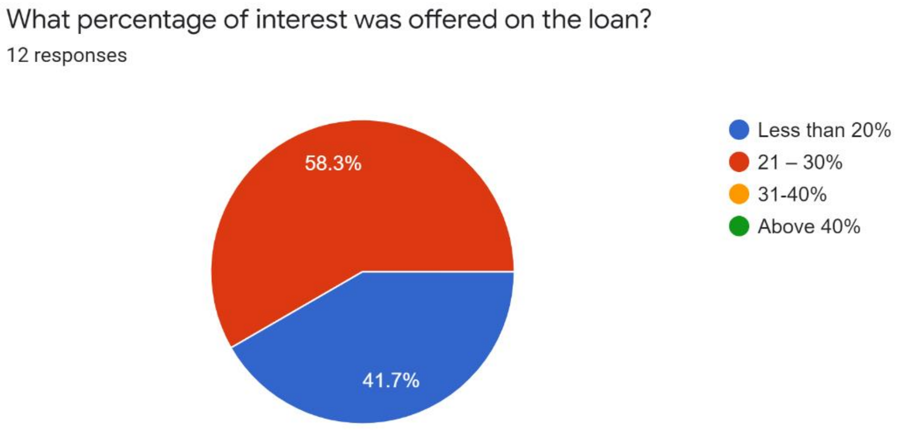
Figure 22. How did you find the lending rates?



Source: Field Data, April 2020

According to Figure 22, the respondents found the lending rates by banks to be high with 66.7% of the respondents. 25% of the respondents found the banks lending rates to be average, 8.3% respondents found the bank loans to be extremely high while none of the respondents found the bank lending rates to be low.

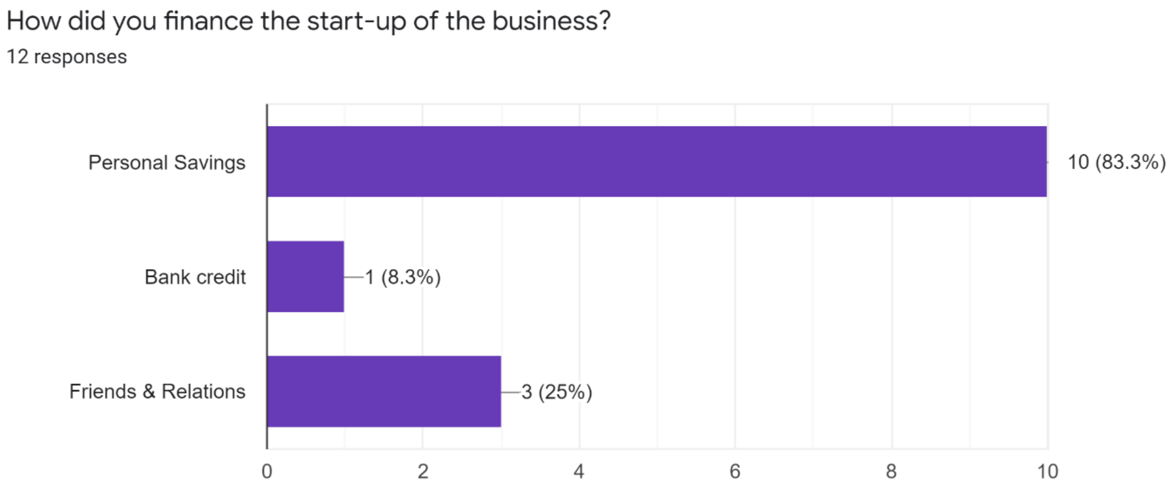
Figure 23. What percentage of interest was offered on the loan?



Source: Field Data, April 2020

Figure 23 shows the interest percentage offered on loan with majority of the respondents (58.3%) interest rate between 21 to 30 percent, 41.7% of the respondents interest rate was less than 20%.

