BUSINESS CREDIT ACCESSIBILITY AND PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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Abstract

Access to finance boosts SMEs productivity and hence becomes sustainable by utilizing the economies of scale. This study, therefore, examined the relationship between business credit accessibility and the performance of SMEs in Abeokuta North Local Government, Ogun State. A survey research design was adopted for the study. SMEs in Abeokuta North, Ogun State constituted the population for this study. Two hundred and sixty-one registered SMEs in Abeokuta North, out of which 52 were randomly selected as the sample for the study. The questionnaire was the major research instrument used for data collection and descriptive and regression analyses were used in analyzing the collected data. Findings revealed that family and friends are the major sources of business credit available to SMEs owner; that SMEs owners use their business credit major for expanding their business; their business size, legal status and years of operation are the majorly business characteristics that hinder SMEs accessibility to business credit. Finally, this study concluded that business credit facilitates SMEs performance. Based on the findings, the study recommended that efforts should be put in place to make sure that better access to business credit, particularly through the microfinance banks, is being guaranteed; it is also recommended that proper orientation, training, and workshop should be organized by appropriate parastatals, non-governmetal organization and financial institution on other meaningful ways in which SMEs owners can utilize their business credit in improving the performance of their businesses.

Keywords: Business Credit Accessibility, Small and Medium Scale Enterprises, Entrepreneur, Performance, Businesses.

Introduction

In the recent past, business has taken center stage as the major driver of economic growth in most countries, especially in developing countries where Nigeria is no exception. There are many kinds of businesses, varying in sizes, and one of such is the Small and Medium-Size Enterprises (SMEs). It is no gainsaying that SMEs play a crucial role and are often recognized as the major drivers of socio-economic growth, both in developed and developing economies due to their significant role in the creation of jobs, rise in gross domestic product, entrepreneurship and innovation (Karadag, 2015).

Though there has been no universal definition of SMEs, and the definition of SMEs varies across countries, SMEs are often defined by the number of employees, total capital, total sales turnover or total asset. Other concepts in use include relative size, ownership, type of industry and operational environment. These concepts are used due to the scale or level the SMEs are placed in an economy (Owenvbiugie and Igbinedion, 2015). To start with, in the European Union, the upper limit for an SME is 250 employees and Euro 50 million-turnover or Euro 43 million-total balance sheet (Nhung, 2014);

while in the United State and Canada, SMEs are enterprises having less than 500 employees (Hammer, Jabara, Bloodgood, Grossman, Peterson & Gosney, 2010). Moreover, what constitutes SME also varies widely across industries whereby in some industries SMEs are enterprises with less than 300 employees, others might have up to 3000 (Wang, 2008). In the case of Singapore, SMEs are simply enterprises with below 200 employees or less than 100 million dollars of annual sale turnover.

Furthermore, in the case of Nigeria, the definition of SMEs is also as varied as the different authors and agencies defining it. While according to Olowe, Moradeye and Babalola (2013) the Small and Medium Industries Equity Investment Scheme (SMIEIS) in Nigeria defined SMEs as enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300 and the Nigeria Minister for Industry stated that enterprises employing less than 500 workers are generally regarded worldwide as SMEs, Jamodu (2000) opined that SME is defined on the basis of employment so that a business with 1-10 workers is regarded as micro-enterprise and a business with 11-100 workers is regarded as small enterprise, while a business with 101-300 workers is categorised as medium enterprise and a business with 301 and above workers is regarded as large enterprise.

However, despite being at the forefront of economic growth, SMEs access to credit has been a major challenge and this has continued to serve as a major obstruction to SMEs' growth. Mckernan and Chen (2005) maintained that finance is the backbone of SMEs and any other business enterprise. Credit financing involves the procurement of interest-bearing instruments, secured by asset-based collateral and have term structures (Nderitu and Githinji, 2015). The structure could be long-term, short-term or trade credit. To finance working capital, most SMEs rely on internal financing, and or short-term credit from suppliers, and or specialised financial products like factoring. In the case of capital expenditures, which normally represent larger amounts than working capital needs, SMEs rely on internal financing, often involving fresh capital injections from shareholders (World Bank, 2014). Long-term funds are not suitable for short-term projects as they burden the firm with the costs of servicing unnecessary debt. Similarly, short-term debts are not appropriate for financing long-term projects since the loan may have to be repaid before the end of the project (Ackah & Vuyor, 2011).

