EFFECT OF CREDIT SUPPLY ON THE DEVELOPMENT OF SMES IN NIGERIA

(CASE STUDY OF LAPO MICRO FINANCE BANK, NEW KARU NASARAWA STATE)

BY

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BEING A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY KEFFI, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF POST GRADUATE DIPLOMA (PGD) DEGREE IN BUSINESS ADMINISTRATION

DEPARTMENT OF BUSINESS ADMINISTRATION

FACULTY OF ADMINISTRATION

NASARAWA STATE UNIVERSITY KEFFI,

NIGERIA

November, 2020

DECLARATION

I hereby declare that this Project has been written by me and it is a report of my research work. It has not been presented in any previous application for any Degree. All quotations are indicated and sources of information specifically acknowledged by means of references.

22/03/2021

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DATE

CERTIFICATION

The Project entitled "Effect of Credit Supply on The Development of Smes In Nigeria (Case Study of Lapo Micro Finance Bank, New Karu Nasarawa State)" meets the regulations governing the award of Post Graduate Diploma in Business Administration (PGDM), Faculty of Administration, School of Postgraduate Studies of Nasarawa State University, Keffi, for its contribution to knowledge and literary presentation.

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DEDICATION

This project work is dedicated to God Almighty, the maker of Heaven and earth, my family and all well wishers.

ACKNOWLEDGEMENTS

I acknowledge God who gives the grace to accomplish this project; I appreciate my Family for their patience and contributions for the success of the programme. I also acknowledge my supervisor Dr. S.M. Aza, HOD and my course mates.

ABSTRACT

The purpose of this study was to examine the effect of credit supply on the development of small and medium scale enterprises in Lapo Microfinance Bank, New Karu, Nasarawa State. The study also showed the characteristics of SMES, structure of bank system, history of credit, how SMES were being financed and how the bank could help solve some basic problems facing SME financing. The objective of the study was to determine how credit supply would lead to the development of SMEs. In doing this the study examined the nature of financial institutions in an attempt to solve barriers that brought about the problems faced by SMES. The study also looked at the limitations of SMES and how they could be eliminated; the study employed the use of Questionnaire to gather relevant information. A sample was carefully selected out of the population and analysed with the use of Pearson Product Moment Correlation Coefficient to test the hypothesis. The result from the analysis showed that credit supply helped to solve some basic problems of SMES. The findings showed that credit supply has not been evenly distributed amongst SME owners in Nigeria. This has thus hindered availability and supply of credit to SMES. Based on the findings, the research recommended that more feasibility studies and reports should be carried out by SMES and thus presented to the banks in order to aid the banks in rendering financial support to them. It was included that, once credit is supplied to SMES it would aid their development and lessen their mortality rate.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Finance has been identified as one of the major factors militating against the development of small and medium scale enterprises in Nigeria (Lawson, 2007). It was in recognition of this difficulty in credit availability for the purpose of investment that are Nigeria government singled out small and medium scale enterprise as key area of intervention. This was premised on the government desire of given support to small and medium scale enterprises in are country as a measure of meeting up with its commitment to the development plan and the indigenization on policy. The intention was that it would be a reaction against are dominance of the economy by the international capitalist entrepreneur and also the account that revitalizing small and medium scale enterprises would enhance the capacity of the indigenous capitalist class, as a potential player in economic growth and national development (Anyanwu, 2003). While some governments had formulated policies aimed at facilitating and empowering the growth and development of the SMEs others have focused on assisting the SMES to grow through soft loans and other fiscal incentives (Opafunso and Adepoju, 2014). A large portion on bank loans to SMEs will ordinarily be short term instead of long term; this is due to mismatch between term of banks and loans being sought. However, microfinance banks are not risk averse but short term exposure is as a rule less risky that medium or long term because there is less time for things to go wrong.

A healthy economic growth cannot be achieved without putting in place a well-focused police to reduce poverty, through empowering the people, by increasing their access to factors of production especially credit (Abu and Ezike, 2012). The inactive ability of the under-privileged to engage in entrepreneurship would be enhanced through the provision of bank services to enable them engage in economic activities, and be more self-reliant, thus increasing employment opportunities, enhancing household income and creating wealth (Nigeria investment promotion council, 2004). In Nigeria, the government at various levels have formed different policy incentives aimed at boosting the performance of Small business in order to reduce the level of poverty and enhance economic development (Akande and Ojokuku, 2008).

1.2 Statement of the Problem

SMEs form a large part of private sector in many developed and developing countries, while cross-country research sheds doubt on a causal link between credit supply and the development of SMEs. There is substantial evidence that small firms face large growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs contribution to growth. Financial and institutional development helps alleviate SMEs growth constraint and increase their external finance and their levels of different sizes.

The dimensions of the problems are: where to obtain the finance, how to obtain it was well as what state of business operation to obtain it. Usually capital for business comes from financial institutions and other informal sources. There is the problem of difficulty in preparing bankable feasibility reports. Also there is the problem of highly in conducive operating environment. The amount of credit readily available to a business would affect its rate of expansion. Banks in Nigeria, in particular are reluctant to make term loans to SME's for certain reason: their funds come mainly from short-term deposits, inflation rates are usually high, the perceive SMEs as especially risky and likely to default. SMEs often lack collateral and accounting practices that commercial bank.

Generally require to determine their credit worthiness. However, an examination of the writings of concern Nigerians and authors reveals problem results on the effectiveness of credit supply on the development of SMEs in Nigeria which warrant a study of this nature to clear the air. This study is therefore conducted to provide answers to the following research questions which constitute the basic research problem of the study:

i. What effect does credit supply have over SMEs?

ii. Is there any relationship that exist between financial institution and SMEs?

iii. To what extent are the barriers to the supply of credit to SMEs?

1.3 Objective of the Study

The general objective of this study is to examine the effect of credit supply on the development of SMEs in Nigeria with particular reference to LAPO Microfinance Bank, New Karu. However, the specific objectives of the study are to:

i. Examine the effect of credit supply to SMEs in Nigeria.

ii. Review the relationship between financial institutions and SMEs.

iii. Identify the barriers to the supply of credit to SMEs.

1.4 Research Questions

To guide this study three research questions were formulated as follows:

i. How effective is the credit supply to SMEs?

ii. What are the barriers to the supply of credit to SMEs?

iii. What is the relationship between financial institution and SMEs?

1.5 Research Hypothesis

In the conduct of any research, there is always the need for direction in order to provide an appropriate solution to an identified problems or case situation. Based on this, therefore, the research consider the following hypothesis worthwhile:

H_0: There is no business relationship between financial institutions and SMEs

Hi: There is a business relationship between financial institutions and SMEs

H0: There is no barriers to the supply of credit to SMEs

Hi: There are barriers to the supply of credit to SME's

1.6 Scope of the Study

In the light of broad coverage, the researcher focuses on the effect of credit supply on the development of SMEs in Nigeria with particular reference to LAPO Micro Finance Bank New Karu, Nasarawa State of Nigeria. The scope of the research work therefore, covered a period of 2014 to 2018.

1.7 Significance of the Study

This study will be of significance to monetary authority, policy maker, government, academia and the general public. The findings of this study will help government and the monetary authorities to see the effectiveness of monetary policy in the management of the Nigeria economy in terms of credit demand and supply to SMEs which have a spillover effect of Nigeria economic growth. This research work further serves as a guide and provides insight for future research on the topic and related field for academia's and policy makers who are willing to improved on it. The study will also contribute to knowledge by appraising the effect of credit supply on the development of small and medium scale enterprises in Nigeria.