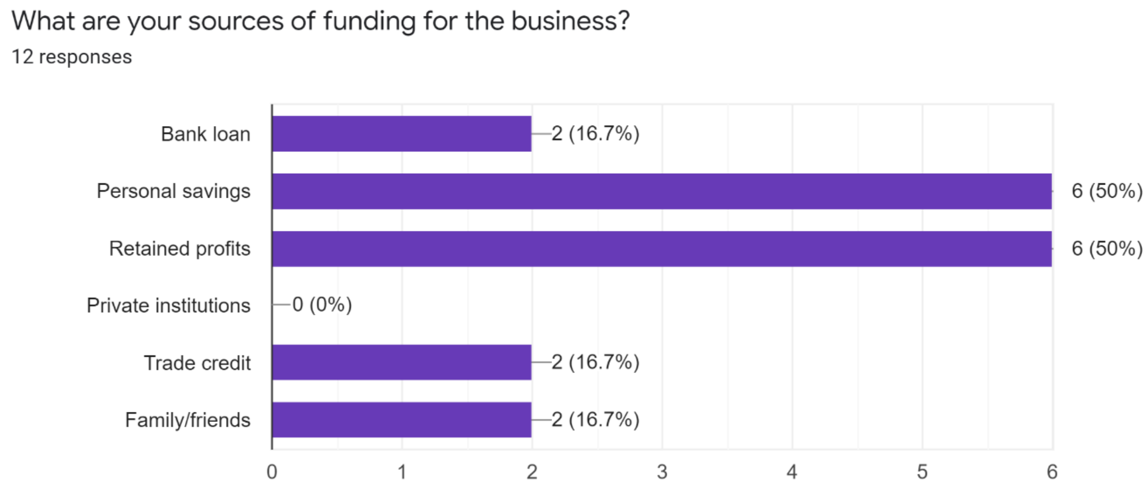
Figure 24. How did you finance the start-up of your business?



Source: Field Data, April 2020

Figure 24 shows that most of the respondents business start-up was funded with their personal savings by 83.3%, 25% of the respondents started up their business using funds through family and friends, while only 8.3% of the respondents started their business using bank credits.

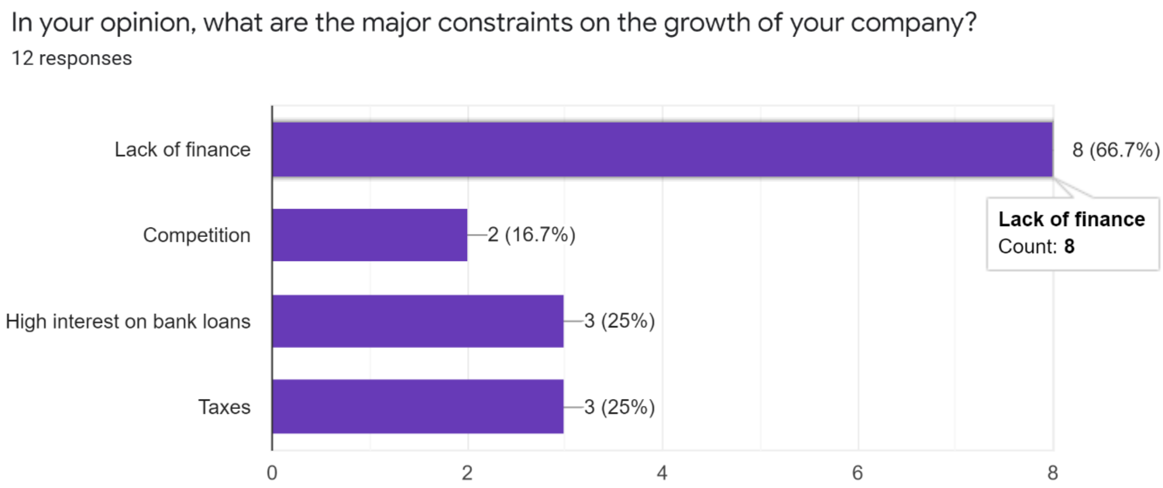
Figure 25. What are your sources of funding for the business?



Source: Field Data, April 2020

Most of the respondents source of financing their business is through personal savings and retained profits with 50% of responses. 16.7% of the respondents' source of financing is through family and friends, bank loans, and trade credits. None of the respondents recorded private institutions as their business source of financing.

Figure 26. In your opinion, what are the major constraints on the growth of your company?



Source: Field Data, April 2020

Majority of the respondents response as shown in Figure 26 points to lack of finance (66.7%) limiting the growth of companies while 25% of the respondents points to high interest rates on loans by banks and taxes. 16.7% of the respondents felt competition is their company's major constraint on growth.

