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FINANCIAL ACCESS AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN EDO NORTH SENATORIAL ZONE OF NIGERIA

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Abstract

The inability of small and medium scale enterprises in Nigeria to access funds with ease in nation's financial institutions has been identified as a major obstacle to SMEs operations in Nigeria. This study, examines how financial access influences the performance of small and medium scale enterprises in Nigeria with emphasis on Edo North Senatorial Zone of Nigeria. The study focuses on areas of turnover rate, profitability level and market share of the firms. The questionnaire was adopted as the instrument of data collection in the study, with the collated data analyzed using the Chi- Square statistical tool. The result of the study showed that financial access significantly influences the turnover rate, profitability level and market share of the studied firms. Recommendations were however made on how to improve SMEs access to capital in Nigeria. Commercial banks and financial lending institutions should open a window for SMEs loans, additionally the central bank of Nigeria through its special directives and moral suasion tools of controlling commercial banks to classify, expand and smoothing protocol in credit facilities to SMEs, among others.

Key Words: Financial Access; SMEs; Performance; Edo North; Nigeria.

JEL Classification: G1; G12; M21

Introduction

There is growing recognition of the important role of financial access to the performance of small and medium enterprises (SMEs) in Nigeria. Financing plays significant role in the growth, market share, profitability and job creation capacity of SMEs, and to some extent determines their impact on the Gross Domestic Product (GDP) or performance of the economy (Muhammed & Alli, 2015).They are often described as the engines through which the growth objectives of developing countries like Nigeria can be achieved. The SMEs are potential sources of employment and income in many developing countries. They majorly contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. Given the importance of SMEs in an economy, it becomes quite plausible to look at factors affecting their financing which is a major determinant of their survival, growth and overall impact on the economy.

SMEs is said to represent over 90% of industrial operation in Nigerian economy. Studies showed that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in the Europe (Banji, 2018). Muhammed and Alli, (2015), put the number of MSMEs in Nigeria at 17,284,671 with job creation that run into tens of millions. Despite the encouraging numbers of SMEs and the huge percentage they occupied in the economy, the contribution they make to the economy's GDP is quite unfortunate as Banji, (2018) observes that SMEs contribute less than 10% to the nation's GDP compared to 40% in Asian countries and 50% in the Europe and US. In other words, performance in terms of market share, profitability and huge turnover had not been encouraging compare to what is obtainable in Asia, Europe and North America.

Finance has been identified one of the major problems of SMEs in Nigeria (Nadada, 2013). While their capital structure is a combination of funds from owners of business (owners' equity/ internal financing) which might be as a result of savings from the business owner and external financing. Most SMEs are constrained with fear of accessing short and long-term financing through various means such as commercial banks, development/specialized banks, micro finance banks, the capital market where opportunities are provided for emerging businesses to access funds for capital etc. And, the inability of most

SMEs in Nigeria to access capital for expansion or operation has negatively affected their overall performance. This study intends to investigate how financial access by SMEs has affected their performance in Nigeria with emphasis on Edo North Senatorial Zone of Nigeria.

The study is based on the following objectives which consequently formed the basis of the hypotheses of this research.

1. To determine the relationship between financial access and turnover rate of SMEs operating in Edo North Senatorial Zone of Nigeria.
2. To ascertain if financial access influences the profitability level of SMEs operating in Edo North Senatorial Zone of Nigeria.
3. To establish the relationship between financial access and market share of SMEs operating in Edo North Senatorial Zone of Nigeria.

Literature Review

Central Bank of Nigeria(2015)defined Small and Medium Scale Enterprises (SMEs) as an enterprise that has an asset base (excluding land) of between N5Million – N500Million and labour force of between 11and 300. Alternative Securities Market (ASEM) for emerging businesses(2013)defined SMEs as an enterprise with an asset base excluding land and building of N10million to less than 100million with 10 – 49 employees for "SMALL" and N100million to less than N1billion with 50 – 199 employees for "MEDIUM". Banji (2018) defined SMEs as business with turnover of less than N100million and/or less than300 employees. It can be observed that the scope of these definitions is within the same framework, but notwithstanding, the study adopts the definition of ASEM (Muhammed & Alli, 2015).

In an attempt to improve the operational performance of the SMEs and aid their development, the government, post-independence, established various schemes such as Industrial Development Centers (IDCs) in 1962, Small Scale Industries Credit Scheme (SSICS) in 1971, Small Scale Industries Fund (SSIF). The government issued policy initiatives aimed at addressing the peculiar needs of the SMEs through existing commercial banks. Such among others include: The Rural Banking Scheme (1977); National Economic Reconstruction Fund (NERFUND) was established in the mid-1980s to assist SMEs to adjust to the Structural Adjustment Programme. The Fund provided a long term loan support (5-10 years) to SMEs at concessionary interest rates; Established the community banking scheme in 1991 with the objective of rural development and• providing start-up facilities for smallholders; Establishment of Bank of Industry (BOI) with the principal objective of providing credit to the industrial sector including SMEs at an interest rate of 10 percent.