1.8 Definition of Terms

Credit: This is the amount of money that a financial institution will lend to someone. They are funds or loans granted to small and medium scale enterprises by banks at a given rate and can be known as credit facility.

Development: This is a specified state of growth or development, or an event constituting a new stage in a changing situation.

Small Scale Business: In 1988, one national food association and small industry (NASS) defined small scale industry in Nigeria as any manufacturing outfit which record in annual return of not more than five hundred thousand naira or its assets excluding land are not worth more than seven hundred and fifty thousand naira, and its employees is between 1-20 people.

Medium Scale Business: An industry with labour size of between 101 to 200 workers or a total cost of over 200 million naira.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In the context of the central bank of Nigeria, small scale enterprise is an industry with a labour size of between II and 100 workers or a total cost of not more than N50 million including working capital, but excluding cost of land. Medium enterprise scale on the other hand refers to an industry with a labour size of between 101 and 300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land. According to the National Council of industries (2009), SMEs are business enterprises whose total costs excluding land is not more than two hundred million naira (N200m). Kpelai (2009), described small and medium scale enterprises as the engine room for the growth of a developing economy.

Oveoluwa (2011), identified three main parameters to be common among all countries. The parameters are (1) Capital investment, (2) volume of production and (3) business turnover. In contrast to the opinion of oveoluwa, (2011), defined SMEs in relation to employment. He classified an organization with 1 to 10 employees as micro industry, 11 to 100 workers as small scale industry and medium scale industry from 101 to 300 workers as large scale.

2.2 Conceptual Framework

2.2.1 Concept of SME in Nigeria

In recent times, significant attention has been focused on small and medium scale enterprises in developing countries because of their potentials for diversification and expansion of industrial production, as well as the role they play in the attainment of the basic objectives of development. The financial institution also play an important role in the development of small and medium scale enterprises.

The concept of small and medium scale enterprises is relative and dynamic; hence there are no universally accepted definitions of small and medium enterprises. The definitions varies from one economy to another. However, Bolton committee (1971) argued that a business is said to be small if it is to be established and managed by owners in a specialized way and it is independent in the sense of not forming part of a large enterprise. Medium enterprises on the other hand are businesses that are neither small nor large. According to BOVAN (1973) business unit are classified according to their size. Hence, he maintained that size according to capital used the native of product whether goods or services for direct consumption and the number of people employed. To add to the above contribution IFEOMA (1984) pointed various reasons why small scale industries still exist despite the advantages of large scale industries. She also stated that, the pride of ownership encourage capability management of small scale industries, meaning that the small enterprises are capable of being managed by one person, as a result she enjoyed all. The profit itself as well as decision making. According to Oputu (2006), there are no universal definitions of small and medium enterprises. Definition of concept, whether in terms of numbers of employees, assets, turnover etc. understandably differ from one country to another depending on the level of economic development of the country and the particular purpose for which are definition is formulated .However the definition adopted for Nigeria at the (2001) meeting of the national council on industry describes small and medium enterprise as an industry with a capital investment of not move then N2.0million including working capital but excluding cost of land or a labor size are not more than 300 workers.

In 1992, small and medium enterprises was defined by one natural council on industry as the enterprise which has a labour size between 1 to 100 workers or a total capital not more than N50 million. Therefore, we can say that SME can be defined on the basis of the number of employees and the total investment on the project.

Central guideline to banks stated that small enterprises are those whose annual turnover for the total years exceeds N2 million excluding cost of land. However, the Federal Ministry of industry, (1985) had a different view of what small scale enterprises are.

In its credit guidelines to bank or industry which was known as Nigeria banks for commerce and industry, describe small enterprises as those enterprises whose total capital does not exceed N1.5 million, excluding cost of land but including working capital. According to Okonkwo (1998) small and medium enterprises is a relative and heterogeneous concept. What is small in an industry country like the United State of American may not be considered small in an African country like the Gambia, Kenya or even Nigeria, (Bercy, 2005).

Small and medium scale enterprises promote industrial activities and the efficient utilization of local inputs and foster strong industrial linkages and diffusion of technology especially where they produce for exports or supply inputs to large enterprises. Small and medium scale enterprises can also serve as rich seed bed for the growth of the entrepreneurship. Thus,in any economy where capital and institution savings as well as management and technical skills are inadequate, are contribution of these small forms cannot be over emphasized. In Nigeria, SMEs are the moral fibbers of the economy, a large percentage of businesses in Nigeria employ less than one hundreds employers Oyekunmi(2006).this segment provides 90% of employment and 50% of the total industrial output. The vital role the financial institution can play becomes obvious, namely by making the vast financial resources they could mobilize available for financing and promoting the development of SMEs another role is in one efficient allocation of available resources, Oyekunmi (2006).

2.2.2 Banking System in Nigeria

There are basically four type of bank theses are: central bank of Nigeria, the commercial bank, the merchants banks and specialized banks. The central bank is the head of the financial system. It performs the typical functions which a central bank performs, these are regulation or money supply, currency issue and so on. An important features of its operation in this recent years (post sap) is the used of market based instruments such as open market operation (OMO) bank rate and variable liquidity ratio.

Nigeria like Britain operates are branch banking system this banking system. This characterized by the existence of a few big banks with network of branches all over the country.

There is also existence of merchant banking. Merchant banking are wholesale bank that operate mainly in cities or commercial centers they have few branches are merchant banks perform specialized services like corporate finance, equipment leasing, portfolio management, provision of long term and medium credits to customer e.t.c.

Specialized bank were also established to address problem in some specific area of the economy these include Nigeria industrial development bank (NIDB), Federal Mortgage Bank (FMB), Nigeria Agricultural and co-operative Bank (NACB), Nigeria Bank for commerce and industry (NBCI) etc.

In this recent time, more specialized bank have been introduced, these are people bank, community bank. People banks are established and owned by the federal government. Community banks are owned by communities and their services are diverted towards the development of that communities. Other include; Urban Development Bank (UDB), Nigeria Export and Import Bank (NEXIM) etc.

Moreso, it further reveals that the Nigeria banking system currently consist of 21 commercial banks, 860 Microfinance banks, 5 discount houses, 64 finance companies and 5 development finance banks. The central bank of Nigeria (CBN) regulates and supervises the activities of these institutions and others such as Bureau de-changes (BDCs), financial companies (FCS) and Primary Mortgage Institutions (PMIs). Its policies and monitor it, the banking system is to ensure that operators comply with monetary, credit and foreign exchange guidelines. Nigeria commercial banks perform three major functions: accepting deposits, granting loans and settlement mechanisms. (Nwabia and Abubakar, 2003).

2.2.3 Origin of SMES in Nigeria

Entrepreneurship started when people produced more products than they needed, as such, they had to exchange these surpluses. For instance, if a blacksmith produced more hoes than he needed, he exchanges the surplus he had with what he had not but needed; maybe he needed some yams or goat etc, he would look for someone who needed his products to exchange with. By this way, producers came to realize that they can concentrate in their areas of production to produce more and then exchange with what they needed. So through this exchange of products, entrepreneurship started. A typical Nigerian entrepreneur is a self-made man who might be said to have strong will to succeed, we might engage are services of others like, friend, mates, in laws etc to help him in his work or production, through this way, Nigerians in one olden days were engaged in entrepreneurship. Early entrepreneurship is characterized with production or manufacturing in which case the producer most often started with a small capital most of it from his own savings.

