

Assessing the Effectiveness of Commercial Bank Loans as Sources of Funding/Capital Formation for Small and Medium Enterprises (SMEs) in Southeast, Nigeria

Ugwu-Oju M. Obiageri

Department of Management, Faculty of Business Administration, University of Nigeria Enugu Campus

Vincent A. Onodugo

Department of Management, Faculty of Business Administration, University of Nigeria, Enugu Campus

Mbah, Paulinus Chigozie*

Department of Business Administration, Faculty of Management Sciences, Enugu State University of Science and Technology

Abstract

The paper assesses the effectiveness of commercial bank loans as sources of funding Small and Medium Enterprises (SMEs) in Southeast, Nigeria. A cross-sectional survey method wherein structured questionnaire was used to collect data was adopted. A sample of 500 respondents was randomly selected from the five industrial hubs in the five states of Southeast, namely Nnewi, Aba, Enugu, Abakiliki, and Owerri. With the aid of pecking order theory (POT)/hypothesis of Lending, percentage formula, and SPSS version 20.0 tools, the data generated from the respondents were analysed. Among others, the results of the analysis reveal that SMEs and commercial banks are highly indifferent to the loans facilities; strict collateral requirements, high interest rates, and the nature of requirements for guarantors dissuade SMEs from accessing loans; and government interventions provided palliative measures but failed to address the problems associated with the loans. Therefore, this paper recommends policy reforms to reduce interest rate, collateral and guarantor requirements. Further research on how to modernise and harmonise other external sources of SME funding such as 'daily contribution' and 'Isusu' systems is required.

Keywords: Commercial banks; Interest rate; Loans; Profit; SMEs; Southeast.



CC BY: [Creative Commons Attribution License 4.0](https://creativecommons.org/licenses/by/4.0/)

1. Introduction

The establishment, growth and survival of small and medium enterprises (SMEs) depend on funding and its management. It enables entrepreneurs to undertake productive investments, expand existing investments, and acquire necessary technologies and requirements to sustain the enterprise (Ijaiya and Abdurraheem, 2000; Ijaiya, 2003). Entrepreneur as used here refers to one who possesses the inclination for self-development, "ability to innovate, nurtures an enterprise and having means of and access to finance in both formal and informal financial sub-sectors to achieve a successful investment towards sustainable economic growth" (Somoye, 2011). Majority of them are found in the SMEs sector due to paucity of capital. Currently, SMEs represent about 90% of firms in the Nigerian industrial sector.

Thus, SMEs dominate the industrial sector with overwhelmingly contribution to individual and national economic growth. They exhibit huge potential for employment generation and wealth creation, ensures greater utilization of raw materials, encourage rural development and the mobilization of local savings, create linkages and lead to the emergence of bigger industries, contribution to national output and exports, provide avenue for self-employment and provision of opportunity for training managers and semi-skilled workers, poverty alleviation, economic participation, strengthening the industrial base and local production structure (Imoughele and Ismaila, 2014; Kadiri, 2012; Oluwarotimi and Adamu, 2017).

In spite of these contributions, entrepreneurs have continued to face stiff hindrances in raising the required fund for establishing and investing in SMEs in Nigeria (Abereijo and Fayomi, 2005; Beck *et al.*, 2006). They suffer from scarcity of funds, limited access to capital markets, and debt funding opportunities (Beck *et al.*, 2006; Inang and Ukpog, 1992), This is because the Nigeria financial system contributes poorly to entrepreneurship and SMEs sector (CBN, 2009). The maturity of credits extended to SMEs by the system is often limited to a very short period of repayment with exorbitant interest. With bias in favour of lending to governments due to higher returns and low risks than SMEs (Levitsky, 1997), the system applies tougher screening measures and tend to charge SMEs commission for assuming risk.

To ameliorate this, the federal government of Nigeria embarked on the policy of providing loan guarantees and credit subsidy programmes such as Small Scale Industries Credit Scheme (SSICS), Nigerian Bank for Commerce and Industry (NBCI), and the National Economic Reconstruction Fund (NERFUND) among others. These interventions provide long term credit, interest ceilings, and/or specialized services to the SMEs (Eniola and Entebanga, 2015). The term credit as used here was aptly defined by the Central Bank of Nigeria (CBN) Prudential Guidelines of 1990 as the aggregate of all loans, advances, overdrafts, bills discounted banks guarantees, banks

*Corresponding Author

acceptances, commercial papers, leases and indemnities. Credits are advanced for purposes of making profit (Essang and Olajide, 1974).

Nevertheless, four factors are posing serious threat or challenge to the policy. First systemic sabotage and corruption tend to prevent the loans from reaching the target group and individuals. Second, some beneficiaries of such loans fail to repay them. Third, most beneficiaries of the loans failed to achieve financial self-sustainability. Fourth, banks lacked the incentive to develop their capacity for risk assessment and monitoring of loans. This failure recently led to the introduction of Small and Medium Industries Equity Investment Scheme (SMIEIS). Therefore, this paper examines the level of commercial banks funding of SMEs in the Southeast Nigeria under the SMIEIS regime.