However, Galindo and Schiantarell (2003) and Magembe (2017) opined that both in the developing and developed countries, SMEs have been found to have less access to external finance and to be more constrained in their operation and growth. Stein, Goland & Schiff (2010) stated that about 365 million to 445 million enterprises in emerging markets which account for 85% suffer from credit access constraints that only 15% can access credit and 70% of all emerging-market Micro, Small and Medium Enterprises (MSMEs) do not access and use any formal credit at all. A study conducted by the International Finance Corporation in 2010 to establish the level of credit accessibility by SMEs showed that over 45% of informal and formal MSME were either

unserved or underserved. The survey also revealed that over 46% of small enterprises owned by women in developing countries were underserved by financial institutions (Alper and Hommes, 2013).
Thuku (2017) further opined that whereas access to financing continues to be one of the most significant challenges for the creation, survival, and growth of SMEs especially innovative ones, the problem is strongly exacerbated by the financial and economic crisis as SMEs and entrepreneurs have suffered a double shock, a drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows.

According to Kung'u (2011) businesses face numerous obstacles that hinder them from accessing credit. According to the authors, these obstacles include poorly segmented nature of financial systems that raises transaction costs and other financial services. Entrepreneur characteristics such as level of education and individual experience are considered to be strong determinants of access to financing. Small businesses in most cases do not hire many people and are either run by the owners or the managers and the performance of the business heavily relies on the ability of the people running the business (Nofsinger and Wang, 2011).

Access to finance boosts SMEs productivity and hence becomes sustainable by utilising the economies of scale (Kira and He, 2012). Entrepreneurial activities such as access to new markets, expansion of business, reduction of risks, innovation and creativity enhancement all require finances. A study by Rahaman (2011) revealed that an increase of 10% in bank credit to a firm would lead to an increase of 18.14% in firm growth. On the other hand, lack of credit negatively affected the profit margins of the business than any other challenge (Khandker, 2013). However despite the mushrooming of financial institutions that provide business credit, the majority of SMEs still do not perform well and this has been attributed to lack of access to financial services and unfavourable credit facilities such as high-interest rates and short repayment period (Imoughele and Mohammed, 2014). Many studies have been carried out to ascertain the effect of credit accessibility on the performance of SMEs, also, few studies of this kind of inquiry have been carried out in Nigeria, the majority of these studies only used single source of finance which is the bank (Ochido, 2016). It is in the light of this that this study seeks to investigate the relationship between credit accessibility and the performance of SMEs using multiple business credit sources such as commercial banks, microfinance banks, corporative societies, independence loaning organizations. The study, therefore, tested the following hypothesis

Ho$_1$: There is no significant relationship between business characteristics and SME accessibility to business credit.

Ho$_2$: Business Credit Accessibility has no significant relationship on the performance of SMEs in Nigeria

Literature Review

The Concept and Definition of SMEs

The notion of SME was introduced into the development landscape as early as the late 1940s with the primary aim of improving trade and industrialization in the present developed nations (OECD, 2004). SMEs are a very heterogeneous group. SMEs are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet café in a small town to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international); embody different levels of skills, capital, sophistication and growth orientation, and maybe in the formal or the informal economy (OECD, 2004).

According to Etuk, Etuk, and Baghebo (2014) the SME sector comprises very different types of businesses across a wide range of economic sectors, but there are essentially two categories, those that are growth-oriented and those small and micro enterprises that operate at the subsistence level to provide employment and income mainly for their owners and a relatively small number of external employees. As opined by the authors, subsistence SME enterprises represent the vast majority of SMEs in developing countries. On the other hand, the growth-oriented type is the innovative type of business that usually operate in growing markets, as well as businesses that are efficiency-oriented and/or network-intensive, which tend to grow through acquisitions.

SMEs are regarded as the bedrock of industrialization because a number of them possess extensive knowledge of resources, as well as demand and supply trends, hence they constitute the chief supplier of input to larger firms. Moreover, they also serve as the main customers to the larger firms; provide all sorts of products ranging from food, clothing, recreation, entertainment, healthcare, education and so forth. Furthermore, they help in economic development through industrial disposal and production of primary and intermediate products; and they can also supply the material needs of larger enterprises. In addition, they provide specialised, and many times, personal services. In summary, SMEs constitute important sources of local supply and service provision to larger corporations (Etuk, Etuk, and Baghebo, 2014).