Entrepreneurship in Nigeria started with the coming of the colonial masters, who brought in their wears and made Nigerians their middlemen. In this way, most of the modern entrepreneurship was engaged in retail trade or sole proprietorship. For many decades, formal education has been the preserve of the privilege. With formal education people had opportunity of being employed in the civil services because in those days the economy was large enough to absorb into the prestigious occupation all Nigerians and their goods. As such, the system made Nigerians to be dependent on the colonial masters. Again one contrast between Nigerian and foreign entrepreneurs during one colonial era was very detrimental and the competitive business strategy of the foreign entrepreneurs was ruinous and against rural standards established by society.

Bercy (2005). As a result, the flow of entrepreneurship in are country was slowed down. But, with more people being educated and the fact that government could no longer employ most school leavers, economic programs to encourage individuals to go into private business and be self reliant were initiated (Oyekunmi, 2006).

2.2.4 Structure of the Nigeria SMES

In Nigeria, there are lot of SMEs, the central bank of Nigeria (CBN) in its monetary policy circular no.22 of 1988, defined SMEs as having a turnover not exceeding N500,000. Also by 1990 commercial banks define SMES as those enterprises with annual turnover not exceeding N500,000, while for the merchant banks, they have defined SMEs as those enterprises with annual turnover not exceeding two million naira. In addition, the CAMD of 1990 defines a small company as one with annual turnover of not more than two million naira and a net value of not more than one million naira. In addition to that, National Economic Reconstruction Fund (NERFUND) puts the turnover of not more than two million naira and a net value of not more than one million naira. In addition to that, National Economic Reconstruction Fund (NERFUND) puts the ceiling of SMEs at ten million naira while the CBN monetary and credit policy guidelines for 1993 defines SMEs as one whose total cost excluding cost of land but including working capital does not exceed ten million naira.

The current national definition of SMEs as adopted at the National Council on industry is to classify SMEs as those with total cost (including working capital but excluding cost of land) above one million naira, but not exceeding N400 million and a labour size of between 36 to 100 workers. SMEs play a vital role in both rural and urban economies of Nigeria and they abound in all sectors of the economy.

According to Adegbite (1997) in Ademola (2007), a study conducted by the international finance cooperation extrapolated to N125,000 in 1983. The number has been estimated to above N200,000 in 1997. This however excludes the numerous ones that are operating in the informal sector of the economy, there are indicators that SMEs account for about 70% of industrial employment and 10% to 15% of manufacturing output (CBN, 2000). A sectional composition analysis of Nigerian industrial structure by (CBN 2000) shows that while over 90% of industrial establishment engaged less than 50 persons, only 2.5% engage more than 25 person. A major characteristic of Nigeria is SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SME's is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of Nigeria's SMEs including the following among others.

1. Labour intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High interest rates and bank charges
5. High morality rate especially within their first two years.
6. Over-dependence on imported raw materials and spare parts

7. Poor product quality output
8. Absence of research and development
9. Little or no training and development for their staff.
10. Lack of adequate financial record keeping
11. Poor capital structure, i.e low capitalization
12. Lack of access to international market
13. Lack of successive plan
14. Poor access to vital information
15. Low entrepreneurial skills
16. Poor documentations of policy, strategy, financials, plans, information system.

2.2.5 Sources of Financing SMEs

There are various funding windows available to SMEs. The banking system provides the major sources of funds. There are funding from the commercial banks, community banks and specialized banks like the peoples bank. There are also development bank like bank of agriculture and bank of industry which provide support to SMEs (Oboh, 2002).

Micro Finance institutions such as cooperative societies and credit undue also fund SMEs. The donor agencies are also sources of funding SMEs through grants for development projects. Despite the entire above list, SMEs continue to lack adequate funding; the funding sources from the above listing are limited in scope and not always available. Commercial banks do not readily support SMEs due to the perceived risk in lending to SMEs. SMEs, present an opportunity to banks to support the growth sector of the economy.

2.2.6 Roles of Financial Institutions on the Development of SMES

Financial sector competition policy; collateral legislation; prudential regulation and supervision; regulations governing leasing; venture capital, equity markets; innovation in loan products, lending methodologies, delivery mechanism, risk assessment methodologies (e.g credit scoring); credit burea, registries, training to financial institutions serving SMEs; reduce direct lending through public financial institutions; reduce SMEs lending (portfolio) requirements on financial institutions; eliminate subsidized credit lines and credit guarantee scheme.

2.2.7 Government Policy on Financing Small and Medium Scale Enterprises

The desire of most developing countries, including Nigeria, is to have a self-reliant and resilient economy capable of generating an internally self-sustaining growth. Having gained independence the country wants to transform the economies quickly in order to achieve economic independence.

The direction of public policy has been the creation of a suitable economic and social environment for the establishment and operation of business. Under such favourable conditions, theorists of economic development suggest that a rapid growth would occur, provided the available resources are completely harnessed and utilized for the production of goods and services. In a free enterprise economy this role is assigned to private sector according (Asa and Balogun, 2003). The governments, (both Federal and State), apart from being the largest institutional consumers, try to regulate and facilitate businesses in Nigeria through making of laws and regulations which govern the establishment and operation of business enterprises.

Government laws/decrees and edicts have 3 focal points in nature:

1. Protective
2. Regulatory
3. Facilitatory

PROTECTIVE: these are regulations which protect either the companies themselves or the general public from unfair trade practices and competition or the workers of the companies. Examples are price control decree, indigenization degree etc.

REGULATORY: These regulations are to enhance free competition among businesses, protect public health and safety, protect the public against fraud and ensure adequate services at reasonable rates. Government regulates trade practice such as false or inadequate trade practices such as false and misleading adverts, false or inadequate labeling of products, registration of businesses, wages, hours of work, etc. the regulation, however, varies from industry to industry. Examples of laws/edits that can be easily classified here are companies and allied matter decree (CAMD) which govern business registration, comprehensive import supervision scheme (CISS) aimed at eliminating over-invoicing or imports, standard organization of Nigeria (SON) as well as National Agency Food and Drug Administration control (NAFDAC) which are to standardize methods of products in industries throughout Nigeria, National Drug Law Enforcement Agency (NDLEA) which is to regulate drugs and narcotics in Nigeria etc.

FACILITATORY: The facilitatory law/regulations seek to remove obstacles in the establishment and operations of businesses or provide incentives to induce certain actions by business institutions for entrepreneur, examples of government policies or regulations which promote business establishment and operations are:

a. Tax incentives e.g industrial development Act (Income Tax Relief) of 1958.
b. Customs duties incentives e.g import duties relief Act of 1957.
c. Granting of loans through government owned financial institution e.g NIDB and NBCL
d. Establishment of industrial research institutions e.g FIIRO
e. Development of industrial estates provide with basic infrastructural facilities

f. Establishment of an investment information and promotion centre which assists would be investors with information on investment opportunities and procedure.

2.2.8 How to Solve the Problems of SMEs

Educate investors about blended value approaches to financing. It is widely acknowledge at the workshop that aside from the challenges faced, sustainable SMEs clearly offer an opportunity to create financial as well as environmental value. While this has resulted in tremendous interest in SMEs development finance and philanthropic investment sectors, private sector participation is a must. Towards this end, it is a crucial prerequisite to educate mainstream investors about various blended value investment approaches (Oboh, 2000).

