The effect of the access to Finance on the Growth of Small and Medium Scale Enterprises in Jigawa State of Nigeria.

Danladi Bashir
College of Business and Management Studies,
Jigawa State Polytechnic, Dutse, Nigeria,

Shafiu Wadari
College of Business and Management Studies,
Jigawa State Polytechnic, Dutse, Nigeria.

Abstract

This study investigates the effect of access to finance on the growth of small and medium scale enterprises in Jigawa State of Nigeria. In Nigeria, the growth of small and medium scale enterprises and its prevalence is significantly low. This study is expected to provide feedback to the government on its policies of financing SMEs in the state. The study was conducted among some registered SMEs owners/managers out of a population of 2,370 registered SMEs in Jigawa State by admistering a structured questionnaire to the respondents. Simple linear regression analysi was used to analyze the data. The study found that lack of access to finance significantly hindered the growth of SMEs in the state as majority of the respondents viewed financing as a major challenge. Almost all the respondents indicated that access to finance affects the growth of firm. Finance was the major factor due to the rising cost of factors of production that impacted significantly on the growth of SMEs in Jigawa State. Government should empower the SMEs in the state with access to fund to propel the growth of SMEs in the state by way of ensuring that credit facilities are appropriately disbursed to the rightful beneficiaries.

Keywords: Financing, Entrepreneur, Growth, Investment, Industry, Loan, SMEs.

INTRODUCTION

SMEs are believed to be the catalyst for propelling the economic growth of any economy as they constitute the major business activities in most growing economies. They are the key players in the private sector in almost every country that operate market economies. These SMEs are the major source of job creation, increased level of production, and other key indicators of economic development. The growth of SMEs is regarded as crucial to the growth of any economy in the world. Records show that SMEs occupies 60 to 80% of the global economy (Nnanna, 2002).

A report of the United Nations Industrial Development Organization (UNIDO, 2012) revealed that, SMEs have a major role to play in economic growth and development of any country as they make-up the pillar of the private sector; they constitute more than 90 percent of entrepreneurs over the globe and account for almost 60 percent of employment generation; they also serve as catalyst for poverty alleviation. Despite the major role of SMEs to the growth of Nigeria's economy, it is still been hindered by many factors such as lack of access to credit, mismanagement and improper implementation of government policies on SME's which hinders the development of the sector (Abiola *et al*, 2011).

The positive performance of SMEs in countries like Malaysia, Thailand, Singapore and Taiwan is a good example of the importance of SMEs to the economy. Some of these countries whose economies were in shambles for many years, are now among the economies in the world that grow very fast due to their viable SMEs . Global statistical records show that SMEs account for 98 % of all private companies in the global market and contribute not less than 30 % of the global GDP and are responsible for 50% of the global labour force (Nnanna, 2002).

In United State of America, the sector, which has close to 22 million enterprises, is contributing more than half it's GDP, employing about 53 % of the total private workforce and is responsible for creating majority of all new jobs.

In China, the SMEs which is also referred as Township Enterprises are responsible for the generation of employment of more than 50 % of the entire labour force. Employment in this sector grew from 28 million to 96 million in 1991 (Nnana, 2002). Likewise, in India, total industrial output had reached US $192.93 billion with the SMEs accounting for US $108.18 billion (Nnana, 2002). In

Kenya, small scale entrepreneurs have contributed significantly to economic growth of the country. These enterprises accounted for 12-14% of GDP (Kombo, *et al* 2011).

In Nigeria the sector has also contributed to the economic growth and development of the nation, but the level of contribution is far below the level achieved by countries like Malaysia, China, United State of America and India. That notwithstanding, SMEs in Nigeria employ about 60 % of the labor force, but contribute only 35 % of industrial output and account for 10 % of industrial exports (Nnana, 2002). The conventional banking and other financial services in Nigeria only offer service to 35% of the economically active population while the remaining 65% do not access such financial services. These 65% are often served by informal financial sector (CBN, 2005). Thus, access to finance has remained the major challenge of SMEs in Nigeria. The low contribution of SMEs to the growth of the Nigeria economy has been linked to lack of access to finance from the formal financial system. A lot of literature has emphasized the importance of access to finance for the growth of SMEs.

There is the need to find out whether finance when accessed stimulates the growth of the SMEs. This research therefore studies the effect of access to finance on the growth of SMEs in Jigawa State, specifically the study wants to find answers to the following question: Does the volume of formal credit affect the growth of SMEs in the state?
This study is significant as it may provide feedback on government credit schemes on SMEs in Jigawa state, likewise the study will assist in formulating future policies that may improve the livelihood of the people of Jigawa State. The choice of Jigawa is stemmed from the fact that Jigawa state is considered as the poorest state in Nigeria with substantial percentage of its population below the poverty line. The paper is divided into five parts. Part one is introduction. Part two reviews the literature; Part three is the methodology, part four is results and discussion; and part five handles conclusions and recommendations.

