

## Growth of Small and Medium Enterprises in Nigeria: Challenges of Securing Bank Loans in Nigeria

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### Abstract

This article deals with ability of business owners to access bank loans which is an important aspect relating to the sustainability of Small and Medium Enterprises. Researches have shown that bank impose stringent conditions to give out loans particularly to start up business owners but there is a need to examine if small business owners have challenges that inhibits their ability to secure bank loans and other credit facilities. Therefore, this research article examines some factors that contribute to the inability of small and medium business owners to secure bank loans such as gender, age, education and cultural perceptions. In this present research, the author used structured questionnaire to conduct the study from the sample 150 respondents who are small and medium business owners over a period of three months using the structured survey method in four states of Nigeria namely Edo, Delta, Anambra and Abia states respectively.

**Keywords:** Entrepreneurs; Managers; Micro, Small, Medium, Enterprises; Central Bank of Nigeria; Gross Domestic Product (GDP); Small and Medium Enterprises

### Introduction

Small and Medium Enterprises (SMEs) are very crucial to the development of a country's economy [1,2]. In developed economies such as Germany, United States of America and South Korea, SMEs account for 64% of industrial employment [3].

Entrepreneurship is vital to national development, poverty alleviation and employment generation [4]. Despite the contribution of Small and Medium Enterprises to national development, SMEs are faced with numerous challenges in Nigeria, India and developing countries such as insufficient capital, poor infrastructure, poor managerial capability, difficulties in securing bank loans and other credit facilities [5].

Finance is vital for the sustainability of SMEs, according to Aruwa [6], in his paper on Financing Options for Small and Medium Scale Enterprises in Nigeria, says, "The accessibility to funds and the cost of raising them have remained issues limiting the in-capitalisation requirements leading to premature collapse of the enterprises."

According to Calice et al. [7] an important aspect of the SMEs sector is finance especially bank financing since bank plays a crucial role in SMEs financing.

Commercial banks usually demand for collateral security before giving out loans for business purposes. This is a necessary factor in obtaining loan as collateral security serves as guarantee for recovering of loans given out by commercial banks in case of repayment default. Thus the difficulty of access to loan from financial institutions such as commercial banks constitute a great set back to owners of small and medium enterprises in Nigeria [4].

### SME: Role of Government in Enhancing Access to Funds

Economic growth rates in a country are often attributed to the role of the duo of the government and entrepreneurs who operate Small and Medium Enterprises which is complimentary and not mutually exclusive [8]. Federal Government of Nigeria through the Central Bank of Nigeria has made available N220 billion (122 million United States Dollars) SME Fund that small business owners can source for funds. Also, the bankers' committee intervened in 1999 with a scheme themed "Small and Medium Industries Equity Investment Scheme" (SMIEIS). The scheme requires all banks in Nigeria to set aside 10 percent of their profit before tax (PBT) for equity investment in small and medium industries, it did not commence till June 19th 2001.

In 1990, Central Bank of Nigeria issued licences enabling micro finance banks to provide loans to entrepreneurs at reduced interest rates. Micro finance banks' clients are typically self-employed, low income entrepreneurs in both urban and rural areas. The importance of microfinance to entrepreneurial development made the Central Bank of Nigeria adopt it as the main source of financing entrepreneurship in Nigeria. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Nigeria [9].

### Previous Researches

Rocha et al. [10] states that the level of bank funding to SMEs is poor in the Middle East and North Africa region based on an investigation of 139 banks in 16 countries. The author opined that direct government investment, credit guarantee schemes and other subsidized loans compensated for the low level or poor financing by banks and other private financial institutions to SMEs.

Beck et al. [11] investigated SME financing using a survey in 91 banks in 45 countries. The authors observed that government owned financial institutions provided more funding to SMEs than privately

owned financial institutions. Also, the authors found out that SMEs in developed countries received more funding than SMEs in developing countries.

### Challenges of Securing Credit Facilities in Nigeria

The primary objective of this study is to determine if gender, education, age and cultural perceptions has impact on the ability of small and medium business owners to access bank loans to develop their small and medium scale businesses.