OECD (2004) pointed out that the Statistical definition of SMEs varies by country and is usually based on the number of employees, and the value of sales and/or value of assets (Ayyagari, Thorsten, Demirgüc-Kunt, 2003). Due to its ease of collection, the most commonly used variable is the number of employees. The EU and a large number of OECD, transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the USA (500 employees) (Bannock, Graham, GaSMEr, Mariell Juhlin and McCann, 2002). Moreover, the definitions of SME are usually derived in each country, based on the role of SME in the economy, policies, and programs designed by particular agencies or institutions empowered to develop SME. For instance, a small business in the developed economies of countries like Japan, Germany and the United States of America (USA), maybe a medium or large-scaled business in a developing economy like Nigeria. Moreover, the definition of SME also varies overtime from agencies or developing institutions to another, depending on their policy focus (Etuk, Etuk, and Baghebo, 2014).

Berisha and Pula (2015) opined that the differences in SME definitions extend in three flanks, that is, definitions by international institutions, definitions by national laws and by industry definitions. The authors proposed that question that if economists claim that SME are the backbone of the economy, how come they cannot determine the number and the order of its discs? Thus, finding a universal standard poses a sharp and acute critic to institutionalists, economists, academics and industrialists. The authors further opined that the first recommendation that marked the beginnings of a unique definition of SMEs was that of April 1996 and it was based on the idea that the existence of different definitions at the community level and at the national level could create inconsistencies. Despite the lack of universality of the definition and the lack of alignment in the criteria, the importance of SMEs definition is still inevitable. This is due to the fact that the definition of SMEs is important and useful in the preparation of statistics and the monitoring of the health of the sector over time; in benchmarking against other economies and between regions within an economy; in providing arbitrary thresholds for imposition of tax or other regulations; in determining eligibility for particular forms of public support (OECD, 2004).

Regardless of the above variation, SME can be defined based on certain criteria including, turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. Moreover, one of the first attempts to provide a definition of SMEs is that of the Bolton Report 1971 (Carter and Jones-Evans, 2006). This report suggested two approaches to the definition which are quantitative approach and qualitative approach. Hence, the definition can be based on either some quantitative or qualitative variables.

The Role of Microfinance Bank on SMEs Accessibility to Business Credit

Microcredit, as the name implies, is the name given to extremely small loans made to poor borrowers or to small businesses whose financial capital base are not large enough to access larger loans and the acquisition of such small loans would enhance business profitability of such ventures (Odunjo, Osawe, and Okoruwa, 2018). It enhances the production capacity of the poor resource small businesses through financial investment in their human and physical capital (Okurut, 2004). Access to credit is undoubtedly a major financial capital resource for the take-off and sustainability of any business investment. It is also paramount in the process of expanding businesses and in the acquisition of modern technologies that will ensure competitiveness and value addition.

Simtowe and Phiri (2006) and Muktar (2009) stated that credit is a precondition to the growth of enterprises (entrepreneurship). It is an effective way for poor people to increase their economic security and thus their welfare. It enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income (Robinson, 2001). In Nigeria, several financial institutions and programs were set up to meet the needs of entrepreneurs, but these initial efforts were government-led through the vehicle of large industry, but lately emphasis has shifted to SMEs following the success of SMEs in the economic growth of Asian countries (Ojo, 2009).

Various funding sources have been considered for SMEs, among which is microfinance. In Nigeria, credit is largely granted for commerce-related activity to the detriment of the agricultural sector. Those who do not have access to microfinance in Nigeria are estimated to be 40 million people, according to Irobi (2008). The implication is that microfinance, as practiced in Nigeria, has not been able to address credit, savings, and other related financial services gap required by micro-entrepreneurs (CBN, 2008; Irobi, 2008). Nigerians have always tried to provide themselves with needed finances through informal microfinance approaches like self-help groups (SHGs), rotating savings and credit associations, (ROSCAs), accumulating credit and savings associations (ASCAs) and direct borrowings from friends and relations. These approaches may have sufficed in the traditional society but the growth in the sophistication of the economy and the increasing incidence of poverty among citizens has revealed the shortcomings of this approach (Adebayo, 2012).