Objective (s) of the study:

- To study the effect of access to finance on the growth of SMEs in Jigawa State.
- To suggest the remedial measures for improving the growth of the SMEs

Problem Statement/Justification:

With the existence of huge number of SMEs in Jigawa state due to the outcome of economic empowerment initiatives by the state government, many of SMEs do not live to see the light of the day. Consequent upon that, this study intends to find out the effect of access to finance on the growth of SMEs in the state. With increased credit facilities from the government guaranteed Nirsal Micro Finance loan in the state, there is an ardent need to find out whether such loans reach the rightful beneficiaries or not. The outcome of the research will offer policy suggestions to the government in order to mitigate the eminent collapse of the SMEs in the state in particular and the country in general.

Hypothesis

The study formulates the following hypothesis in order to achieve the research objectives:
Ho. There is no significant relationship between access to finance and the growth of SMEs in Jigawa State, Nigeria

H1. There is significant relationship between access to finance and the growth of SMEs in Jigawa State, Nigeria

LITERATURE REVIEW

The literature review covers the conceptual framework and contributions of other researchers on the effect of access to finance on the growth of small and medium scale enterprises.

Concept of Small and Medium Enterprise
Small and Medium Enterprises have no universally accepted meaning. In some countries, it is defined on the basis of annual turnover and the number of workers employed while in some countries they are defined on the basis of their position in the industry and the nature of their business.

According to the European Commission (2003), SMEs refer to companies with fewer than 250 employees, a turnover below €50 million, and a balance sheet total of less than 43 Million Euro. According to International Finance Corporation (2006), an enterprise is said to be micro if the number of its employees is below 10, total assets are less or up to $100,000 or its equivalent, and total annual sales are less or up to $100,000 or its equivalent. It issmall if the number of its employees is more than 10 but less or equal to 50, total assets are greater than $100,000 but less than or equal to $3m or its equivalent, and total annual sales are less or up to $3m or its
equivalent. It is medium if its employees are more than 50 but less or equal to 300, total assets are greater than $3m but less than or equal to $15m or its equivalent, and total annual sales are greater than $3m but less than or equal to $15m or its equivalent.

For the purpose of clarity, this paper adopts the definition of Small and Medium Industry Equity Investment Scheme which defined SMEs as those enterprises with the number of employees not less than 10 and not more than 300 and maximum asset of N200,000,000.00 excluding land and working capital.

The effects of access to finance on the growth of SMEs

The aim of intervention program by the government in financing SMEs is to stimulate their growth. This is due to the fact that SMEs are regarded as a catalyst for economic growth and an avenue for employment generation. Credit from banks and other government empowerment imitative are expected to revamp the growth of SMEs by increasing their turnover, profitability and absorptive capacity in terms of generation of employment. A study by Joe and Almas (2008) that investigated the effect of credit guarantee on SMEs performance in Korea revealed that guarantee frequency enable guaranteed firms to achieve good performance. The study found that credit guarantee satisfied partially its goal of alleviating difficulties faced by SMEs in acquiring finance which also aid SMEs in employment generation. Conversely, in another study by Maseco *et al* (2011) revealed that only 7% of the SMEs in their survey transform into large firm after receiving financial support from the government. This is to say that enterprises in the study had not grown to the expectation even when they access government financial support.

Hunton *et al* (2003) investigated the longitudinal effect of Enterprise Resource Planning (ERP) adoption on the performance of firm by matching 63 firms that adopted ERP with other firms in the industry that had not adopted ERP systems . Results reveal that the return on assets (ROA), return on investment (ROI), and Return on sales (ROS) were significantly better over after a 3-year period for adopters, as compared to non adopters .

A study by Rabbani and Sulaiman (2005) on Brac Banks's credit to SMEs in Bangladesh found that the SMEs in the survey generates 16.4% new jobs after receiving credit from the bank. This shows that the credit from the bank has an effect on the growth of the SMEs in the survey through an increase in the generation of employment by the firms. Also in another study by Kadiri (2012) it revealed that loan accessed by SMEs in the survey has positively impacted to the SMEs ability to generate employment. The co-efficient of determination of the regression is 0.81, indicating that about 81% of the variation in SMEs ability to generating employment is account by the independent variables in the regression equation including credit. According to the study credit is the most important factor that influences SMEs ability to generate employment. The result in the regression equation has a significant value of 0.0000 which indicates that finance is a factor affecting the generation of employment by SMEs.