Furthermore, coordinated efforts should be spent in developing credible blended value approaches that could work in African countries, build local/regional groups to strengthen local institutions and banks without local participation, the long-term success of any initiative, especially in the field of SMES financing cannot be assured. It was recommended that capacity building and engagement of local banks while building new regional institutions that serve the needs of SMES is a must, such institutions could become integrated platforms or centers for skills, knowledge, and training that would not only impart relevant skills and training to SMES but would also help them identify opportunities in broader markets, train African fund managers in identifying, investing in, and promotion sustainable SMES African Fund managers are on a step learning curve when it comes to engaging international investors, and can benefit from increased exposure to international finance; conduct research to generate more knowledge on SMEs financing defining sustainable SMEs continues to be a work in progress.

Further research is needed to refine and standardize definition of sustainable SMEs. For different stakeholders to effectively collaborate with each other there is a need to share a common language. Explore mechanisms to align investors from the public, private and philanthropic institutions approach SMES financing with differing, yet at many times complimentary incentives. With increased coordination amongst players from these categories, their efforts can bear greater fruit. On these lines a need for an honest broker was expressed such as, an institute that would serve as an intermediary body between different levels of organizations within the SME investment value chain. There is a need to connect different stakeholders allowing for a transparent information flow from local fund managers to global investors and vice-versa (Okpara, 2000).

Organize a focused workshop in each region of Africa in particular, invite move stakeholders from the demands of SME financing namely entrepreneurs, business associations and trade groups. Needs of SMES, fund managers, and the context within which they operate vary tremendously from one region of Africa to another. Regular regional workshops focusing on sustainable SME financing and bring together respective key players would be beneficial for the sector; partnering or tapping into existing institutions and networks to deliver the objectives following some of the recommendations pointing to the need for increased coordination amongst various, and often disconnected, stakeholders interested in sustainable SMES financing, institutions with objectives to stimulate and promote private capital in Africa to alleviate poverty and promote sustainable development could be used as platforms to act as an honest broker" a coordination mechanism for various public, private and philanthropic institution, active in SME financing and seeking synergies with players from complimentary sectors. Existing institutions and networks could also act as a knowledge centre conducting latest research into issues associated with SME financing, generating knowledge relevant to multiple stakeholders interested in SME financing as well as for distributing this knowledge to relevant stakeholders (Oniyitan, 2012).

2.2.9 How to make SMES Effective, Efficient and Competitive

Making SMEs effective, efficient, and competitive is the responsibility of both the owner managers/managers and the government to play significant role as follows (Otache, 2010). The role of the owner-managers/Manager the following are the roles of the owner-managers/manager.

i. **The need to be managerially competent:**The effectiveness, efficiency and competiveness of any business (small or large) largely depend on the management of such business. The owner-managers/managers need to acquire management expertise to be successful. They need to have a deep knowledge and understanding of management functions, concepts and principles and equally possess managerial skills.

ii. **The need for effective planning:** Many SMEs have failed in Nigeria because of deficiencies in planning (Mcoliver, 2001). Effective planning helps the owner-managerial managers to understand the business and the environment in which the business operates.

iii. **The need to be information and communication technology (ICT) Compliant:** Business today, nationally or internationally, are driven by information and communication technology (ICT) and so the need for the owner-managers/managers to have a better understanding and knowledge of ICT and how it works becomes imperative.

iv. **The need for effective marketing:** For SMEs to succeed, the owners-managers/manager need to posses and continually developed their marketing skills.

The Role of the Government

Because of the roles played by SMES, if becomes necessary for the government to support, promote and encourage them to become more effective, efficient and competitive. Government is expected to perform the following roles:

i. **Provision of Infrastructural Facilities:**Effective infrastructural facilities are needed for SMES to be effective, efficient and competitive, businesses require good road network, dependable supply of electricity and water and good communication network. Government should provides the above infrastructural facilities mention.

ii. **Provision of Soft and Short term Loans:** Government should make funds available to SMES to enable them operate effectively, efficiently, and competitively. Government should give short term loans to SMEs at low interest rate.

iii. **Reduction in Interest Rate:** government should reduce interest rates via its monetary policy. This will enable SMEs have more access to credit facilities from banks.

iv. **Facilitating and funding of management training centres:** Government should facilitate and fund management training institutions like NDE, CMD, IDC etc. they are responsible for the training and development of personnel of SMES in the country. Government through these agencies can organize seminars, workshops, and conferences for the training of the personnel of SMEs and the would-be industrialist or entrepreneurs.

v. **The need to deal with corruption:** Corruption makes business environment in Nigeria less attractive to both internal and external investors. Government has a role to play in making sure that Nigeria business environment is corrupt free. In fact, the federal government should enact laws that will check corrupt attitudes of Nigerians and also answer corrupt-fighting agencies like EFCC, ICPC to enable them perform their duties without fear or favour.

2.2.10 Problems of Credit Supply

Bad loan; stress of collecting the loans; the financial institutions incur losses when the loans are not repaid and undervaluation and overvaluation of a customers.

2.2.11 How to Solve the Problems of Credit Supply

Strict supervision on one collection of loans; monitoring of the customers business whether its profitable or not; accessing the customers capabilities and how productive the business is or is going to be.

2.3 Empirical Review

There have been empirical studies to ascertain the sustainability of small and medium enterprise in Nigeria using several approaches.

Onugu (2005) used statistical package for social sciences (SPSS) which generated the frequency distributions, means, standard deviations, variances, analysis of variance, standard errors, chi-square statistics, correlations and t-statistics covering the period of 1990-2004 to investigated the problems and prospect of small and medium enterprises (SMEs) in Nigeria. The study found that SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies in the world. But SMEs have performed below expectation in Nigeria due to a attitude and habits of SMEs themselves through environmental related factors, instability of governments and inconsistency government policies.

Ngehneun and Nembo (2010), investigated the impact of microfinance investigated the impact of Microfinance institution (MFIs) on the development of small and medium size business (SMEs) in Cameroon, a study of camccul, using descriptive survey method. The study revealed that there is significant impact of microfinance institutions on the development of small and medium size businesses in Cameroon. The study suggest that the mode of repayment should be such that the very poor can borrow without asset based collateral and that group based lending should be encourage so as to increase access to micro services to the very poor.

Emmanuel and Daniya (2012) examined the development of small and medium scale enterprises: the role of government and other financial institutions using the variables of small and medium enterprises by employing spearman's Rho correlation and descriptive statistics. It was discovered that financial institutions such as central bank of Nigeria (CBN) provide the necessary financial lubricant that facilitate the development of SMEs in Nigeria.

Agu, Ojimadu and Ogu (2013), used ordinary least square and co-integration test to investigate the impact of small and medium enterprises on economic growth in Nigeria. It was observed that were is a robust long run relationship between small and medium enterprises and economic growth in Nigeria.

In recent study done by Gbandi and Amissah (2014), using descriptive survey to determine the financing options of small and medium enterprises in Nigeria. The study revealed that funding of SMEs in Nigeria is very critical if they are to perform their role of growth and development of the nations economy.

Bassey, Asinya and Amba (2014), employed time series data obtained from the central bank of Nigeria for the period 1992-2011 to examine the impact of bank lending and macroeconomic policy on the growth of small scale enterprises in Nigeria. Data were analysed using the ordinary least square (OLS) regression technique. Empirical findings further revealed that commercial bank credit finance and industrial capacity utilization exerted significant positive impact on the growth of small scale enterprises.

2.4 Theoretical Framework

There are many theories which seek to explain the sustainability of financing micro, small and medium enterprises by central bank of Nigeria (CBN) in Nigeria. For the purpose of this study, the theory that is considered relevant is financial growth theory.