1.1. Objectives of the Study

The main purpose of this study is to examine commercial banks funding of small and medium enterprises in Nigeria through credits/loans. However, the specific objectives are to:

- i. Examine if entrepreneurs of SMEs rely on commercial bank loans for investments and expansion.
- ii. Assess the impact of government policy on small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria.
- iii. Examine the factors hindering small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria.
- iv. Proffer solutions to the identified problems hindering small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria.

1.2. Research Questions

The following research questions were formulated to guide the research:

1. Has entrepreneurs of SMEs relied on commercial bank loans for investments and expansion?
2. Has government policy improved the rate of small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria?
3. What are the major factors militating against small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria?
4. What are the solutions to the problems hindering SMEs access to commercial banks loans?

2. Literature/Theoretical Underpinning

Small and Medium Scale Enterprises (SMEs) and its role in national economic development, management/dynamics, funding, and problems have been well documented (Eniola and Ektebang, 2014; Fadahunsi, 1997; Mukhtar, 2009; Terungwa, 2012). This review groups this documentation into two major parts, namely: conceptual and empirical reviews.

2.1. Conceptual Review

2.1.1. Small and Medium Scale Enterprises (SMEs)

Although the literature is littered with definitions of Small and Medium Enterprises (SMEs), these definitions significantly differ. This is due to the inclusion or exclusion and valuation of variables such as number of employee, number and value of fixed assets, production capacity, nature of technology used, management, economic development, and the environment, in the conceptualisation of SMEs (Ekpenyong, 1997; Harabi, 2005). Thus, there is no generally accepted or universal definition of SME. However, the Central Bank of Nigeria adopted asset base, turnover, and number of staff employed as primary factors that defines SMEs.

Nevertheless, a synthesis of available definitions reveals a popular acceptance of certain variables as characterisation of SMEs. These variables include asset values and the number of employees (Nwakoby, 2012; Obistayo, 2001; OECD, 2000; Oteh, 2010; Udechukwu, 2003). For instance, it is defined as informal businesses employing five or fewer workers including unpaid family labour; small enterprises as those operating in the formal sector with five to twenty employees; and medium enterprises as those employing 21 to 50 employees. According to the views of scholars, small businesses have fewer than 100 employees, while medium-sized business has fewer than 500 employees, while the total assets of any SME does not exceed N200million. Thus, the conceptualisation of SMEs by the National Council of Industries (2009) as business enterprises (with fewer than 100 employees and) whose total costs excluding land is not more than two hundred million naira (N200, 000, 000. 00) only is adopted for this paper.

In its review of over fifty definitions of SMEs obtainable in 75 countries including Nigeria, the United Nations Industrial Development Organization (UNIDO) identified the major variables that characterise SMEs as capacity utilization, output, employment, capital, and type of country or other criteria. In addition, ownership structure or base, which is characteristically one-man, family or partnership business; Labour-intensive production processes; concentration of management on the proprietor; limited access to long term funds; high interest rates and bank charges to credits; over-dependence on imported raw materials; poor intra and inter-sectorial linkages characterise SMEs particularly in Southeast Nigeria (Ngwu, 2005).

Generally, SMEs display a distinct set of identifying characteristics and these include:

- a. Capital and output, which do not exceed 50 million naira.
- b. Employment power that does not exceed 100 employees.

- c. Serve small market area such as a street, community, and/or particular business operation.
- d. The character of its ownership is sole proprietorships, partnerships or limited liability companies.
- e. It can be found only in a limited area.

2.1.2. SME and Sources of Financing

Sources of funding or financing business enterprises are classified as Internal and external sources (Pretorius and Shaw, 2004). Internal sources include entrepreneurial provision of the capital on their own, debt trading, retaining of business profits, and price depreciation. On the other part, external sources include financial banks, individual fund investors, venture capital, and crowd-funding. While internal source determines the stating of SMEs, external sources of funding are key to the expansion and rapid growth of SMEs. The external source normally provides credit facility (Eisenhardt and Martin, 2000; Shepherd, 1997).

In their quest to expand in the midst of fund raising difficulty, SMEs do resort to apply for and/or access short-term and medium-term sources of financing at high costs through bank overdraft, trade credit, credit cards, leases and bank loans (Bates and Hally, 1982; Keasey and Watson, 1994). In Nigeria, funding SMEs through the external sources is difficult because government economic and financial policies are skewed against the informal sector (Claessens, 2006; Ekpenyong and Nyong, 1992). Due to these policies, commercial bank loans to SMEs have been decreasing over the years (CBN, 2014; Ogbuabor *et al.*, 2013). For instance, it declined drastically from N41.1 billion in 2007 to N13.5 billion in 2008.