Qureshi (2012) investigated the constraints experienced by small and medium scale enterprises (SMEs) in Pakistan as regards to access to financing. The study made use of qualitative data and quantitative data. A study was carried from a sample of 500 respondents of SMEs in Karachi from whom many questions were asked through a structured questionnaire. In addition, interviews were taken from various entrepreneurs and bankers. A conceptual framework was devised to test and find out the statistical validity. It includes dependent variable SME financing and independent variables, financing constraints, functional/internal barriers, government support and incentives, and SMEs growth and development. The study reveals that Formal financing is the major impediment to SMEs because a greater portion of SMEs does not have the required security for collateral. The turn around time for availing loan is very lengthy and cumbersome and the terms and conditions of the credit are not thoroughly understood by the client which is a similar case to the Nigerian situation.

Olowe, Moradeyo, and Babalola (2013) studied the effect of microfinance bank on SMEs growth in Oyo State, Nigeria. The results revealed that financial services obtained from MFBs have a significant positive effect on MSEs growth in Nigeria. The results further revealed that duration of credit facilities has a positive effect on SMEs growth but not statistically significant. Afolabi (2013) studied the growth effect of small and medium enterprises (SMEs) financing in Nigeria between 1980 and 2010. Using Ordinary Least Square (OLS), the result revealed that SMEs financing has a positive relationship to economic growth.

Mamman and Aminu (2013) examined the impact of banking reforms of 2004 on credit financing of SMEs in Nigeria. A sample size of 500 respondents were randomly chosen and chi-square test was used which revealed that there is no significant relationship of banking reform of 2004 on credit financing of SMEs in Nigeria and opined that there are some impediments which hindered access to credits from the banks for SMEs in Nigeria. In another study also, Aliyu and Bello (2013) assessed the efforts of commercial banks to the growth of SMEs in Nigeria between 1980 and 2009 making use of ratio analysis and trend analysis, it was found that commercial banks have contributed to financing SMEs although their contributions have fallen as the government abolished the mandatory bank's credit allocations.

Nwosa and Oseni (2013) assessed the effect of bank loans to SME's on manufacturing output in Nigeria for the period spanning 1992 to 2010. Employing error correction modelling technique, the study found that bank credits to the SME sector had significant effect on manufacturing output both in the long and short run. Omah, Duruwoju, Adeoye and Elegunde (2012) in another research also studied the effect of post-bank consolidation on the performance of SMEs in Nigeria, with special reference to Lagos State. A sample size of 50 respondents selected from the population of the study within Ikeja Local Government in Lagos State. Applying mean, standard deviation and coefficient of variation in its data analysis, the study found that SMEs do not have better access to finance through banks, due to re-organization in banks as a result of post-bank consolidation and SMEs do not have rapport with the banks due to their financial background in Nigeria.

Dada (2014) observed that the constantly frequent complaint of SMEs about their challenge regarding access to finance is a highly important problem that hinders the growth of the sector in Nigeria and examining the impact of commercial banks' credit on SMEs development using Ordinary Least Square (OLS) technique towards estimating the multiple regression models. The results showed that commercial banks credit to SMEs and the saving and time deposit of commercial banks exert a significant positive influence on the growth of SMEs proxy by retail and wholesale trade output as a part of GDP, while interest rate as well as exchange rate show opposing effect on the development of SMEs.

Adebisi, Sunday, and Ofuani (2015) investigated the financial constraints that SMEs face and its impacts on their performance in Lagos state. The research made use of primary data which were collected through questionnaire administration to 222 respondents. The research reveals that financial constraints are the major factor hindering the growth of SMEs in Lagos state, Nigeria.

METHODOLOGY

This part explains the methodology of the study. It explains the population, sample and the sampling techniques for the study. It also explains the method of data collection. The study was conducted among the SMEs in Jigawa State, Nigeria.

Population of the study

The population of the study was the 2,370 registered small and medium scale enterprises in Jigawa State (Smedan, 2017)

Sample and Sampling Technique

The subject of the study were the 200 registered small and medium scale entrepreneurs in Jigawa state selected at least from each of the 3 senatorial districts using purposive non-random sampling. The study has adopted purposive non-random sampling technique. Small and medium scale entrepreneurs have been surveyed based on their fitness into the study.

Data collection

Structured questionnaire in some portion with likert scale has been designed for data collection. Questions were asked on the number of staff, age and size of the business, age of the entrepreneur, sex of the entrepreneur, level of education of the entrepreneur, government support to the enterprises and access to finance among others. Completed questionnaires were retrieved back and thoroughly analyzed on the basis of their feedbacks.

Techniques for data analysis

The research employs OLS regression analysis and descriptive statistics to find out the effect of access to finance on the growth of SMEs in the state.

Data Analysis

Analysis of the data collected has been done using Statistical package for social sciences (SPSS) version 26.0

Model specifications

To test the effects of the access to finance on the growth of SMEs in Jigawa State, the empirical SME growth model has been estimated as follows:

$GSME = \alpha + \beta1FIN + e$

Where; GSME = Growth of Small and Medium Enterprises (proxies by growth of output), FIN = Access to finance of the enterprise, e = Error term, α = Autonomous constant term, $\beta1$ = Parameter of the model.