Financial growth theory

Financial growth theory was developed by Berger and Udell (1998) and was used by Babajide (2011); Akande (2012). This theory was anchored on the small businesses where the financial needs and financing options change as the business grows and it becomes more experienced and less informative. They further suggest that firms that are still in infant stage must rely on initial insider finance, trade credit and or developmental financial institutions. This theory predicts that as firm grows, it will gain more access to investment capital as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth theory, as the firm becomes older, more experienced and more informative transparent, it will likely gain access to long-term debt.

This study anchored on financial growth theory because the theory predicts that as firm grows, it will gain more access to investment capital (IC) as a source of intermediate equity. The implications of this theory is that sustainability of financing small and medium enterprises need internal source of finance before looking for the external fund from the central bank of Nigeria.

CHAPTER THREE

3.0 Research Methodology

In this chapter, the researcher highlighted the basic design, the research population, sample size and sampling techniques, the instruments used in data collection, administration, retrieval of questionnaires and method of data analysis.

3.1 Research Design

According to Earl Babbie (2008) a research design is defined as a framework plan of the study that is used as a guideline in collecting and analyzing data. It is the basic plan, which guides the data collection and analysis phases of the research project. It is an outline or a scheme that serves as a useful guide to the researcher in his efforts to generate relevant data for his study. For the purpose of this work, both primary and secondary data shall be collected. The explorative research design shall be used to generate relevant information and its is based on survey research method, use of questionnaire and oral or personal interview to gather information.

3.2 Population of the Study

According to Ogbushi (2006:45), population can be defined as all members of the target of research, institutions, or things. From the definition therefore, the target population of this study are the staffs of LAPO micro Finance Bank, New karu, Nasarawa State of Nigeria with the population of 120.

3.3 Sample and Sampling Techniques

The researcher will use random sampling technique. According to Ofo (1994:45), random sampling technique is a method of selecting a sample in such a way that members of the population have equal opportunity or change of being selected where the selection of the subject of one subject and the non-selection of another subject have no influence on each other. The total sample of 92 staff to be selected would be the sample size to be used for this study.

The use of arithmetical formula is adopted to arrive at the sample size "n" with 5% level of significance (Adefila, 2008).

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

Where

n = Sample size

N = Population size

e = Level of significance

Therefore:

$$n = \frac{120}{1 + 120\,(0.05)^2}$$

$$n = \frac{120}{1 + 120\,(0.0025)}$$

$$n = \frac{120}{1 + 0.3}$$

$$n = \frac{120}{1.3}$$

$$= 92$$

3.4 Instrument of Data Collection

The data instruments that would be used for this study include questionnaires personal and oral interview. According to Ogunu and Annguonm (2006), a questionnaire is a formalized question for eliciting information. All the information to be gather for this study would be based on likert-type five point scale responses because it is less frustrating to the respondents.

The responses are:

Strongly agree (SA), Agree (A), undecided (U), Disagree (D), strongly Disagree (SD).

3.5 Method of Data Collection

Eboth (1998) says there are two major sources of data collection, primary and secondary source of data. This research work shall make use of questionnaire as primary source of data and secondary data, which includes textbooks, journals, reports, provisions of the constitution, internet materials and project work.

The questionnaire is a designed to elicit information from the respondents on the effective of credit supply on the development of SMEs in Nigeria. The secondary data is the major source and method used in collecting data for this research work. All the data collected through the secondary sources of data were used for the literature review.

3.6 Method of Data Analysis

The analysis of data required for the testing of the formulated hypothesis will be carried out with the use of statistical tools like percentages and tables. The test of hypothesis shall be effected using Pearson product moment correlation coefficient test tools for testing the relationship between two variables in hypothesis testing. It was developed in 1990 by Karl Pearson.

Table and percentage were used in the analysis of the data collect from the respondents. The statistical tool used for testing of hypothesis is the Pearson product moment correlation coefficient. To express the model of product moment coefficient of correlation in equation form is:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{[n\sum x^2 - (\sum x)^2]\,[n\sum y^2 - ()\sum y]^2}}$$

Where:

r	=	Product moment correlation coefficient
x	=	Independent variable
y	=	Dependent variable
$\sum x$	=	sum of the x
$\sum y$	=	Sum of the y
$\sum x^2$	=	sum of the square of x
$\sum y^2$	=	sum of the square y
$\sum xy$	=	sum of the product of paired x and y
n	=	number of period

The x stand for the independent variable while the y stand for the dependent variable.

3.7 Justification of the Method Data Analysis

The use of this method of is justified on the ground that they have been used by several scholars, researchers and authors in successful ways at different places and at different times.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

This chapter work is used to present and analyse data collected during the study. Data were collected from the field using questionnaire, personal interview and observation method. The data are presented and analyse using some statistical tools such as tables, sample percentages and frequency. Pearson product moment correlation coefficient.

4.1 Data Presentation

Table 4.1.1 Rate of Response by Respondents

Questionnaires	Response	Percentage (%)
Case returned	80	86.96
Case not returned	12	13.04
Total distribution	92	100

Source: Field Survey, 2020

As shown in table 4.1.1, of the 92 questionnaire issued to SMEs and banks, 80 was filled and returned, 12 were not returned at all. The 86.96% that was filled and returned the questionnaires is a reasonable level upon which the research can be based.

4.2 Data Analysis

Table 4.2.1 Sex of Respondents

Respondent variables	Frequency	Percentage %
Male	43	43.75
Female	37	46.25
Total	80	100

Source: Field Survey, 2020

Table 4.2.1 classify the respondents by sex, it shows that the questionnaires were filled by 43 males (53.75%) and 37 females (46.25%). Therefore the majority of the respondents were males.

Table 4.2.2 Age group of respondents

Respondent variables	Frequency	Percentage %
18-24	10	12.5
25-30	40	50
31-49	30	37.5
Total	80	100

Source: Field Survey, 2020

Table 4.2.2 classifies the respondents by age. It shows that most of the respondents were within the age bracket of 25-30, which respondents 50% of the respondents population. Similarly, 12.5% were within the age bracket of 18-24, 37.5% were within the age bracket of 31-49.

Table 4.2.3 Marital Status of Respondents

Respondent variables	Frequency	Percentage %
Single	37	46.25
Married	39	48.75

Divorced	4	5.0
Total	80	100

Source: Field Survey, 2020

From the table above, 48.75% respondent those that married who were the most, 46.25% represents the respondents that are single which is second highest and 5% represents respondents that area divorce. Majority are married.

Table 4.2.4 Occupation of the Respondents

Respondent variables	**Frequency**	**Percentage %**
Banking	60	75.0
SMEs	20	25.0
Total	80	100

Source: Field Survey, 2020

Table 4.2.4 classifies the respondents by the occupation. According to the table, majority of the respondents are bankers with 75% of the total respondents population and 25% are SME owners, majority are bank owners.

Table 4.2.5 How long has firm been established

Respondent variable	**Frequency**	**Percentage %**
1-5 years	16	20.0
6-10 years	16	20.0
11-15 years	13	16.3
16 and above	35	43.7
Total	80	100

Source: Field Survey, 2020

From the above table, 40% of the population said their firm was established between 1-5 years and 6-11 years, 16.3% said their firm was established between 11-15 years and most the population says their firm has been established within the range of 16 years and above.