In this present research, the author used structured questionnaire to conduct the study from the sample 150 respondents who are small and medium business owners over a period of three months using the structured survey method in some states of Nigeria namely Edo, Delta, Anambra and Abia states respectively.

Respondents were from the ages of 23 to 55 who had been in business for an average of three years. The level of education of the interviewed small and micro enterprises owners were as follows. 86% had no formal education, 10% had completed secondary school (high school) education while 4% had a university degree. Also, of the 150 respondents, 58% were male while 42% were female.

### Objectives of the Study

1. To study customers cultural perception of securing loans from financial institutions.
2. To study the relationship between small and medium business owners gender and ability to access funds from financial institutions.
3. To study the impact of small and medium business owners age and their ability to access funds from financial institutions.

4. To study the impact of education on the ability of small business owners to secure funds from financial institutions.

### Hypotheses Testing

Following the analysis of data, the hypothesis postulated would be tested. The reason for testing the hypothesis is to ascertain whether to accept or reject it based on the observed values of the chi-square (X<sup>2</sup>) method of analysis. The following procedures will apply.

The null hypothesis (H<sub>0</sub>) will be stated.

Level of significance is taken to be 5% (0.05).

Critical value is the theoretical value X<sub>2</sub>.

Expected frequency is denoted by E.

Observed frequency is denoted by O.

Degree of freedom=(Number of rows – Number of columns)

OR  $v=df=(r-1) (c-1)$ .

$\alpha=0.05$  level of significance for the test of the hypothesis.

The author compared the theoretical value X<sub>2</sub> with the empirical X<sub>2</sub> value.

Decision rule: accept the null hypothesis if the empirical value X<sub>2</sub> is greater than the table/critical X<sub>2</sub> value; otherwise reject it.

### Hypothesis formulated for the study

H<sub>0</sub>: There is no significant relationship between gender of small and medium business owners and attitude towards interest rates of bank loans from financial institutions.

Gender	Attitude towards Bank Loan Application Process					
	Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied	Total
Male Frequency	65	30	3	1	1	100
%	43.33	20	2	0.67	0.67	100
Female Frequency	30	15	0	3	2	50
%	20	10	2.5	2	1.33	100
Total Frequency	95	45	0	4	3	150
%	63.33	30	2	2.67	2	100

**Table 1:** Attitude towards Bank Loan Application Process.

H<sub>1</sub>: There is no significant relationship between cultural perceptions of small and medium business owners and willingness to apply for credit facilities in financial institutions.

H<sub>2</sub>: There is no significant association between education of small and medium business owners and ability to access credit facilities in financial institutions.

### Data analysis and interpretation

Table 1 shows that among male respondents 20.0% are satisfied with the process of applying for bank loans and 0.67% are dissatisfied with bank loan application process. Among females 1.33% was highly

dissatisfied with bank loan application process and 10.00% have said that they are satisfied with bank loan application process.

Table 2 shows Chi – Square P Value is 0.0002 which is less than that of 0.05 at 5% level of significance, thus the null hypothesis is rejected. Therefore there is significant relationship between cultural perceptions of small and medium business owners and gender and willingness to apply for credit facilities in financial institutions.

Table 3 shows Chi – Square P Value is 0.001 which is less than that of 0.05 at 5% level of significance, thus the null hypothesis is rejected. Therefore there is significant association between education of small

and medium business owners and ability to access credit facilities in financial institutions.

Table 4 shows Chi – Square P Value is 0.0001 which is less than that of 0.05 at 5% level of significance, thus the null hypothesis is rejected. Therefore there is significant association between age of small and medium business owners and ability to access bank loans.

### Findings

H0: There is no significant relationship between gender of small and medium business owners and attitude towards interest rates of bank loans from financial institutions. From Table 1, there is a significant relationship between gender of small and medium business owners and attitude towards interest rates of bank loans from financial institutions. Therefore, null hypothesis is rejected. According to Pawar [12], In general it appears that the attitude of the bankers was not conducive towards women entrepreneurs since bank officers feel it risky to provide financial assistance to women owned units and the loan application process is more cumbersome for female entrepreneurs.