RESULTS AND DISCUSSIONS.

Coefficients[a]

Model				Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
				Beta			Lower Bound	Upper Bound
1	(Constant)	20.487	4.167		4.916	0.000	11.732	29.242
	Access to Finance	9.080	1.356	0.845	6.698	0.000	6.232	11.928
a. Dependent Variable: Growth of SME								

R-square: 0.714

DISCUSSION

Growth of SMEs is considered in this research to mean any growth in productivity(production of output) over a period time. Profit alone does not measure growth but measures the extent to which organizational goals are achieved. R-square value of 0.714 indicated that 71% of the variation in dependent variable (growth of SMEs in Jigawa State) is accounted by independent variable (access to finance) and the coefficient of 9.080 and p-value of 0.000 show a significant relationship between access to finance and the growth of SMEs in Jigawa State.

The study found a significantly positive relationship between growth of SMEs (in terms of productivity) and the volume of formal credit to the sector It is also in line with research by Adebisi, Sunday, and Ofuani (2015 that found a significant relationship between access to credit and the growth of SMEs in Lagos State of Nigeria.

CONCLUSIONS AND RECOMMENDATIONS

From the findings above we can conclude that access to finance is a major factor affecting the ability of SMEs to grow is Jigawa State of Nigeria. The research therefore recommends that government should make policies that will compel commercial banks and other financial institutions to increase access to credit for SMEs and reduce interest rate on credit to SMEs.

References

Abiola, B., Iyoha, F., and Joseph, T. (2011): "*Microfinance and Micro, Small and Medium Enterprises Development in Nigeria"* Unpublished Article, Covenant University, Ota, Ogun State, Nigeria.

Aryeetey, E. (1996): Rural Finance in Africa; Institutional Developments and Access for the poor. The World Bank Annual Conference on Development Economics, Washington D. C.

Bhaind, C. & Lucy, B. (2002): Capital Structure and Financing of SME's Empirical Evidence from Irish Survey. Paper presented at a conference titled "Entrepreneurship, Occupational Choice and Finance", at the Centre for Economic and Business Research, Copenhagen, June.

CBN (2005a): Micro Finance, Policy, Regulatory and Supervisory Framework for Nigeria, *CBN* Publication, December.

Evans, U. (2001): Managing through Measures, a Study of Impacts on performance, www.emeraldinsights.com.[Accesssd 7 April 2009].

Hunton, E. J.; Lippincott B. and Reck L. G. (2003): "Enterprise Resource Planning Systems: Comparing Firm Performance of Adopters and Nonadopters", *international journal of accounting information*, (4) pp 165-185

Ibrahim, H.A and Muhammad, M.Y. (2015). Analysis if Impact of Credit on the Performance of SMEs ikn Sokoto metropolis of Sokoto State of Nigeria. IJSBIR Vol 3 no 4 pp 31

Joa, W. K. and Almas, H. (2008): Effects of Credit Grantee Policy on Survival and Performance of SMEs in Republic of Korea Small Bus. Eco (31): 445 – 462.

Kadri, I. B. (2012): Small and Medium Enterprise, and Employment Generation in Nigeria, The Role of Finance, *Kuwait Chapter of Arabian Business and Management Review*, **1** (9):

Lee, M.B. (1987): Business Strategy, Participative Human Resource Management and Organizational Performance: The Case of South Korea, *Asia Pacific Journal of Human Resour*ce, 34 (1)

Ministry of Commerce and Industry, Sokoto (2009): Sokoto State Business DirectoRY. Publication of Ministry of Commerce and Industry.

National Bureau of Statistics (2012): Annual Publication of National Bureau of Statistics 2012.

Nnanna, (2002): The Importance of Small and Medium Scale Industries in Economic Development. Bing a Paper Presented at a Workshop on Small and Medium Scale Industries, Equity Investment Scheme, Abuja, Nigeria.

Olutunla, G. T. and Obamunyi, T. M. (2008): An Empirical Analysis of the Factors Associated with the Profitability of Small and Medium Enterprise in Nigeria. *African Journal of Business Management*, **2** (): November, 195 – 200.

Pasanon, M. (2004): SME Growth Strategies a Comparison of Young and Long Lived Firms. *Journal of Small Business Management*, **44** (1): 81 – 104.

Rabbani, M. and Suleiman, M. (2005): Financing SMEs and Its Effects on Employment Generation. A Study of Brac-Banks, SMEs Leading, A publication of Brac-Bank Bangladesh Research and Evaluation Division, www.brac-research.org.[accessed 25 July 2012].