Table 4.2.6 How long have you been in the system

Respondent variable	Frequency	Percentage %
1-5 years	43	53.7
6-10 years	29	36.3
11-15 years	4	5.0
16 and above	4	5.0
Total	80	100

Source: Field Survey, 2020

From the table above, 53.7% represent the number of respondents that have been in the system for 1-5 years, 36.3% represents the respondents that have been in the system for 6-10 years and 10% respondents the respondents that have been in the system for 11-15 years and 16 years and above.

Table 4.2.7 Name of Enterprise

Respondent variable	Frequency	Percentage %
FCMB	30	37.5
ECO BANK	15	18.75
UBA	15	18.75

SMES	20	25
Total	80	100

Source: Field Survey, 2020

From the above table, 37.5% represents respondents from FCMB, 37.5% represents respondents from ECO bank and UBA bank and 25% respondents from SMEs. This shows that majority of respondents are from the banks.

Table 4.2.8 Credit supply is easily accessible to SMEs

Options	**Frequency**	**Percentage %**
Strongly agree	18	22.5
Agree	22	27.5
Undecided	9	11.3
Disagree	22	27.5
Strongly disagree	9	11.3
Total	80	100

Source: Field Survey, 2020

From the table above, 22.5% represents respondents that strongly agreed, 27.5% represent those that disagreed and 11.3% respondents were undecided, 11.3 respondents strongly disagreed. This shows that credit supply can easily be accessed by SMEs.

Table 4.2.9 Credit supply has been able to solve the problem f SMEs

Options	**Frequency**	**Percentage %**
Strongly agree	31	38.7
Agree	34	42.5

Undecided	8	10.0
Disagree	6	7.5
Strongly disagree	1	1.3
Total	80	100

Source: Field Survey, 2020

The above table reveals that 42.5% represents those that agreed and 38.75% represents those that strongly agreed, 10% represent those that were undecided and 7.5% represents those that disagreed and 1.3% of respondents strongly disagreed. Majority of respondents accepts that credit policies affect SMEs.

Table 4.2.11 Credit supply is positively related to the development of SMEs.

Options	**Frequency**	**Percentage %**
Strongly agree	42	52.5
Agree	32	40.0
Undecided	2	2.5
Disagree	4	5.0
Total	80	100

Source: Field Survey, 2020

Table 4.2.11 reveals that 52.5% represents those that strongly agreed, 40% represents those that agreed, 5% represents respondents that disagreed, 2.5% represents those that were undecided. This shows that the supply of credit helps in the development of SMEs.

Table 4.2.12 There are barriers in supplying credit to SMEs

Options	**Frequency**	**Percentage %**
Strongly agree	23	28.7
Agree	51	63.7

Undecided	3	3.8
Disagree	1	1.3
Strongly disagree	2	2.5
Total	80	100

Source: Field Survey, 2020

The above table reveals that 3.7% represents those that agree and 2.8% represents those that strongly agreed, 3.75% represents those that were undecided and 2.5% represents that strongly disagreed, 1.25% represents those that disagreed. This means that there are barriers in supplying credit to SMEs.

Table 4.2.13 Banks have been very helpful in the supply of credit to SMEs.

Options	**Frequency**	**Percentage %**
Strongly agree	14	17.5
Agree	39	48.7
Undecided	12	15.0
Disagree	10	12.5
Strongly disagreed	5	6.3
Total	80	100

Source: Field Survey, 2020

The above table reveals that 48.7% agreed and 17.5% represent those that strongly agreed, 5% represents those that were undecided, 12.5% represents those that disagreed, 6.3% represents respondents that strongly disagree. This shows that banks have been helpful in the supply of credit to SMEs in the area.

Table 4.2.14 The Activities of SMEs have improved over the years with the help of Banks

Options	**Frequency**	**Percentage %**

Strongly agree	21	26.25
Agree	44	56.0
Undecided	9	11.25
Disagree	5	6.25
Strongly disagreed	1	1.25
Total	80	100

Source: Field Survey, 2020

The above table reveal that 56% represents those that agreed and 26.25% represents those that strongly agreed, 11.25% represents those that were undecided, 6.25% represents those that disagreed and 1.25% represents respondents that strongly disagreed. Majority of the respondents agree that activities of Ms have improved over the years with the help of banks.

Table 4.2.15 Loans have been evenly distribute to SM owners in Nigeria

Options	Frequency	Percentage %
Strongly agree	6	7.5
Agree	25	31.25
Undecided	15	18.75
Disagree	20	25
Strongly disagreed	14	17.5
Total	80	100

Source: Field Survey, 2020

The above table reveals that 31.25% represents those that agreed, 25% represents those that disagreed, 18.75% represents those that were undecided and 17.5% represents respondents that strongly disagreed, 7.5% represents those that strongly agreed. This shows that loans is not evenly distributed to SMEs owners in Nigeria.

Table 4.2.16 Loans are easily accessible to SMEs owners

Options	Frequency	Percentage %
Strongly agree	8	10.0
Agree	15	18.75
Undecided	9	11.25
Disagree	31	38.75
Strongly disagreed	17	21.25
Total	80	100

Source: Field Survey, 2020

The above table reveals that 38.75% represents those that disagreed, 21.25% represents respondents that strongly disagreed, 18.75% represent those that agreed and 11.25% represents those that were undecided, who represents those that strongly agreed. This means loans are not easily accessible to SMEs owners.

Table 4.2.17 Guarantors play a major role in provision of loan to SMEs

Options	Frequency	Percentage %
Strongly agree	31	38.75
Agree	37	46.25
Undecided	8	10

Disagree	2	2.5
Strongly disagreed	2	2.5
Total	80	100

Source: Field Survey, 2020

Table 4.2.17 reveals that 46.25% represent those that agreed, and 38.75% represents those that strongly agreed, 10% represents those that were undecided, 5% represents respondents that strongly disagreed and disagreed. Majority accepts that guarantors play a major role in provision of loans to SMEs.

Table 4.2.18 SMEs Financing has been stable over time

Options	**Frequency**	**Percentage %**
Strongly agree	10	12.5
Agree	26	32.5
Undecided	11	13.75
Disagree	20	25.0
Strongly disagreed	13	16.25
Total	80	100

Source: Field Survey, 2020

The above table reveals that 32.5% represents those that agreed, 25% represents those that disagreed, 16.25% represents respondents that strongly disagreed, 13.75% represents those that were undecided, and 12.5% represents those that strongly agreed. This means that SME, financing has been stable over time to some extent.

Table 4.2.19 Inadequate Financial records by SMEs make it difficult to seek loan from banks

Options	**Frequency**	**Percentage %**
Strongly agree	42	52.5

Agree	32	40.0
Undecided	4	5.0
Disagree	2	2.5
Total	80	100

Source: Field Survey, 2020

The table above reveals that 52.5% represents those that strongly agreed, 40% represents those that agreed and 50% represents those that were undecided, 2.5% represents those that disagree majority accepts that inadequate financial records by SME make it difficult to seek loans from banks.

Table 4.2.20 Fears of diversion of funds by SMEs prevent banks from financing them

Options	Frequency	Percentage %
Strongly agree	34	42.5
Agree	39	48.75
Undecided	4	5.0
Disagree	3	3.75
Total	80	100

Source: Field Survey, 2020

The above table reveals that 48.75% represents those that agreed and 42.5% represent those that strongly agreed, 5% represents those that were undecided and 3.75% represents those that disagreed. This reveals that, fears of diversion of funds by SMEs prevent banks from financial SMEs.