The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) were also established with the objective of financing the rural sector with particular interest in the SME sub-sector; The Community Banking Scheme (1992) which gave mandates to commercial banks to provide finance to the SMEs. These initiatives failed mainly because of political instability, lack of fiscal discipline, inconsistent macroeconomic policies, by the government who established them. Despite the failures of most of the initiatives mentioned above, the need to put in place a policy framework that will help promote the development of a robust SME sector remains ever-present. These issues necessitated the formulation of new policies and attitudes towards the growth and development of SMEs in Nigeria. Some of the recent initiatives to improve SMEs funding in Nigeria are Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Small and Medium Enterprises (SME) Credit Guarantee Scheme (SMECGS), N200 Billion Refinancing/Restructuring Facilities to Small and Medium Enterprises/Manufacturing (RRF), The Real Sector Support Facility (RSSF), The Micro Small and Medium Enterprises Development Fund (MSMEDF), N50 Billion Textile Sector Intervention Fund, Establishment of Entrepreneurship Development Centres (EDCs).

Challenges to SMEs Financing Strategies in Nigeria

SMEs have been fully recognized as the main engine of economic growth and a major factor in promoting private sector development and partnership. Some of the financing challenges they encounter according to Muhammed and Alli, (2015), Banji, (2018), Basil, (2015) and Afolabi, (2013) include:

Accessibility to sustainable funds has perennially constituted a hindrance to adequate funding of Small and Medium Enterprises (SMEs), leading to the premature collapse of these industries. Owners' equity or family savings had been recognized in the world as the major source of financing SMEs. This is, however, negatively impacted by the excruciating poverty level in the country and limited level of savings. Such scenario has been the bane of SMEs in Nigeria resulting in the need for external borrowing

Paucity of Infrastructural Facilities: The viability of Small and Medium Scale Enterprises in the country over the period have been hampered by inadequate infrastructural facilities like epileptic power supply, inadequate water supply, poor road network, as well as an unaffordable communication system. Since most business outlets survive on alternative source of power (generating plants) the cost of doing business has been outrageous resulting in poor performance in the real sector of the economy

Majority of the SMEs do not keep records for fear of tax obligations. The prevailing corrupt tendency in Nigeria, which has permeated the fabric of the society including Nigeria entrepreneurs, has prevented most small and medium enterprises operators from keeping adequate records. This makes it difficult to translate general policy framework into efficient and sustainable intervention programmes for the benefit of the SMEs in the country.

Most SMEs operators prefer to get the funds as a loan rather than an equity contribution. They are averse to going into partnership schemes with banks under the SMIEIS programme, thus, setting back most SMEs in the country.

A good number of SMEs in Nigeria are not aware of the existence of the different sources of funds for SME development; the incentives available for them, as well as how to source funds from banks.

Inadequate Management and Planning: The ingredients of management include planning, organization, coordination, and control of material and human resources to enable it to meet up its targets and goals (Basil, 2015). Management and planning is the ability to execute efficiently and effectively the set target with and through the stakeholders. It is however sad to note that SMEs operating in developing countries hardly involve others in the running of their business and as such hardly have expert advice. This has led in most cases of wastages and underutilization of resources as well as declining profit margin.

The poor governance structure is another factor preventing the small and medium enterprises from accessing funds easily from banks and other specialized financial institution

Theoretical Review

The full potentials for ensuring the expansion of entrepreneurs can be viewed from the performance of SMEs. Most kinds of literature associate the rising potentials of economic growth and development to SMEs. Several institutions like Bank of Industry, Bank of Agriculture, Entrepreneurship Development Centers, and Community/Microfinance Bank have been of great potentials to the growth of SMEs in Nigeria (Ofoegbu, Akanbi & Joseph, 2013).