Standard practices of microfinance include receiving deposits and offering loans, payment services, money transfers, and insurance to the poor. However, microfinance banks are constrained by high fixed and variable costs which translate to the huge cost of doing business. Microfinance banks are also faced with the challenge of incorporating economies of scale and the reduction of huge transaction costs due to the difficulty in recovering cost and accessing incentives for foreign donor agencies. High operational costs and poor retained earnings have prevented microfinance banks from setting up branches sufficient to cater to the needs of the growing poor population. More painful is loan recovery arising from the poor not having tangible collateral as security for credits sought (Bi and Pandey, 2011). The main objective of microcredit according to Asikhia (2010) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Kolawole (2013) states that microfinance bank helps to generate savings in the economy, attract foreign donor agencies, encourage entrepreneurship and catalyse development in the economy.

Microfinance has been variously described by different authors. On the one hand, according to Adeyinka and Tajudeen (2017) microfinance is the supply of financial services to low-income employees, which is closer to the retail finance model prevalent in mainstream banking. For some, on the other hand, microfinance is a movement whose object is a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high-quality financial services, including not just credit but also savings, insurance, and fund transfers. Many of those who promote microfinance generally believe that such access will help poor people out of poverty (Bi and Pandey, 2011). For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses.

The Role of Commercial Banks on SMEs Accessibility to Business Credit

SME finance, like SMEs themselves, is exceptionally diverse and complex and faces unique challenges (Nassr and Wehinger, 2014). The current credit gap for formal SMEs is estimated to be United States dollars (USD) 1.2 trillion; the total credit gap for both formal and informal SMEs are as high as USD 2.6 trillion (World Bank, 2015). Yet, debt in the form of overdraft facilities is primarily needed by the smaller firm to cover working capital requirements, with intermittent need to finance replacement or expansion investment (Cressy and Olofsson, 1996). SMEs are often unable to provide immovable property required by the banks, and there is a lack of alternative funding, such as venture capital, angel investors, and government and NGO support (Small & Medium Enterprises Association of Zimbabwe, 2015).

The World Bank is increasingly looking to develop more innovative forms of SME financing. (World Bank, 2015). Some countries use cluster funding, whereby banks identify and group Micro Small and Medium Enterprises (MSMEs) in a locality involved in similar business activities into a cluster and then capacity building and credit programs are tailored to a cluster's specific needs. Developing countries, such as Bangladesh, have successfully used the cluster model in the development of MSMEs (Mangudya, 2016). Also, Governments in both developed and developing countries have recognised that SMEs struggle to access external financing, which may negatively affect their crucial role in achieving national development goals, thus many governmental initiatives and programs have been implemented to ensure that SMEs easily access financing (Abdulsaleh and Worthington, 2013). Government official schemes introduced either by government alone or with the support of donor agencies have been seen to have the capability to ease access by SMEs to additional credit (Boocock and Shariff, 2005).

Small business formation and growth are impacted significantly by imperfections in bank credit markets. Small firms are different from larger firms because they have information constraints. Their businesses tend to be more informal and have inadequate business planning. As a result, they do not have enough information available for lenders to evaluate their performance and business potential (Berger, Klapper and Udell 2001). Past research has shown the importance of developing relationships with banks for small businesses. Petersen and Rajan (1994) found that a relationship with an institutional lender increases the availability of financing to a small business. Berger and Udell (1995) found that lenders offered lower rates to firms with longer relationships and were less likely to require collateral.

Efforts to develop financial services for SMEs have been growing and have evolved considerably for the past few decades. In response to a growing understanding of the financial needs of SMEs, there has been a shift toward commercialising these efforts through formal financial services. While there are many ways in which banks become engaged in small business lending, previous empirical works have classified the strategies that banks normally use to enter the microfinance market into two main categories which are direct and indirect methods. The direct approach, according to Subhanij (2016) is when banks set up internal units within the banks to serve SMEs or establish separate companies to deal with this market. The indirect approach is when commercial banks enter into an SME segment by working with existing micro-finance institutions (Sinswat and Subhanij 2010; Bounouala and Rihane 2014).