Commercial banks are reluctant to lend money to SMEs because such credits are considered non-commercially viable (Odife, 2002). They regard lending to SMEs as a high risk and unprofitable business (Adejoh, 2013), because weak management and information technology, and weak business plan drives their financial transactions, while their financial condition and performance are not available. In addition to these factors, SMEs in Nigeria suffer from lack of focus, inadequate market research, inexperience, lack of proper book keeping practices, irregular power supply, infrastructural inadequacies, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, and cut-throat competition (Basil, 2005). According to Rudjito (2003), this scenario leads to commercial banks reluctance to issue credits to SMEs, an act that is sustained by the availability of other investments with high rate of profit and turnover; higher overhead cost; and higher interest rate on the loans from the informal lending market. On their part, SMEs are unable to access available commercial bank credits successfully due to stringent conditions set by financial institutions especially banks (Solola, 2006), majority of their projects are not bankable projects; high interest rates; paucity of information required to accelerate the processing of their credit or loan request; none provision of the price of equipment and machinery required by SMEs (Akabueze, 2002).

2.2. Empirical Review

The literature is perverse with empirical investigations into commercial bank funding of SMEs. For instance, in an investigation of the challenges facing commercial banks in Africa in adequately funding SMEs, (Gibson and van der Vaart, 2008) observed that pure equity increases investors' risk and reduces their current income. Babafemi *et al.* (2015), investigated the funding arrangements that are available to SMEs and their contributions to finance and development needs of the SMEs in Nigeria. They observed that the Federal Government established many programmes to enhance SMEs access to finance while financial institutions, non-financial institution and NGOs have also made considerable efforts to solve the financial challenges confronting SMEs development with little or no positive result. The study recommended that commercial banks should provide more funds to SMEs.

Imoughele and Ismaila (2014), explored the impact of commercial bank credit on Nigeria's Small and Medium Scale enterprises (SMEs) between 1986 and 2012. The study reveals that commercial bank credit to SMEs, total government expenditure and bank density has direct but insignificant impact on the country SMEs output. This was attributed to the stringent policy associated with SMEs accessing of credit facility and the crowd out effect of government expenditure in the economy. It reveals also that interest rate has adverse effect on SMEs output. Among others, It recommended a drastic reduction of the interest rate on credit facility granted to SMEs, granting of soft loan to SMEs, alteration of the stringent policy in supply of credit to SMEs.

Imoughele and Ismaila (2014), Ayeni-Agbaje and Osho (2015), investigated the role of commercial banks in financing small scale enterprises in Ado Ekiti, Ekiti State, and observed that there is a positive correlation between loans grants by banks and the growth and development of SMEs in Ekiti State. it therefore recommended a flexible commercial banks guidelines/schemes to finance SMEs. Similarly, Oke and Aluko (2015), examined the impact of commercial banks in financing small and medium scale enterprises (SMEs) in Nigeria between 2002 and 2012. The study observed that commercial bank credit has significant impact on SMEs' financing and has led to substantial proportion of changes. Thus, commercial banks are capable of making SMEs to grow through their financing.

However, the investigation carried out by Aliyu and Bello (2013), that examined the contribution of commercial banks to the growth of SMEs in Nigeria from 1980 to 2009 equally discovered that although commercial banks contribute to financing SMEs, their credit facilities to them have continued to decline after Central Bank of Nigeria abolished the policy of mandatory bank credit allocations to SMEs. Ekpenyong (1997), Reveals that commercial banks extend little financial supports or loans to SMEs. Further, Mamman and Aminu (2013), evaluated the effect of 2004 banking reforms on loan financing of SMEs in Nigeria. Analysis of responses from a sample size of 500 respondents reveals that there is no significant effect of 2004 banking reform on loan financing of SMEs in Nigeria. Equally, the investigation by Omah *et al.* (2012), on the impact of banking reforms on the performance of SMEs in

Nigeria using Lagos State as area of study reveals that SMEs do not have better access to finance through banks. Thus the reforms did not provide solutions to various challenges facing entrepreneurs in financing SMEs through credits or loans.

Many other scholars such as Benson (2017), Oluwarotimi and Adamu (2017), Richard (2016), Okey (2016), Imoisi (2015), Bello (2015), John and Olorunfemi (2014), Nwosa and Oseni (2013), and Imoughele and Ismaila (2014), among others examined the impact of commercial banks credit on the growth of small and medium scale enterprises, and national economy in different periods; and the intervening factors that hinder its positive relationship in Nigeria. These empirical investigations did not substantially cover the scope of this inquiry. Little or no attention was devoted to the rate or level of commercial banks credits to SMEs particularly in Southeast Nigeria. this necessitated this current inquiry.

2.3. Theoretical Framework

This paper adopts the pecking order theory (POT)/hypothesis of Lending as its framework of analysis. The foundation of this theory or framework of analysis is that only the firm manager is aware of the true value of the firm and that the market is unaware of the true distribution of the firm's income. The theory therefore holds that these prevail, firms are likely to fund themselves primarily internal sources such as retained earnings, and secondarily from bank credits.

Further, the theory holds that firms can only succeed in this state through the mixture of debt and equity, which is the cumulative result of hierarchical financing decisions over time. Although SMEs do not issue equity they incur debt if their retained earnings are insufficient to fund them. This comes in a hierarchical fashion with internal funds first, external debt and external equity as a last resort (Myers, 1984). These credit options are directly or indirectly linked with commercial banking operations. Thus, commercial banks remain the known formal source of raising credits or loans for enterprises (Agumagu, 2006; World Bank, 2001).