According to Basil (2015) the SMEs are affected by several problems. Some of the problems include insufficient capital, inadequate market research, lack of business strategy, inexperience, cut-throat competition, as well as inadequate entrepreneurial skills. In addition access to capital, poor operating environment and high illiteracy rate remain a limiting factor. However, numerous studies highlight access to finance as one of the driving factors of an enabling economic environment for growth and development. The World Bank and the International Finance Corporation (IFC) ranked economies according to their ease of doing business; in this framework, the ability for business to get credit is an important criterion (World Bank, 2017). The Global Entrepreneurship Monitor (GEM) (2018) also highlights entrepreneurial finance, defined as the availability of financial resources for SMEs in the form of debt and equity, as one of the key factors for stimulating and supporting entrepreneurial activity. Access to finance facilitates market entry/ market share, profitability, turnover rate, the growth of companies and risk reduction, as well as promotes innovation and entrepreneurial activity (Junjie, 2018). Additionally, firms with greater access to capital are more able to exploit growth and investment opportunities, improve their profitability level, market share and turnover rate. Put differently; aggregate economic performance will be improved by increasing the access to capital (Nadada, 2013)

It has been remarked that interest rates charged by banks in Sub-Saharan Africa create disincentives for most borrowers to acquire funds to invest in their businesses on one hand. On the other hand, the interest rates charged by banks discourage most small businesses from applying for bank financing (Diagne & Zeller, 2002; Foltz, 2004). Fatoki and Smit (2011) in South Africa grouped the major factors that influence the low access to finance by SMEs in two ways; internal and external. The internal factors include the business information, collateral, networking, and managerial competences. External factors constitute the legal environment, crime and corruption, ethical perceptions, and macro-economy.

Methodology

The study is based on primary data collected from the study area. Edo North Senatorial Zone comprised of six local government areas. Questionnaires were administered purposively on respondents (business owners) selected from the headquarters of each of the local government areas with a given number of business households shown in table two below:

Table 1: Distribution of Business Households Population in the Six Local Government Areas.

L.G.A	Population of Business Operators	(%)
Akoko Edo	50	20.0
Etsako Central	36	14.4
Etsako East	43	17.2
Etsako West	70	28.0
Owan East	31	12.4
Owan West	20	8.0
Total	250	100

Source: Field survey: 2020

The population of this study was a finite one (250). This permitted the researcher to adopt Yamane (1964) model for determining the sample size of a finite population. The model stated that

$$N = \frac{N}{1+N(e)^2}$$

n $= required\ sample\ size,$
$N = Population\ of\ the\ study\ (250) I = statistical\ constante =$
$maximum\ level\ of\ error\ at\ 5\%$

Therefore $n = 153$

The sample size was distributed to the participating population using proportional stratification (Onwe 1998, Asika 1991, osuala 1993). Table 2 demonstrates the distribution of sample size.

Table 2: Proportional Stratification

L.G.A.	**Number Of Operators**	**%**	**Proportional Stratification**	**No Found Useful**
Akoko Edo	50	20.0	0.20 x 153 = 31	**2**8
Etsako Central	36	14.4	0.144 x 153 = 22	20
Etsako East	43	17.2	0.172 x 153 = 26	21
Etsako West	70	28.0	0.280 x 153 = 43	38
Owan East	31	12.4	0.124 x 153 = 19	15
Owan West	20	8.0	0.08 x153 = 12	11
Total	**250**	**100**	153	**133**

Source: Field survey: 2020

The main instruments for the collection of primary data were questionnaire. In addition, personal contacts were made with respondents to discuss and explain issues rose in the questionnaire which might have been difficult for them to understand. A total number of 153 questionnaires were distributed out of which 143 were retrieved. Of the 143 retrieved questionnaires, 133 were found useful for the purpose of this study. This indicates a success rate of 86.9 percent. The data collected from the field were analyzed using the Chi-Square non parametric tool.

Table 3: Distribution of Business size Among Respondents

Business size	No. of Respondents	Percentages
Medium Scale	20	13
Small Scale	133	87
Total	153	100

Source: Field Survey, 2020.

Table 3 above shows that out of the 153 businesses surveyed, 20 or13% are medium scale enterprises, while 133 or 87% are small scale enterprises., the above indicated that most of the respondents are small business owners.

Results and Discussion

Test of Hypotheses

Our hypothesized statements are tested using the chi-square statistical tool. The tests are conducted at 95% confidence interval at 0.05 significant levels. The degrees of freedom are determined appropriately.

Decision Rule

Accept $H_o$if $\chi^2_{cal}$is less than χ^2_{tab} .

$\chi^2_{cal} > \chi^2_{tab}$ reject H_o and accept H_A

Hypothesis One: There is no significant relationship between financial access and rate of turnover of the firms.

Table 4: Contingency (Turnover Rate)

Issues Raised	**S/A**	**A**	**D**	**SD**	**Total**
Problem of financial access has been a bane on your firm's ability to carry out huge operation	37	40	20	36	133
Financial access has improve your credit worthiness	40	38	11	44	133
Financial access has facilitated your business operation	28	60	18	27	133
Your turn over rate is largely determined by your financial access	30	30	60	13	133
Total	**135**	**168**	**109**	**120**	**532**

Source: Field survey 2020

χ^2_{cal}= 86.15

At 95% confidence interval, at 0.05 significant level and degree of freedom = 9,

χ^2_{tab} = 16.92

Decision: Since χ^2_{cal} is greater than χ^2_{tab} the null hypothesis (H_o) is rejected and the alternative (H_A) which states that there exists a significant relationship between financial access and turnover rate of the firms should be accepted.