Table 4.2.21 Banks are usually supportive in the financing of SMEs

Options	Frequency	Percentage %
Strongly agree	17	21.25

Agree	28	35.0
Undecided	14	17.5
Disagree	16	20.0
Strongly disagree	5	6.25
Total	80	100

Source: Field Survey, 2020

The above table reveals that 35% represents those that agreed and 21.25% represents those that strongly agreed, 20% represents those that disagree 17% represents those that were undecided and .25% represents respondents that strongly disagreed, majority are of the opinion that banks usually supportive in the financing of SMEs.

Table 4.2.22 Most SMEs lack good business plans to present to the banks for their financing

Options	**Frequency**	**Percentage %**
Strongly agree	32	40.0
Agree	37	46.25
Undecided	7	8.75
Disagree	4	5.0
Total	80	100

Source: Field Survey, 2020

The above table reveals that 4.25% represents those that agreed, 40% represents those that strongly agreed, 8.75% represents those that were undecided and 5% represent those that disagreed; majority are of the opinion that most SMEs lack good business plans to present to the banks for their financing.

Table 4.2.23 SMEs often lack cash flow to pay back loans due to their nature

Options	Frequency	Percentage %
Strongly agree	18	22.5
Agree	38	47.5
Undecided	11	13.75
Disagree	11	13.75
Strongly disagree	2	2.5
Total	80	100

Source: Field Survey, 2020

The above table reveals that 47.5% represents those that agreed, 22.5% represents those that strongly agreed, 27.5% represents those that disagreed and were undecided, and 2.5% represents respondent that strongly disagreed. Majority agrees that SMEs often lack cash flow to pay back loans.

Table 4.2.24 Credit Supply contributes to the growth and development of SMEs

Options	Frequency	Percentage %
Strongly agree	35	43.75
Agree	38	47.5
Undecided	5	6.25
Disagree	1	1.25

Strongly disagree	1	1.25
Total	80	100

Source: Field Survey, 2020

The above tale reveals that 47.5% represents those that agreed, 43.75% represents those that strongly agreed, 6.25% represent those that were undecided, 2.5% represents respondents that strongly disagreed and those that disagreed. This means that majority of the respondents are of the opinion that credit supply contributes to the growth and development of SMEs.

Table 4.2.25 Most SME capital is too low to support credit request from banks

Options	Frequency	Percentage %
Strongly agree	18	22.5
Agree	42	52.5
Undecided	13	16.25
Disagree	7	8.75
Total	80	100

Source: Field Survey, 2020

The above table reveals that 52.5% represents those that agreed and 22.5% represents those that strongly agreed, 16.25% represents those that were undecided and 8.75% represents respondents that disagreed. This means that majority were of the opinion that most SME capital is too low to support credit request from banks.

Table 4.2.26 Most SMEs lack experienced manpower to utilize credit granted

Options	Frequency	Percentage %
Strongly agree	19	23.75
Agree	44	55.0
Undecided	20	12.5

Disagree	7	8.75
Total	80	100

Source: Field Survey, 2020

The above table reveals that 55% represents those that agreed, 23.75% represents those that strongly agreed, 12.5% represents those that were undecided and 8.75% represents those that disagreed. Majority agrees that most SMEs lack experienced manpower to utilize credit granted.

Table 4.2.27 Many SMEs are unable to meet the lending requirement of the bank

Options	Frequency	Percentage %
Strongly agree	27	33.75
Agree	43	53.75
Undecided	8	10.0
Disagree	2	2.5
Total	80	100

Source: Field Survey, 2020

The above table reveals that 53.75% represents those that agreed, 33.75% represent those that strongly agreed, 10% represents those that were undecided, 2.5% represents those that disagreed. This means that majority are of the opinion that many SMEs are unable to meet the lending requirements of the banks.

4.3 TEST OF HYPOTHESIS

The statistical tool used to test this hypothesis is the Pearson Product Moment Correlation, this measure the relationship between two (2) variable "x" and "y" commonly symbolized as "r".

Hypothesis 1:

Ho: There is no business relationship between financial institution and SMEs

Hi: There is a business relationship between financial institution and SMEs

In testing the hypothesis, question 9 and 11 were combined with x standing for response in question 9 and y standing for response in question 11.

Table 4.3.1 Analysis of Testing the hypothesis

Variables	x	Y	x^2	y^2	xy
Strongly agree	21	42	441	1764	882
Agree	42	32	1764	1024	1344
Undecided	7	2	49	4	14
Disagree	7	3	49	9	21
Strongly disagree	3	1	9	1	3
Total	80	80	2312	2802	2264

Substitute in the formula:

$$r = \frac{n\sum xy - \sum x\sum y}{\sqrt{[n\sum x^2 - (\sum x)^2]\,[n\sum y^2 - (\sum y)]^2}}$$

$n = 5; \sum xy = 2264; \sum x = 80; \sum y = 80; \sum x^2 = 2312; \sum y^2 = 2802$

$$r = \frac{5\,(2264) - (80 \times 80)}{\sqrt{[5(2312) - (80)^2]\,[5(2802) - (80)^2}}$$

$$r = \frac{11320 - 6400}{\sqrt{(11560-6400)\,(14010-6400)}}$$

$$r = \frac{4920}{\sqrt{5160 \times 7610}}$$

$$r = \frac{4920}{\sqrt{39267600}}$$

$$r = \frac{4920}{}$$

626.386519

r = 0.785141482

r = 0.79

Decision Rule

From the above calculation, since the calculated value for "r" is less than one (1) "r" indicates a positive correlation between the two variables x and y. Therefore, we have to reject the null hypothesis (H_o), there is no business relationship between financial institution and SMEs and accept the alternative hypothesis (H_i), there is business relationship between financial institution and SMEs.

Hypothesis 2:

Ho: There are no barriers to the supply of credit to SMEs.

Hi: There are barriers to the supply of credit to SMEs.

In testing the hypothesis, question 12 and 13 were combined with x standing for response in question 12 and y standing for responses in question 13.

Table 4.3.2 Analysis of Testing the hypothesis

Variables	x	Y	x^2	y^2	xy
Strongly agree	23	14	529	196	322
Agree	51	39	2601	1521	1989
Undecided	3	12	9	144	36
Disagree	1	10	1	100	10
Strongly disagree	2	5	4	25	10
Total	80	80	3144	198	2367

Substituting in the formula:

$$r = \frac{n\sum xy - \sum x\sum y}{\sqrt{[n(\sum x^2) - (\sum x)^2]\,[n\sum y^2 - (\sum y)]^2}}$$

$n = 5$; $\sum xy = 2364$; $\sum x = 80$; $\sum y = 80$; $\sum x^2 = 3144$; $\sum y^2 = 1986$

$$r = \frac{5\,(2367) - (80 \times 80)}{\sqrt{[5(3144) - (80)^2]\,[5(1986) - (80)^2}}$$

$$r = \frac{11835 - 6400}{\sqrt{(11720\text{-}6400)\,(9930\text{-}6400)}}$$

$$r = \frac{5435}{\sqrt{9320 \times 3530}}$$

$$r = \frac{5435}{\sqrt{32899600}}$$

$$r = \frac{5435}{5735.817291}$$

$$r = 0.947554589$$

$$r = 0.95$$

Decision Rule

From the above calculation, since the calculated value for "r" is less than one (1) "r" indicates a positive correlation between the two variables x and y. Therefore, we have to reject the null hypothesis (H_o), there are no barriers to the supply of credit to SMEs and accept the alterative hypothesis (H_1) there are barriers to the supply of credit to SMEs.