5 Summary, Conclusion and Recommendation

This chapter of the research thesis will deal with summarizing the research findings, draw conclusions and provide recommendations.

5.1 Summary of Study

This main objective of this research was to find out the challenges faced by SMEs in accessing loans from financial institutions in Nigeria. A total of fifty-seven respondents took part in the collection of data using Google Forms. The SMEs were mainly sole proprietor business and private limited company (non-family owned), though some of the respondents were from partnerships and family-owned enterprises. Businesses from services, retails, real estate, manufacturing, farming, import, export, financial services, catering, food products, telecommunications and constructions were represented in the collection of data. All data collected from the study was analysed and presented using charts and detailed explanation.

This study established that SMEs do not apply for loans from banks. Out of the 57 responses to the survey on the if the business has ever applied for credit from banks, 77.2% of the respondents have not applied for credits from banks, with the majority of the respondents giving the following responses as their reason: dislike of bank loans, lack of sufficient collateral, and high interest rate. This shows why most SMEs use their personal saving and funds from family and friends as start up capital, while few of the respondents indicated they got their start up funds from bank credit. This also explains some respondents' view that banks' high interest rates is one of the major constraints to the growth of their business.

Most of the respondents find the interest rate from banks to be high, with over 66.7% agreeing on this point. This explains why the respondents do not approach the banks for loans, and why most of the business have their turnover between 0 – 5 million naira.

Though some of the businesses were funded using trade credits, family and friends and bank loans, a majority of the respondents run their business using their personal savings and the retained earnings which explains why most of the respondents believe the major constraint to the growth of their business is lack of finance.

A large number of the respondents have been denied a loan by a bank before, even though most of them have never had problems paying back loans to the bank previously. The result from the survey showed that the loans were intended to expand the business, though some of the respondents' businesses needed the loan for start-up and working capital. The majority of the SMEs needed it to upscale their business, yet the businesses were denied access to the loan facility by the banks.

The respondents who had problems paying back their loans to the banks could not pay back because of the short repayment period given. The survey shows that the maturity period commonly given by bank is only a year, which is a short time for businesses to operate without pressure from the banks on repaying back loans.

This study shows that majority of the business owners graduated from University, which can also be a reason why most of the respondents enjoy a good relationship with their banks. Most of the managers however do not have training in managerial positions, which can be another reason why a majority of the businesses have not applied for a loan yet.

The response rate on whether the businesses have a business plan is encouraging as most of the businesses have their business plan in place. Most of the business that applied for loans from bank have been denied even with the business plan, which at least shows that the business plan is one of the documents that is used by banks to assess applications for loans to SMEs. The most common information needed by banks according to the survey includes collateral, audited financial account, cash flow statement and the business plan.

5.2 Conclusion

The need for SMEs to access loans from banks cannot be denied any longer and this issue has been on the front burner of discussion for a some time. The services of small and medium business are needed for any industry to survive. These businesses therefore have to be encouraged to grow instead of dying from the lack of financial assistance.

The survey part of this study has clearly shown that small and medium size businesses are faced with challenges accessing loans from the banks. The banks also deny SMEs loans that most of them need to expand their business, even though most of them have prepared a business plan. Banks also have short repayment periods, which has discouraged small and medium sized business owners from applying for loans.

5.3 Recommendation

From the study, some of the SMEs were able to access loans from the banks while a majority were unable to access this facility. This thesis makes this following recommendation for small and medium business owners:

1. They should take care of their business accounting and ensure that their books are accurate and intact for external auditing. They can do this with the use of automated accounting software or employ an external accountant to help with their financials.
2. They should enrol in management classes. This will help the business grow and the owners will be educated on how to effectively run a business.
3. They should manage the finances of the business separately from their own finances.
4. They should investigate alternative but reputable sources of finance that have low interest rates, such as crowdfunding, venture capitalists and angel investors.

The following recommendations are made for banks:

1. They should create a more flexible repayment and maturity period for loans given to small and medium sized businesses.

2. Create an alternative way of giving credit to SMEs, which can be through the provision of raw materials, etc., instead of cash.