Hypothesis Two: financial access does not influence the profitability level of the firms contingency

Table 5: Profitability Level

Issues Raised	**S/A**	**A**	**D**	**SD**	**Total**
Your access to finance has raised the gap between the cost and revenue of your firm	44	32	31	26	133
Financial access enables your firm adopt modern production technique that reduces operational costs	33	62	20	18	133
Through financial access, your firm is able to explore a wider market that impact positively on the profitability level	33	48	19	33	133
Access to finance enable your firm to enjoy discount buying that reduces material costs	20	30	48	35	133
Total	**130**	**172**	**118**	**112**	**532**

Source: field Survey 2020

χ^2_{cal}= 49.43

At 95% confidence interval, at 0.05 significant level and degree of freedom = 9

χ^2_{tab}=16.92

Decision: Since χ^2_{cal} is greater thanχ^2_{tab}, the null hypothesis (H_o) is rejected and the alternative (H_A) which states that financial access influences the profitability level of the firms should be accepted.

Hypothesis Three: There is no significant relationship between financial access and market share of the firms.

Table 6: Contingency (Market Share)

Issues Raised	**S/A**	**A**	**D**	**SD**	**Total**
Financial access enables your firm to improve its customer base through investment in modern marketing strategy.	30	66	20	17	133
Financial access provides opportunity for your firm to explore other markets	14	36	55	28	133
Product innovation has been carried out through financial access to improve customer base.	44	30	19	40	133
Financial access has reduced production and product costs that have attracted more customers to your products.	30	25	55	23	133
Total	**118**	**157**	**149**	**108**	**532**

Source: Field Survey 2020

χ^2_{cal}= 85.69

See Appendix C for details

At 95% confidence interval, at 0.05 significant level and degree of freedom of 9

χ^2_{tab} = 16.92

Decision: Since χ^2_{cal} is greater than χ^2_{tab} the null hypothesis (H_o) should be rejected and the alternative (H_A) which states that a significant relationship exists between financial access and market share of the firms should be accepted.

Discussion of Findings

Three core issues were raised in the questionnaire as influenced by financial access by SMEs in the study area. The first issue centered on the rate of turnover of the firms and the hypothesis tested showed that financial access influences the rate of turnover of the firms significantly. Similarly, 57 percent of respondents agreed that financial access influences the turnover rate of the firms, which agreed with the findings of Hezron and Hilario (2016), Afolabi (2013), Banji, (2015) and Muhammed and Alli, (2015) in their studies.
The second issue rose centered on the firms' profitability level and the data analyzed indicated that financial access influences the profitability level of the studied firms.56 percent of the respondents agreed that financial access influences the profitability level of the firms. This also corroborated the views of Akingunola, (2011), Nguyen, Gan, and Hu, (2017) and Ahiawodzi and Adade, (2012).

The third issue bothered on market share of the firms. There is a significant relationship between financial access and market share of the firms. 52 percent of the respondents agreed that financial access significantly influences the market share of the firms.

Afolabi, (2013), Akingunola, (2011), Junjie, (2018) and Ofoegbu, Akanbi, and Joseph, (2013) agreed in their studies that financial access account to a great extent the ability of firms to expand their market scope.

Conclusion and Recommendations

The result of the study indicated that the issues raised are influenced by financial access by SMEs in the area of study as significant relationships do exist between the rate of turnover, profitability level and market share and financial access of the firms. However, measures have to be taken to expose SMEs operators to areas they can access finance with ease to enable them fund their business operation with little or no stress. Among such measures are: all commercial banks and financial lending institutions to open a window for SMEs loans. Additionally the central bank of Nigeria (CBN) through its special directives and moral suasion tools of controlling commercial banks to classify, expand and smoothing protocol in credit facilities to SMEs.

The government at all levels should as a matter of urgency set up mechanisms to organize training and awareness campaign for SMEs operators in their areas. Furthermore government and other well meaning individuals should consider those socio-economic attributes that are significant in determining credit supply when planning. These would be a kind of positive multiplying effect to economic growth and development

Similarly, SMEs operators should be trained on the keeping of proper financial records, documentation and business planning. This would also aid them in accessing loans from financial institutions with ease. They should also explore the opportunity of accessing long term fund from the capital market

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