3. Methodology

The study adopted a cross-sectional survey of 500 small and medium enterprises located in the industrial hub of each of the five states of Southeast, Nigeria. 100 firms each were randomly selected from Aba in Abia state, Nnewi in Anambra state, Enugu in Enugu state, Abakiliki in Enpbonyi state, and Owerri in Imo state. The choice of these cities was guided by the fact that large clusters of small and medium enterprises were located in these five cities within Southeast, Nigeria. Structured questionnaires were administered and used to generate responses from owners of different categories of SMEs and/ or their representatives. A total of 2 evaluators comprising of 2 lecturers from the Department of Marketing and Business Administration, University of Nigeria validated the questionnaire instrument. Any item in the questionnaire that did not receive 80% acceptance by the evaluators was discarded. Further, Test re-test method was used to test its reliability. 10 copies of the questionnaires were administered to similar respondents and setting at Awka and Obosi both in Anambra state. After an interval of two weeks, the questionnaires were re-administered to the same respondents and the two set of responses obtained correlated using the Pearson Product Moment Correlation (r) and a co-efficient of reliability of 0.95 was obtained. This shows that the instrument is reliable for data collection. The categories of SMEs studied are garment/fashion firms, ICTs and Communication firms, shoe and textile firms, transport firms, entertainment/events firms, and educational firms. Five research assistants were employed and in four weeks, all the 500 questionnaires distributed were returned. Each was checked for plausibility, honesty and completeness. In pursuit of central tendencies, mean, and deviations, the data generated was analysed percentage formula, and SPSS version 20 (SPSS Inc., Chicago, IL). Decisions were taken on the premise that mean difference is significant at ≥ 0.05 .

4. Results/Findings

4.1. Respondents' Demographic information

Table-1. Socio-demographic data of respondents' Gender and Age

s/n	Type of SMEs	Total	Gender		Age in years				Education		
			Male	Female	18-27	28-37	38-47	48 & above	WAEC/ND	First Degree	Higher degrees
1	Aba	100	48	52	22	36	30	12	43	48	9
2	Nnewi	100	57	43	30	34	20	16	56	38	6
3	Enugu	100	42	58	29	40	18	13	23	61	16
4	Abakiliki	100	52	48	37	38	20	5	55	41	4
5	Owerri	100	45	55	30	38	21	11	30	59	11
Total		500	244	256	148	186	109	57	207	247	46

Source: Field Work, 2018

Table 1 reveals 244 male respondents (48.8%), 256 females (51.2%), age bracket of 18-27(29.6%), 28-37(37.2%), 38-47(21.8%), and 48 and above (11.4%), while the levels of respondents certificate possession shows WAEC and ND (41.4%), First degrees (49.4%), higher degrees (9.2%). Therefore, majority of the respondents are both literate, and matured in mind to respond to the research questions objectively and reasonably too. With

reference to the gender ratio of 48.8%:51.2%, the sample reflects the growing dominance of the female population in all profession. Thus, the sample is highly objective for the present study. Similarly, the age distribution in the table shows that majority of the sample belongs to the societal productive age that need credit or capital to invest and/or expand for growth and development purposes.

4.2. Findings From Responses To Questions

Table-2. Results of SPSS Analyses of responses to questions

S/n	Research questions	Grand Mean	Stand. Deviat.	Standard Error	Tests of Between-Subjects Effects	Sig.	Pairwise Comparisons
1	You raised your initial business capital from your personal account	1.86	.767	.013	1674.652	.001 & .023	@ 95% confidence Interval, no adjustments
2	Your initial business capital was raised by your parents, relations, friends and/or business master	4.44	.445	.087	870.206	.006	@ 95% confidence Interval, no adjustments
3	You have increased or expanded your capital base through trade credit/debt system.	4.21	.109	.106	102.003	.000	@ 95% confidence Interval, no adjustments
4	You have increased or expanded your capital base through bank loans/credit	2.32	1.245	.076	100.007	.000	@ 95% confidence Interval, no adjustments
5	Commercial banks demand Land property, building, and Educational certificate as collateral and condition for issuing credits	4.64	.018	.556	634.520	.004	@ 95% confidence Interval, no adjustments
6	Commercial banks' high demand for collateral, guarantor, nature of business, and business registration discouraged you from applying for credit	4.18	1.352	.082	491.467	.004	@ 95% confidence Interval, no adjustments
7	You applied for credit but was not granted because of lack of collateral, guarantor, and business registration certificate	2.02	1.245	.076	416.907	.002 & .000	@ 95% confidence Interval, no adjustments
8	High interest rates for commercial banks' credit facilities and risk of non-repayment due to bad economy discourage you from applying for loans	4.42	.721	.022	519.111	.000	@ 95% confidence Interval, no adjustments
9	You have not applied for loans due to lack of information/knowledge about banking reforms and commercial banks loan activities.	2.81	.154	.011	1036.006	.016	@ 95% confidence Interval, no adjustments
0	Availability of government's poverty and business or market intervention funds provided alternative source of funding your business.	2.09	.415	.081	109.312	.004	@ 95% confidence Interval, no adjustments
11	Reducing the cost of procuring short term fund (i.e. interest rate) from the commercial banks will enable you apply for loan	4.03	.857	.058	163.839	.000	@ 95% confidence Interval, no adjustments
12	Relaxation or reduction of the listing requirements for SMEs and conditions given to guarantors will enable them apply for soft credits will enable apply for loan	4.04	1.264	.038	127.021	.001	@ 95% confidence Interval, no adjustments