The financing and provision of credit facilities to SMEs has traditionally been the role of banks (both deposit money banks and microfinance banks) as part of financial intermediation between surplus and deficit economic units. Before liberation, the CBN through its credit guidelines required that the commercial ad merchant banks allocate a minimum stipulated credit to sectors classified as “preferred,” including the SMEs. For instance, the CBN in 1979/80 fiscal year directed that at least 10 percent of the loans advanced to indigenous borrowers should be allocated to SMEs. This was subsequently raised to 16 and 20 percent of total loans and advances in April 1980 and 1990, respectively (CBN, 2014).

Empirical Relationship between Business Credit Accessibility and Performance of Small and Medium Scale Enterprises

Ochanda (2014) in his study on credit accessibility found that financial resources affected the performance of 92% of the firms studied when the measure of growth is profitability. The SMEs cited high-interest rate and collateral demand as some of the factors that hindered most SMEs from accessing the credit from formal lending institutions. The study also found that innovation was important in the growth of SMEs. Muguchu (2013) study on the relationship between credit and financial performance of SMEs used both inferential and descriptive analysis in conducting the study. The study sampled 40 SMEs that operated within the CBD in Nairobi. Similar to other studies access to credit was found to positively affect the performance of SMEs. On the other hand, Byaruhanga (2012) findings further revealed that credits terms and accessibility influenced the performance of agricultural cooperatives.

Rahaman (2011) estimated that a 10% increase in bank credit results to an 18.14% increase in the growth of the sample firms in Ireland and the UK. Khandker, Samad, and Ali (2013) test the impact of access to finance on micro-enterprise growth and profitability in Bangladesh using the fixed-effect model. Their results suggested that credit constraints negatively affect micro-enterprise profit margin more severely than other types of constraints (such as transportation, lack of demand, etc.). In addition, enterprises that borrowed from money lenders to start their businesses have significantly lower profit than borrowing from other sources.

Yiu, Su, and Xu (2012) assess the impact of alternative financing (underground finance and trade credits) on the performance of 284 private firms in 19 provinces in China. The ordinary least square (OLS) and 2SLS estimation confirmed that alternative financing positively associates with firm performance. On the other hand, some studies have found a negative or weak link between credit access and SME performance. For example, White, Maru, and Boit (2015) examined the relationship between firms’ access to financial resources and the performance of women-owned and men-owned SMEs in Kenya using descriptive and inferential statistics. The study, which revealed that access to financial resources had no significant correlation with firm performance, also showed that all the predictors accounted for 66.5% variation in the performance of SMEs. Similarly, Atandi and Wabwoba (2013) show that access to credit or credit availability does not guarantee a bigger market share or better performance by MSMEs in Kenya. The effect of credit available to MSMEs on business performance by considering stock levels held also revealed that little money was allocated to purchase additional stock. Again, on establishing the impact of credit available to MSMEs by considering the additional number of employees, it was found that credit access to MSMEs does not necessarily lead to a good performance.

Another empirical study on the linkage between the capital structure and SME's sustainability was conducted by Kyereboah-Coleman (2007) who investigated the impact of capital structure on SME's performance within the sub-Saharan region. The study used panel data from Ghana on 52 microfinance institutions covering the ten-year period 1995- 2004. It showed that most of the SME's, which have been operating for about 18 years have about 70 percent of their assets in the current form, employ high leverage and finance their operations with long-term debt.

The author uses panel data regressions to demonstrate that highly leveraged SME's perform better by reaching out to more clientele and enjoy scale economies, which enables them to better deal with moral hazard and adverse selection and enhances their ability to deal with risk.

Using an IV analysis, Bogan (2011), found evidence supporting the assertion that increased use of grants, rather than own capital by large SME's decreases operational self-sufficiency in larger firms. This allows the author to argue that the long-term use of grants may be related to inefficient operations due to lack of competitive pressures
associated with attracting market funding. Cooper (2012) did a study on the impact of microfinance services on the growth of SME in Kenya. The study was done on the consisted of 50 SMEs operating in Nairobi. The results show that microfinance has enabled SMEs to thrive in business through increase their profitability through the provision of funds for expansion and growth purposes as well as the provision of the micro insurance of the SMEs against an unpredictable future.