4.4 DISCUSSION OF FINDINGS

Having analysed the data gather from the questionnaire, the followings have been made:

1. Banks have been very helpful in the supply of credit to SMEs, thus the activities of SME s far has improved over the years.
2. The study also found out that bank are only supportive in financing SMEs depending on the feasibility of the project.
3. The study also found out that the major condition in the exiting set-up of most SMEs is that it must be operational to access credit not that the necessarily lack experienced manpower to access credit.
4. Based on the tested hypothesis, the research found out that there is a business relationship between financial institution and SMEs.
5. Credit supply has not been evenly distributed amongst SME owners in Nigeria. This has thus hindered the availability and supply of credit to SMEs.
6. SMEs often lack cash flow to pay back loans ue to their nature of operation. They are small enterprises with enormous running cost, these costs make it almost impossible for them to repay because the repayment period given by the banks for such loan is most time short.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

The main objective of this research is to identify the effect of credit supply on the development of SMEs in Nigeria.

In the view of the role credit supply play in the development of SMEs, the study discussed the introductory aspect background of the study in the chapter one, also the statement of problem, objective of study, research question and hypothesizes scope and limitation of study, significance of the study to mention but a few was also introduce .

chapter two discussed the structure and futures of Nigerian banks and SMES, source of financing SMES, problem of credit supply, just to mention a few, which form part of the literature review.

Chapter three which is one research methodology, talked about method and analysis of data collection.

Chapter four talked about one analysis of result gotten from the research survey and chapter five which is the summary of findings.

THEORETICAL FINDINGS

1. It is no more news to say that if you are not faithful in paying small amount of loan, it is likely you will not pay large loans. In this first quarter of 2019 as you move around trying to access loan for your business, you must understand that the major thing banks require from you is not the collateral you will likely

present, but other information or data that have to do with your payment obligation in the past. Such information includes: power holding company Nigeria (PHCN) bill, evidence of tax clearance/payments, and other related bills. Though they may sound simple, all these go a long way to explain your capability of getting credit from banks because they also determined your payment obligation in the past.

2. With the global crisis worsening issues, lenders, especially banks, are beginning shown one sided kind of information in lending as they (banks) make sure that while they make money from lending, they also make sure that the borrowed fund comes back. Recently, industry watchers observed that with the signing on of microfinance bank unto the credit branch, including primary morotage institutions for grassroots businesses, this will go a long way to explaining the importance of credit information sharing and now lack of credit information from small borrowers owned determine people borrowing from microfinance banks.
3. Though this is not new, with this strategy however the birthing of credit bureau gives opportunity for you (as one who has good record of credit) to access loans from banks. Many financial advisors, especially those with credit loan branch in Nigeria, have come to realize that borrowers, especially those in one small and medium Enterprises (SMSES), have record of not being recognized by lenders as evidence shows that bank's lending billions of naira or chunks of their lending portfolio to the big companies one yet to be convinced that SMES are capable of paying back loans.
4. A lot of people are wary about people in SEME's, that they don't know who may likely disappear after accessing bank loans. The credit bureau gives the

opportunity for you and I who have good credit record from the banks to have access to loans. From what we have seen for the period we have been in business there is going to be credit history on the SMES.

5. One bank have to lend to investor to remain in business. But the experience has shown that such lending and the process and strategies adopted have left much to be deceived. Statistics confirm that SMES contribute about 50% to the gross domestic products (GDPS) of the world while they form 99% of global business. Yet, SMES have problems getting their business on course. They face herculean task raising loans to start or expand their investments. Lenders(banks in particular) are always apprehensive about lending to SMES because they see them as high risk.

5.2 Limitation of the Study

The study is faced with some limitations they are: time constraint, financial constraint and availability of data. The time meant for this research work is limited for both the student and supervisor. The student out of the limited time has to combine the research work with the course work. On the part of the supervisor, despite her tight schedule, she is ever ready to read, correct and return each chapter in good time. Financially, the researcher is still a dependent, who has to fund one research work from the support given to her by her parents. Finally, the conclusion and recommendations of this research work is based on and limited to the data collected.

5.3 Conclusion

Finally, the government should encourage the establishment of venture capital companies, so that SMES can have alternative means of obtaining credit other than from banks and other financial institutions. With this, they can forge ahead with finance obtained from other means even when refused credit facilities by banks and similar institutions. Credits supply not doubt contribute to the development of SMES. Despite the policies that have been inaugurated by the government for SMES promotion, only little progress has been recorded in the sub sector. It is therefore imperative that the government be move active I terms of policy implementation, so that credit supply may bring about the much desire development. Also, banks and other financial institutions should be more supportive in terms of making loan readily available for genuine SME operators who have met all necessary requirements.

5.4 Recommendation

This study focus on effect of credit supply on the development of SMES. The finding shows that there is a business relationship between financial institutions i.e (the banks in particular) and SMES and there are also barriers in the supply of credit to SMES in Nigeria. Based on above findings, the following recommendations are made.

1. There should be proper and effective monitoring of the activities of the SMES by the regulatory authorities i.e the banks, in order to limit or totally eliminate the fear of diversion of funds.
2. More feasibility studies and report should be carried out by SMES and thus presented to the banks in order to aid the banks in rendering financial support to SMES.
3. SMES should adopt a mechanism which help reduce or totally eliminate the barriers to effective credit supply to aid SMES operations.
4. SMES should be able to streamline their activities so as to cover up for all running cost(such as electricity and the purchase of generators and diesel /fuel) and make a reasonable level of profit. This would re-install confidence in credit suppliers to

SMES as they are assured that credit suppliers to SMES are properly utilized and repaid in due time.

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APPENDIX II

Section A (Please tick as appropriate)

1. Sex: Male [ ], Female [ ]
2. Age group: 18-42 [ ], 25-30 [ ], 31-49 [ ] 50 and above [ ]
3. Marital status: Single [ ], married [ ] , divorce [ ], Separated [ ]
4. Occupation ______________________________
5. For how long has your firm been established 1-5years [ ], 6-10years [ ], 11-15 years [ ], 16 and above [ ].
6. Name of Enterprise______________________________

Section B

Kindly tick as appropriate as it relates to your response

- Strongly agree (SA)
- Agree (A)
- Undecided (U)
- Disagree (DA)
- Strongly Disagree (SD)

S/N	QUESTIONS	SA	A	U	DA	SD
1	Credit supply is easily accessible to SMEs					
2	Credit supply has been able to solve the problems					
3	Credit supply policies affected small scale enterprises in the area					
4	Credit supply is positively related to the development of SMEs					
5	There are barriers in supplying credit to SMEs					
6	Banks have been very helpful in the supply of Credit to SMEs					
7	The activities of SMEs have improved over the years with the help of banks					

8	Loans have evenly distributed to SME owners in Nigeria					
9	Loans are easily accessible by SME owners					
10	Guarantees play a major role in provision of Loans to SMEs					
11	SME financing has been stable over time					
12	Inadequate financial records by SMEs make it difficult to seek loans in banks					
13	Fears of diversion of funds by SMEs prevent banks from financing them					
14	Banks are usually supportive in the financing of SMEs					
15	Most MEs lack good business plan to present to banks for their financing requirements.					
16	SMEs often lack cash flow to pay back loan due to their nature					
17	Credit supply contribute to the growth and development of SMEs					
18	Most SME Capital is too low to support credit request from banks					
19	Most SMEs lack experienced manpower to utilize credit granted					
20	Many MEs are unable to meet the lending requirements of banks					