Source: SPSS analysis of responses to questions

5. Discussion

5.1. Research Question 1: Has Entrepreneurs of SMES Relied on Commercial Bank Loans for Investments and Expansion?

The SPSS Univariate analysis of responses to questions' results in table 2 above reveals that majority of the respondents did not rely on their personal individual account in establishing their firms. Their responses grand mean of 1.86 representing 'Disagreed' in our likert scale and whose sig. difference of .001 & .023 confidence interval were not subject of modification led to this conclusion. However, majority of the respondents agreed (a grand mean of 4.44) with no sig. difference (i.e. .006) that their initial business capital was raised by their parents, relations, friends and/or business master. The table also reveals that majority of the respondents (i.e. a grand mean of 4.21) agreed with no sig. difference (i.e. .000) that they have being increasing or expanding their capital base through trade credit/debt system.

This finding is supported by earlier findings made by scholars such as Eisenhardt and Martin (2000), Keasey and Watson (1994), which holds that external sources of funding are key to SMEs' expansion. However, the finding made by this paper to the effect that majority of the respondents generated their initial investment capital from extended family and business masters – external sources - is at variance with earlier findings made by such scholars like Keasey and Watson (1994), and Shepherd (1997). This finding highlights the importance or role of social structure and socialist family system in the promotion and sustenance of SMEs in Southeast Nigeria.

The result of the analysis to question 4 in table 2 further reveals that majority of the respondents (i.e. a grand mean of 2.32 representing disagreed) noted that they have not been relying on bank loans/credits to increase or expand their capital base or investments. Thus, entrepreneurs of SMEs in Southeast Nigeria have not relied on commercial bank loans for investments and expansion. This finding is at variance with earlier findings made scholars like Claessens (2006), and Bates and Hally (1982), and is validated by prevailing position in the literature that commercial banks are indifferent to providing credits to SMEs due to high risks and unprofitability (Adejoh, 2013; Odife, 2002).

5.2. Has Government Policy Improved the Rate of Small and Medium Enterprises Procurement of Loans From Commercial Banks in Southeast Nigeria?

The results of SPSS analysis of responses to question 5 in table 2 further reveals that commercial banks are still demanding land property, building, and educational certificate as collateral and condition for issuing credits to SMEs. Majority of the respondents i.e. a grand mean of 4.64 representing 'agreed' in our likert scale and whose sig. difference of .004 confidence interval were not subject of modification led to this conclusion. The result of analysis in question 6 further reveals that as a consequence of the high demand for collateral, guarantor, nature of business, and business registration, majority of the respondents (i.e. a grand mean of 4.18 representing 'agreed' in our likert scale and whose sig. difference of .004 confidence interval were not subject of modification) are discouraged to applying for commercial bank credits. This finding was supported by earlier conclusion reached by Solola (2006), and others.

Thus, the result of analysis of responses to question 7, which seeks to find out if respondents applied for credit but was not granted because of lack of collateral, guarantor, and business registration certificate, reveals a grand mean of 2.02, which represents 'disagreed' in our likert scale measure. The differences in their responses are $\leq .05$ at .002 & .000 and therefore insignificant with no adjustment to the mean. Thus, the rate or level of commercial loans to SMEs cannot be determined effectively because entrepreneurs were not applying for it. Therefore, government credit policy did not improve the rate of small and medium enterprises procurement of loans from commercial banks in Southeast Nigeria. this finding was supported by earlier findings made by Mamman and Aminu (2013).

This finding can be explained by the fact that government credit policy was not aimed at reducing and/or eliminating any of the requirements for obtaining commercial banks credits or loans. Rather, according to earlier research findings made scholars like Eniola and Entebanga (2015), and Essang and Olajide (1974), the policy pursued the provision of palliative measures to cushion the effects of the requirements.

5.3. What are the Major Factors Militating Against Small and Medium Enterprises Procurement of Loans From Commercial Banks in Southeast Nigeria?

According to the results of analysis of responses to question 8, majority of the respondents (i.e. 4.42 representing 'agreed' in our likert scale measure whose level of differences in their response is $\leq .05$ at .000 and therefore insignificant) agreed that high interest rates for commercial banks' credit facilities and risk of non-repayment due to bad economy are major factors militating against their application for loans. This finding is supported by earlier findings made by Ngwu (2005), and others.

However, the results of analysis of responses to question 9 reveals that majority of the respondents (i.e. 2.81 representing 'disagreed' in our likert scale measure whose level of differences in their response is $< .05$ at .016 and therefore insignificant) observed that lack of information/knowledge about banking reforms and commercial banks loan activities is not a major factor limiting them from applying for their loans. However, the literature demonstrated that it is a major that discourage commercial banks from approving and/or advancing loans to SMEs.