Mayer (2013) conducted a study on the financial and social returns on investment in SME's. The study adopted an empirical studies review methodology whereby previous studies on the same were reviewed. The study data collected also included all SME's willing to disclose information, quantitative measures are complemented with portfolio information such as legal status and regional distribution and the interaction between financial and social return. Besides, questionnaires were distributed to 104 fund managers in October 2011 on fund structures, portfolios, and performance. The results show that the funds vary in their structure, their special characteristics and the underlying portfolios.

Onakoya, Fasanya and Abdulrahman (2013) examined the impact of financing small scale enterprises on economic growth using quarterly time-series data from 1992 to 2009 the study revealed that loan to small scale entrepreneurs have a positive impact on the economic performance and conclude that access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development. Imoughele and Ismaila (2013) also investigated the impact of commercial bank credit accessibility and sectorial output performance in the Nigerian economy for the period which spanned between 1986 and 2011. An augmented growth model was estimated via the OLS techniques. The result found that the various commercial bank credit supplies have a long-run relationship with sectorial output performance in Nigeria.

Methodology

Research Design

The study adopted the survey research design. The survey design has been found to be the most appropriate for the study because it permits the generalization of research findings from a considerable representative sample of the target population to the entire population. The adoption of the survey research also permits the use of a questionnaire for the collection of data for the study.

Population of the Study

A population is a technical term used in research to describe the group that maybe people, animals or things, from which a researcher proposes to derive their study sample (Issa, 2012). Hence, all registered SME in Abeokuta North Local Government; Ogun State will constitute the target population for this study. According to data obtained from the Corporate Affairs Commission (CAC), Ogun State (2018), there are two hundred and sixty-one (261) registered SMEs in Abeokuta North Local Government.

Sample and Sampling Procedure

According to Gay, Mills, and Airasian (2009), the minimum sample size depends on the type of research involved. For survey research, according to Gay, Mills, and Airasian (2009) and Lapoite (2013), a sample of 10% to 30% of the population is acceptable. According to data obtained from Corporate Affair Commission (CAC), Ogun State (2018), there are two hundred and sixty-one (261) registered SMEs in Abeokuta North Local Government, hence, 20% of these registered SMEs, which is approximately fifty-two (52) constituted the sample size selected for this study and the simple random technique was used to select the sample.

Method of Data Collection

The validated questionnaire was administered to SMEs owner in Abeokuta North Local Government. Moreover, in the case of respondents who cannot read or do not adequately understand some of the items in the questionnaire; they were assisted in interpreting and understanding the items.

Model Specification

Gabre (2014) model was adopted for this study to determine the effects of business credit accessibility on SMEs performance. The model is presented below.

$$Y=\alpha0+\beta1X1+\beta2X2+\beta3X3+\beta4X4+\beta5X5+\varepsilon$$

Where:

Y = performance of SMEs as measured by an increase in total assets, capital expenditure and annual sales growth.

$\alpha 0$ = Constant Term

$\beta 0, \beta 1, \beta 2, \beta 3, \beta 4, \beta 5$ = Regression Coefficients

Y1= increase in total asset

Y2= capital expenditure

Y3= annual sales growth

Dependent Variables

While credit access is measured by:

X1 = amount of loan issued to SMEs.

X2 = Interest Charged

X3 = Loan Size

X4= Collateral Requirement

X5= Product and Service range

Independent Variables

ε = Constant error

Method of Data Analysis

The data collected was analyzed using descriptive statistics which included frequency and percentages table and correlation analysis with the aids of Statistical Packages for Social Science (SPSS).

Result and Discussion

Table 1: Sources of Business Credit Facilities

S/N	SOURCES	Yes	No	X	Mean Ranking
1	Cooperative Societies	29 (55.8%)	23 (44.2%)	1.56	2nd
2	Thrift and Contribution Association	14 (26.9%)	38 (73.1%)	1.27	5th
3	Friends and Family	36 (69.2%)	16 (30.8%)	1.69	1st
4	Corporate Money lenders	-	52 (100%)	1.0	7th
5	Microfinance banks	18 (34.6%)	34 (65.4%)	1.35	4th
6	Commercial banks	20 (38.5%)	32 (61.5%)	1.38	3rd
7	Developmental banks	3(5.8%)	49 (94.2%)	1.06	6th

Source: Field Survey, 2019.