The following recommendations are made for the government:

1. They should create sections in financial institutions, such as banks, that cater to the needs of SMEs alone.
2. Create a policy that protects SMEs by reducing the stringent conditions set by banks that will improve small and medium sized businesses’ chances of securing loan facilities from banks.

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Appendices

QUESTIONNAIRE

INSTRUCTION: Please tick the appropriate box to indicate your response (√)

SECTION A: BIODATA

1. Nature of Organization.

(a) Private Limited Company (non-family owned) (b) Public Limited Company

(c) Partnership (d) Sole Proprietor

(e) Family Owned Business (f) Others (please specify) ………………

2. Nature/Kind of organization (please tick as appropriate)

(a) Retail trading (b) Export (c) Manufacturing

(f) Services (g) Real Estate (h) Farming

(i) Import

(j) Other (specify) …………………………………………………………….

3. How long your company has been in operations (please tick as appropriate)

(a) Less than one (1) year (b) Between 1 and 5 years

(c) Between 6 and 10 years (d) Between 11 and 15 years

(e) Over 15 years

4. How many people are employed by your company

(a) 1-5 (b) 6-10

(c) 11-15 (d) 16-20

(e) 20-25 (f) 26 and above

5. Do you have professionals in managerial positions in your company? Yes / No

6. Do you have a certificate in business management or any related field? Yes / No

7. Did your employees attend any training organized by the company? Yes / No

8. What is the qualification of your management team?

(a) Senior High School certificates (b) HND
(c) First Degree (d) MBA
(e) Other (Specify)……………………………………………

9. Does your organization have an existing business plan? Yes / No

10. What is the average yearly turnover of your business?
(a) 0 – 5 million Naira (b) 5 - 50 million Naira
(c) 50 - 500 million Naira

SECTION B

The following questions relate to the challenges your company face in accessing financing:

11. Has your company ever applied for credit from a Bank? Yes / No

12. If No, why not?
(a) Do not like Bank Loan (b) Interest Rate too high
(c) No collateral to pledge (d) Others (specify) …………………………

13. How do you rate your relationship with your bankers?
(a) Excellent (b) Good
(c) Average (d) Poor

14. Have you ever been refused or denied credit from a bank? Yes / No

15. If your answer to (14) was "Yes", what was the main reason your Bankers refused to offer your business a loan?
(a) Default on previous loan (b) No Security to pledge
(c) Too small equity base (d) Lack of experienced Management
(e) Others (Please specify) ……………………. …………

16. What was the highest amount your company ever borrowed from a Bank?
(a) < 5 million Naira (b) 5 – 49.999 million Naira
(c) 50 – 500 million Naira (d) > 500 million Naira

17. What was the purpose of the loan?

(a) Start-up capital
(b) Working capital
(c) Expansion of business
(d) Other (please specify) ………………………

18. What information did your bank ask for? (tick all that apply)
(a) Collateral
(b) Cash flow statement
(c) Total Assets
(d) Audited financial statement (account)
(e) Business plan
(f) Other (specify)………………………

19. Have you ever had problem repaying a Bank loan? Yes / No

20. If yes, what created the problem?
(a) Short duration
(b) High monthly repayment amount
(c) High interest rate
(d) Low turnover
(e) Others (specify) ……………………………………………

21. What was the maturity period of the loan?
(a) Up to 1 year
(b) Up to 2 years
(c) Up to 3 years
(d) Other (please specify) ……………………….

22. How did you find the lending rates?
(a) Extremely High
(b) High
(c) Average
(d) Low

23. What percentage of interest was offered on the loan?
(a) Less than 20%
(b) 21 – 30%
(c) 31-40%
(d) Above 40%

24. How did you finance the start-up of the business?
(a) Personal Savings
(b) Bank credit
(c) Friends & Relations
(d) Others (please specify) …………………

25. What are your sources of funding for the business? (Tick all that apply)
(a) Bank loan
(b) Personal savings
(c) Retained profits
(d) Private institutions
(e) Trade credit
(f) Family/friends

(g) Other (please specify) ………………………

26. In your opinion, what are the major constraints on the growth of your company? (tick all that apply)

(a) Lack of finance (b) Competition

(c) High interest on bank loans (d) Taxes

(e) Other (please specify) ……………………………………………………………….