Similarly, the results of analysis of responses to question 10 reveal that majority of the respondents (i.e. 2.09 representing 'disagreed' in our likert scale measure whose level of differences in their response is $< .05$ at .016 and therefore insignificant) noted that the availability of government's poverty and business or market intervention funds

does not provide alternative source of funding their business. Therefore, government intervention schemes do not militate against SMEs' access to commercial bank loans.

5.4. What are The Solutions to the Problems Hindering SMES Access to Commercial Banks Loans?

The results of analysis of responses to statements seeking to find out if reducing the cost of procuring short term fund (i.e. interest rate) from the commercial banks will enable SMEs apply for loan reveal a grand mean of 4.03 representing 'agreed' in our likert scale measure with differences that is $\leq .05$ at .000 and therefore insignificant with no adjustment to the mean. Therefore, the grand mean of 4.03 is upheld and implies that reducing the cost of procuring short term fund (i.e. interest rate) will motivate and enhance SMEs application for loans.

Similarly, the analysis of response to the statement that the relaxation or reduction of the listing requirements for SMEs and conditions given to guarantors will enable them apply for soft credits reveals a grand mean of 4.04 representing 'agreed' in our likert scale measure with differences that is $< .05$ at .001 and therefore insignificant with no adjustment to the mean. Therefore, the grand mean of 4.04 is accepted and implies that the relaxation or reduction of the listing requirements for SMEs and conditions given to guarantors will also motivate and enhance SMEs application for loans.

These findings are supported by earlier findings or conclusions reached by some scholars such as Solola (2006), which holds that reducing the cost of procuring short term fund, and the reduction of the listing requirements for SMEs and conditions given to guarantors promotes SMEs access to commercial bank loans.

6. Implication to Research and Practice

The findings made by this paper have many implications for research and practice. As the primary goal of commercial banks, which is the fundamental source of fund generation for SMEs, is profit maximisation and SMEs are threatened by it researchers should investigate or examine further ways of using the socio-traditional structure and socialist approach to fund and sustain SMEs. This requires the exploration of other none commercial but external sources of funding SMEs. These have practical policy implication as government shall be required to develop social policies for collective rural empowerment.

Secondly, the inability of government's banking policy reforms to positively drive SMEs' access to commercial bank credits/loans suggests high level weakness and ineffectiveness of such policy. The implication for researchers is that further assessment of the policy to determine its shortcomings is required, while policy makers should as a matter of urgency redirect their attention from establishing palliative programmes to the actual reduction of interest rate, requirements for accessing loans, and conditions given to loan guarantors. This has great implication for the capitalist economy and requires general economic review, workshops, and seminars with stakeholders.

Finally, the weakness that characterise SMEs, which generate confidence crisis on the part of commercial banks against granting them loans require scientific study, analysis, and recommendations on restructuring or modernising SMEs. This has practical implication for policy and economic review. New set of guidelines for registering and operating SMEs is required. This will cause systemic upgrade for all existing SMEs.

7. Conclusion

This study evaluated the effectiveness of commercial bank loans as sources of funding/capital formation for Small and Medium Enterprises (SMEs) in Southeast, Nigeria. The empirical results suggest that commercial banks loans are ineffective sources of funding SMEs in Southeast Nigeria. Both SMEs and commercial banks shy away from the credit due to different reasons or factors. On the part of SMEs, high interest rate, strict collateral, conditions for guarantor, and bad economic condition, which makes it difficult to attain reasonable business turnover discourages them from applying for the loans. For commercial banks, the character of SMEs in Southeast Nigeria with high risk of instability and low rate of profit turn-up, together with the availability of more profitable government clients, discourage them from granting loans to SMEs.

Government intervened to sustain SMEs because of their principal contributions to general economic growth. However, their intervention was focused on establishing palliative institutions and programmes such as SSICS, NBCI, NERFUND, and SMIEIS, instead of addressing the core issues responsible for SMEs' very low access to commercial bank loans. To resolve the current scenario, government should embark on reforming its economic and banking policies to allow for actual reduction of loan interest rate, requirements for accessing loans, and conditions given to loan guarantors. Such reforms should equally establish a new set of guidelines for registering and operating SMEs in Southeast Nigeria.

8. Future Research

Further research is required in the area of funding SMEs through group or community self-help, which is now growing in the Southeast Nigeria. These include group thrift system popularly known as 'isusu' and 'daily contribution'. The nature, effectiveness, and challenges of these popular systems of raising funds in Southeast Nigeria should be examined for purposes of standardisation, harmonisation, and formalisation.