It is evident from Table 1 that most of the respondents preferred credit facilities from friends and family than any other source with a mean score of 1.69, followed by the cooperative societies with a mean score of 1.56. Also, credit facilities from commercial banks, microfinance banks, thrift and contribution association, and development banks were found to be preferred by some of the respondents with mean scores of 1.38, 1.35, 1.27 and 1.06 respectively. While none of the respondents preferred credit facilities from corporate money lenders with a mean score of 1.0. This statistically shows that many of the small and medium business owners in Abeokuta North Local Government, Ogun State like to source for financial assistance from their family and friends. This might be due to the zero interest rate or privilege of refunding at their pleasure.

Table 2: SMEs Utilisation of Business Credit

S/N	ITEMS	A	SA	D	SD	U	Mean	Mean Ranking
1.	To purchase new products	23 (44.2%)	17 (32.7%)	12 (23.1%)	-	-	4.21	4th
2.	To increase my capital base	29 (55.8%)	17 (32.7%)	6 (11.5%)	-	-	4.44	2nd
3.	To purchase new machine and tools	17 (32.7%)	6 (11.5%)	12 (23.1%)	17 (32.7%)	-	3.44	7th
4.	For wider business advertisement	25 (48.1%)	16 (30.8%)	2 (3.8%)	9 (17.3%)	-	4.10	5th
5.	For the expansion of my business	29 (55.8%)	23 (44.2%)	-	-	-	4.56	1st
6.	To increase my production outputs	23 (44.2%)	23 (44.2%)	-	-	6 (11.5%)	4.10	5th
7.	To diversify my business	18 (34.6%)	-	18 (34.6%)	5 (9.6%)	11 (21.2%)	3.17	9th
8.	To tap into other business opportunities	27 (51.9%)	17 (32.7%)	8 (15.4%)	-	-	4.37	3rd
9.	To finance projects outside my business	20 (38.5%)	4 (7.7%)	3 (5.7%)	20 (38.5%)	5 (9.6%)	3.19	8th
10.	To lend out to someone else	-	-	12 (23.1%)	40 (76.9%)	-	2.23	11th
11.	To pay off debts	11 (21.2%)	-	20 (38.5%)	12(23.1%)	9(17.3%)	2.85	10th
12.	To pay my employees	10 (19.2%)	23 (44.2%)	12 (23.1%)	7 (13.5%)	-	3.69	6th

Source: Field Survey, 2019.

Table 2 shows respondents' responses on how they utilise the credit facilities advanced to them. It was revealed that most of them used the credit facilities for further expansion of their business with a mean score of 4.56 which is above the decision making criteria of 3.5. Also, it was found that the majority of the respondent utilizes the credit facilities to increase capital base, venture into other business opportunities, purchase new products, wider business advertisement, and payment of employee salaries with mean scores above the decision making standard of 3.5. While the least of them use it to purchase new machinery and tools, finance project outside their business, diversify the business, pay off debts and lend someone else with a mean score below the decision making criteria of 3.5.

Table 3: Effect of Business Characteristics on Selected SME Accessibility to Business Credit

S/N	ITEMS	A	SA	D	SD	U	Mean	Mean Ranking
1.	My business (age) years of operation	29 (55.8%)	10 (19.2%)	13 (25.0%)	-	-	4.31	3rd
2.	My educational level as the owner/manager of the business	2 (3.9%)	-	16 (30.8%)	24 (46.1%)	10 (19.2%)	2.23	5th
3.	The type of business I am engaged in	23 (44.2%)	23 (44.2%)	-	-	6 (11.5%)	4.10	4th
4.	The size of my business in terms of employees and operational capacity	35 (67.3%)	16 (30.8%)	1 (1.9%)	-	-	4.65	1st
5.	The legal status of my business (that is if my business has not been registered)	28 (53.9%)	23 (44.2%)	-	-	1 (1.9%)	4.48	2nd

Source: Field Survey, 2019.

Table 3 indicates the respondents' response to the effect of business characteristics on selected small and medium scale enterprises' accessibility to business credit. It shows that the major characteristic of the business which distorts its accessibility to credit facilities was the size of the business with a mean score of 4.65. This is followed by the legal status of the business with a mean score of 4.48. Also, business year of operation and business type were found to hinder the accessibility of the small business owners to credit facilities with mean scores of 4.31 and 4.10 respectively. Lastly, the educational level of the owner or manager was found not to affect their accessibility to business credit with a mean score of 2.23 which is below the decision criteria of 3.5.