H1: There is no significant relationship between cultural perceptions of small and medium business owners and willingness to apply for credit facilities in financial institutions.

Chi Square Test	Value	Degree of Freedom	P-Value
Pearson Chi- Square Likelihood ratio	20.568	4	0.0002
Linear by Linear Association	0.295	4	0.0001
No of Valid cases	120	1	0.496

**Table 2:** Chi square test

From the above table, Chi – Square P-Value is 0.0002 which is less than that of 0.05 at 5% level of significance, thus the null hypothesis is rejected. There is significant relationship between cultural perceptions of small and medium business owners and willingness to apply for credit facilities in financial institutions.

H2: There is no significant association between education of small and medium business owners and ability to access credit facilities in financial institutions.

Chi Square Test	Value	Degree of Freedom	P-Value
Pearson Chi- Square	31.75	8	0.0001
Likelihood ratio	35.05	8	0
Linear by Linear Association	0.275	1	0.571
No of Valid cases	120		

**Table 3:** Chi square test

From the above table, Chi – Square P Value is 0.001 which is less than that of 0.05 at 5% level of significance, thus the null hypothesis is rejected. There is significant association between education of small and medium business owners and ability to access credit facilities in financial institutions. According to Sagagi [13], lack of training and

the level of education impacts on the ability of small and medium business owners to access funds provided by governmental agencies including micro finance banks for the growth of SMEs in Nigeria.

H3: There is no significant relationship between age of small and medium business owners and ability to access bank loans.

Chi Square Test	Value	Degree of Freedom	P-Value
Pearson Chi- Square	36.5	12	0.0001
Likelihood ratio	37.32	12	0
Linear by Linear Association	0.28	1	0.59
No of Valid cases	120		

**Table 4:** Chi square test

The study also revealed in Table 4 that there is a significant relationship between age of small and medium business owners and ability to access bank loans. P value=0.0001<0.05 (5% level of significance where the chi square value= 38.10.

### Practical Implications

1. The study shows that male entrepreneurs would be more willing to seek bank loans than female entrepreneurs. Thus, male entrepreneurs are less dissatisfied with bank loan application process. Recent studies indicate that Harinarayana [14] in his study on ‘Promotion of Women Entrepreneurship’ are more ignorance of opportunities, lack of motivation to seek risk, display shyness and are less willing to seek credit facilities from banks. Women entrepreneurs should be encouraged to apply for bank loans through various incentives from banks.

2. The study reveals that there is significant relationship between cultural perceptions of small and medium business owners and willingness to apply for credit facilities in financial institutions. Banks should make efforts to change customers’ cultural perceptions towards loans and offer banking products that impacts positively on the cultural perceptions of customers namely banking products that customers can easily relate to base on their experiences, cultural backgrounds and ethnic affiliations; banking products such as Islamic banking and Esusu banking are steps in the right direction.

3. The level of education of Small and Medium Enterprise business owners impacts their ability to secure bank loans. Government agencies should provide or support training programs for entrepreneurs through funding.

4 The researcher humbly suggest that Central Banks should direct banks to develop materials specially designed to assist small and medium business owners to apply for bank loans and employ officers dedicated to developing relationships and assisting small and medium business owners to apply and access bank loans. For example, Barclays Banks, United Kingdom sends a free pack including CD-Rom to startup businesses that opens an account with Barclays Bank which explains in details the processes of applying for loans with Barclays Bank and operating a successful small and medium enterprise.

5. Banks should engage independent researchers to conduct specific researches into reasons why some small and medium business owners are hesitant to apply for bank loans and why cultural perceptions of

banks by some small and medium business owners inhibit their willingness to apply for bank loans.

## Conclusion

Finance is vital for the sustainability of SMEs, access to funds and the cost of raising finance have remained one of the challenges that confronts SMEs in Nigeria and the rest of the world. This current research reveals that there are a number of factors that hinders the access of funds by small and medium business owners such as cultural perceptions, education, age and gender. Banks should make efforts to address the factors that hinder access to loans and other credit facilities provided or supplied by banks. Apart from creating awareness by banks on credit facilities, Government agencies have a role to play to assist small and medium business owners through the provision of training programs for entrepreneurs.

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