References

- Abereijo, O. and Fayomi, I. (2005). Innovative approach to sme financing in Nigeria: A review of small and medium industries equity investment scheme (SMIEIS). *Journal of Social Sciences*, 11(3): 219-27.
- Adejoh, A. U. (2013). *Financing of small scale business in Nigeria: Challenges and opportunities: A case study of F.C.T.: A Post-graduate (MBA) Project Submitted to the department of business administration and entrepreneurship*. Bayero University: Kano, Nigeria.
- Agumagu, A. C. (2006). *Finance for industry and commerce: The business of banking. Lectures and proceedings at the 26th international banking summer School*. Oxford Honourary Presidential Advisory Council on Investment in Nigeria.
- Akabueze, B. (2002). Prospectus on Nigeria SMEs under the small and medium industries investment scheme (SMIEIS). Available: <http://www.nigerianbusinessinfor.com/nigerian-smes2009.html>
- Aliyu, S. M. and Bello, G. B. (2013). An assessment of the contribution of commercial banks to the growth of small and medium scale enterprises in Nigeria. *International Journal of Research in Social Sciences*, 2(4): 47-55.
- Ayeni-Agbaje, A. R. and Osho, A. E. (2015). Commercial banks role in financing small scale industries in Nigeria (a study of First Bank Plc, Ado-ekiti, Ekiti state). *European Journal of Accounting Auditing and Finance Research*, 3(8): 51-76.
- Babafemi, I. D., Adesheyeye, I. M. and Akure, Z. B. P. (2015). Small and medium scale enterprises financing and development in nigeria: A critical assessment. *Journal of Finance and Bank Management*, 3(1): 190-98. Available: <http://dx.doi.org/10.15640/jfbm.v3n1a17>
- Basil, A. N. (2005). *Small and medium enterprises (SMES) in Nigeria: problems and prospects*. Ph.D. Thesis presented to st. Clements University.
- Bates, J. A. and Hally, D. L. (1982). *The financing of small business*. 3rd edn: Sweet & Maxwell: London.
- Beck, T. A., Demirgüç-Kunt, L. L. and Maksimovic, V. (2006). The determinants of financing obstacles. *Journal of International Money and Finance*, 25(6): 932-52.
- Bello, A. M., Z. (2015). Impact of banking sector credit on the growth of small and medium enterprises in Nigeria. *International Journal of Resource development and Management*, 15: 1-9. Available: <https://iiste.org/Journals/index.php/JRDM/article/view/27706>
- Benson, M. O. (2017). Bank credits and its impact on Nigerian economic growth. *International Journal of Development Strategies in Humanities, Management and Social Sciences*, 7(3): 39-52.
- CBN (2014). *2013 Statistical bulletin: Financial statistics: Annual statistical bulletin*. Central Bank of Nigeria: Abuja.
- Claessens, S. (2006). Access to financial services: A review of the issues and public policy objectives. *World Bank Research Observer*, 21(2): 207-40.
- Eisenhardt, K. M. and Martin, J. A. (2000). Dynamic capabilities: what are they? *Strategic Management Journal*, 21(10-11): 1105-21.
- Ekpenyong, D. B. (1997). Problems of small business and why they Fail. *Journal of General Studies, Bayero University*, 3(1):
- Ekpenyong, D. B. and Nyong, M. O. (1992). *Small and medium-scale enterprises in Nigeria: Their characteristics, problems, and sources of finance*. African Economic Research Consortium: Nairobi.
- Eniola, A. A. and Ektebang, H. (2014). SME firms performance in Nigeria: Competitive advantage and its impact. *International Journal of Research Studies in Management*, 3(2): 75-86.
- Eniola, A. A. and Entebanga, H. (2015). SME firm performance-financial innovation and challenges. *Social and Behavioural Sciences*, 195(3): 334- 42.
- Essang, S. M. and Olajide, S. O. (1974). *Intermediate economic analysis*. Aromalaran Publishing Company Limited.
- Fadahunsi, O. (1997). *The challenge of promoting entrepreneurship and small business: The commonwealth experience*. In O. Fadahunsi & T. Daodu (Eds.) *Small and medium enterprises development: policies, programmes and prospects*. West African Publishers: Lagos.
- Gibson, T. and van der Vaart, H. J. (2008). Defining smes: A less imperfect way of defining small and medium enterprises in developing countries. Brookings global economy and development. Available: http://www.brookings.edu/~media/research/files/papers/2008/9/development%20gibson/09_development_gibson.pdf
- Harabi, N. (2005). *Determinants of firm growth: An empirical analysis from Morocco*. WEMA Bank Training School, Oba Akran Avenue, Ikeja: Lagos, Nigeria.
- Ijaiya (2003). Commercial banks credits to the agricultural sector and the Nigeria economy: An analysis of the future trendl. *Advances in Management*, 3(1): 86-93.
- Ijaiya and Abdulraheem (2000). Commercial banks credits to the agricultural sector and poverty reduction in Nigeria: A calibration analysis. *Nigeria Journal of Agric Business and Rural Development*, 1(1): 43-57.
- Imoisi, A. I. E., J. (2015). Small and medium scale enterprises and economic growth in Nigeria. *International Journal of Business and Management*, 10(3): 203-16.
- Imoughelle, L. E. and Ismaila, M. (2014). Impact of commercial bank credit on the growth of small and medium scale enterprises: An econometric evidence from Nigeria. *Journal of Educational Policy and Entrepreneurial Research*, 1(2): 251-61.
- Inang, E. E. and Ukpong, G. E. (1992). A review of small-scale enterprises credit delivery strategies in Nigeria. CBN. *Economic and Financial Review*, 30(4):