Table 4: Effects of Business Credit Accessibility on Performance of SMEs

S/N	ITEMS	A	SA	D	SD	U	Mean	Mean Ranking
1.	Increases the total assets of my business	31 (59.6%)	12 (23.1%)	9 (17.3%)	-	-	4.03	1st
2.	Increases the capital expenditure of my business	29 (55.8%)	7 (13.4%)	-	-	16 (30.8%)	3.6	2nd
3.	It brings about sales growth in my business	-	-	26 (50.0%)	16 (30.8)	10 (19.2%)	2.31	3rd

Source: Field Survey, 2019.

Table 4 shows the respondent responses on the effect of business credit accessibility on the performance of small and medium scale business. The result shows that the majority of the small business owners agreed that accessibility to the credit facilities helps to increase the total asset of their business and also increases the capital expenditure of their business with mean scores of 4.03 and 3.6 which is above the 3.5 decision making criteria. While the last item which started that accessibility to credit facilities brings about sales growth in my business was rejected with a mean score of 2.31 which is below the decision making criteria of 3.5.

Hypothesis Testing

One main hypothesis was postulated in the course of this study. It was tested using the Pearson product-moment correlation statistic at a 0.05 level of significance.

Table 5: Business Credit Accessibility and Performance of SME

Variable	N	Mean	SD	df	Cal r-value	p-value	Decision
Business Credit Facilities	52	3.45	0.32				
				50	0.661	0.001	Rejected Ho
SMEs Performance	52	3.24	0.56				

*Significant $p < 0.05$.

Table 5 shows the calculated R-value of 0.661 while the p-value (0.001) is less than the significance level (0.05) for 50 degrees of freedom. Therefore, the hypothesis, which states that there is no significant relationship between business credit accessibility and performance of SMEs in Abeokuta North Local Government, Ogun State rejected. This shows that a moderate relationship exists between access to credit facilities and the performance of SMEs. This reveals that if access to credit facilities is adequate in small and medium enterprises there could be an increase in the performance of SMEs.

Discussion of Findings

The discussion of the findings of the study is presented below in order of the objectives of this study. The analyzed data, however, showed that family and friends are the major sources of business credit followed by a cooperative society, commercial banks and then microfinance banks. This is in line with the findings of Watse (2017) which also found that personal saving, family, and friends are the major sources of business credit of SMEs owners. The analysed data revealed that the majority of the owners use their business credit to expand their businesses, increase their capital base and tap into other business opportunities. This is in line with the findings of Ochido (2016) which concluded that SMEs owners utilized business credit gotten for business purposes.

The analyzed data showed that that size of the business, followed by the legal status of the business, business year of operation and business type were the major business characteristics found to hinder the accessibility of the small business owners to business credit. This is corroborated by the findings of Thuku (2017) who also concluded that business size and legal status are hinder SMEs access to credit. The analysis showed that the majority of the small business owners agreed that accessibility to the credit facilities help to increase the total asset of their business and also increase the capital expenditure of their business. While the last item which started that accessibility to credit facilities brings about sales growth in my business was rejected. This is in line with the findings of Chege (2014) who also concluded that access to business credit improves the growth and performance of SMEs. The analysed data unveiled that a moderate relationship exists between access to credit facilities and performance of SMEs and that if access to credit facilities is adequate for small and medium enterprises there could be an increase in the performance of SMEs.

Conclusion and Recommendation

This study sought to examine the effects of microfinance credit on the performance of SMEs. Based on the finding, therefore, the following conclusions are made. The study concluded that family and friends are the major sources of business credit available to SMEs owners. This study also concluded that SMEs owners use their business credit major for expanding their business. It is also concluded, based on the findings that, business size, legal status and years of operation are the major business characteristics that hinder SMEs accessibility to business credit. Finally, this study concluded that business credit facilitates SMEs performance. The study recommended that efforts should be put in place to make sure that better access to business credit, particularly through the microfinance banks, is being guaranteed and proper orientation, training, and workshop should be organized by appropriate parastatals, NGO and financial institution on other meaningful ways in which SMEs owners can utilize their business credit in improving the performance of their businesses apart from the ways revealed in the findings of this study.

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