- John, A. and Olorunfemi, Y. A. (2014). Small and medium scale enterprises financing and economic growth in Nigeria. *European Journal of Globalization and Development Research*, 11(1): 639-52.
- Kadiri, I. B. (2012). Small and medium scale enterprises and employment generation in Nigeria: The role of finance. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 1(9): 79-84.
- Keasey, K. and Watson, R. (1994). The bank financing of small firms in UK: Issues and evidence. *Small Business Economics*, 6(5): 349-62.
- Levitsky, J. (1997). Guarantee schemes for SMEs – an international review. *Small Enterprise Development*, 8(2): 4-17.
- Mamman, A. and Aminu, K. S. (2013). Effect of 2004 banking reforms on loan financing of small and medium scale industries in Nigeria. *International Journal of Small Business and Entrepreneurship Research*, 1(3): 44-53.
- Mukhtar, S. M. (2009). ICT-driven human and knowledge capital development: in search of a new economic development model and policy. *Journal of Finance and Bank Management*, 3(1).
- Myers, S. C. (1984). Capital structure puzzle. *Journal of Finance*, 39: 572-92. Available: <https://www.nber.org/papers/w1393>
- Ngwu, B. A. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and prospects. Dissertation submitted to the St. Clements University in partial fulfilment of the requirements for the award of the degree of doctor of philosophy in management.
- Nwakoby, C. I. N. (2012). A Financial Characteristic of Bank Financing of SMEs: The Anambra State Experience. *Journal of Finance and Bank Management*, 3(1).
- Nwosa, P. I. and Oseni, I. O. (2013). Impact of banks loan to SMEs on manufacturing in Nigeria. *Journal of Social and development Sciences*, 4(5): 212-17.
- Obistayo, K. M. (2001). Creating an enabling environment for small scale industry. *BullionCBN*, 25(3):
- Odife, D. O. (2002). *Implementing the new partnership for African development (NEPAS) by promoting the development of the SME sector in the context of capital markets in Africa in promoting growth in African capital market*. UNITAR Document. 18.
- OECD (2000). *Financing newly emerging private enterprises in transition economies*. OECD Publications: Paris.
- Ogbuabor, J. E., Malaolu, V. A. and Elias, T. I. (2013). Small scale enterprises, poverty alleviation and job creation in Nigeria: Lessons from burnt bricklayers in benue state. *Journal of Economics and Sustainable Development*, 4(18): Available: <https://pdfs.semanticscholar.org/0b6f/82c58dbdd5fed181b0519a899e1b6f06aecdd.pdf>
- Oke, M. O. and Aluko, O. A. (2015). Impact of commercial banks on small and medium enterprises financing in Nigeria. *IOSR Journal of Business and Management*, 17(4): 23-26.
- Okey, O. O. (2016). Commercial bank credit and the growth of small and medium scale enterprise: the Nigerian experience. *IOSR Journal of Economics and Finance*, 7(6): 23-30.
- Oluwarotimi, A. O. and Adamu, N. (2017). Deposit money bank credit to small and medium enterprises, socio-economic performance and economic growth in Nigeria. *International Journal of Development and Sustainability*, 6(10): 1400-17.
- Omah, I., Durowoju, S. T. and Adeoye, A. O. E., A. F. (2012). Post bank consolidation: A debacle in the survival of SMEs in Nigeria: An empirical study. *Australian Journal of Business and Management Research*, 2(8): 1-6.
- Oteh, A. (2010). *Making capital markets work for Smes In Africa. Paper presented during 2010. Kikonyogo Capital Markets Awards Kampala: Uganda*.
- Pretorius, M. and Shaw, G. (2004). Business plans in bank decision-making when financing new ventures in South Africa. *SAJEMS*, 7(2): 221-41.
- Richard, Z. (2016). Small and medium enterprises financing and economic growth in Malawi. *Research Gate*: 1-14.
- Rudjito, O., 2003. "Financing challenges of SME"s from the policy perspective. A Paper presented at the 2nd Annual Conference of PECC Finance Forum." In *Issues and Challenges for Regional Cooperation in the Asian. Pacific Thailand*. pp. 8-9.
- Shepherd, W. G. (1997). *The economics of industrial organization*. Prentice-Hall: Englewood Cliffs, NJ.
- Solola, I. A. (2006). Problems and prospects of small scale business in Nigeria. Available: <http://idlbnc.idrc.ca/./78669.pdf>
- Somoye, R. O. C. (2011). The Role of Financial Intermediation in Entrepreneurship Financing in Nigeria. Thesis in partial fulfilment of the Business School, Faculty of Business and Creative Industries.
- Terungwa, A. (2012). Risk management and insurance of small and medium scale enterprises (SMEs) in Nigeria. *International Journal of Finance and Accounting*, 1(1): 8-17.
- Udechukwu, F. N. (2003). *Survey of small and medium scale Industries and their potentials in Nigeria. Being a paper presented at the central bank of Nigeria (CBN) Seminar on small and medium industries equity investments august*. CBN: Lagos. 4: 6-18.
- World Bank (2001). Nigeria firm survey.