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The Role of Banks in Kaduna State and their Impact on SMEs

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ABSTRACT

This dissertation aimed at studying the efficacy of bank products in raising entrepreneurial finance for small and medium scale enterprises (SMEs) in Kaduna State. The research will present a literature review; a quantitative analysis of bank loan data of the reasons that loans are not being made to SMEs. Data will be collected from data publications of both private and publicly-owned financial institutions and other stakeholders in SMEs, while the primary and the quantitative data would be obtained from administered questionnaires. A random sample of 300 will be drawn from a population of 500 SMEs in Kaduna State and questionnaires will be administered to the heads of 20 commercial banks in the state. Earlier research studies have shown the need for entrepreneurial finance for SMEs. The issue of access to funds by SMEs has often generated intense discourse among policy makers, the academics and a cross spectrum of the business community in the state. However, the roles of banks and the effectiveness of their products in financing SMEs are yet to be fully explored. The bane of SME operators has been their inability to access funds from commercial banks. The problems faced by the SMEs included their perception as high risks, the lack of collateral securities, poor financial record-keeping, mis-application of funds, inability to pay high interest rates, high transaction cost of obtaining bank loans and inability to prepare viable, bankable business plans, among others. This plethora of problems elicited the research questions: (a) Is there a relationship between the challenges facing the SMEs and bank credit and (b) do the SMEs attribute their growth to banking products? The findings pointed to limitation of funds, poor infrastructure and low business skills as responsible for stagnation of SMEs. The research recommendations were guided by the empiricism of the findings which recognized the urgent need for a well-funded SME sector in the state, as a vital engine of growth through specialized financial intermediation strategies that took the peculiarities of the SMEs sector into account. These included (a) clear affirmation of government commitment to the national development objectives of SMEs (b) creation of financial market services suited to the special features of SMEs (c) availability of easily accessible credit through an existing dedicated empowerment interventionist agency such as SURE-P and (d) establishing of a National Credit Guarantee Fund to meet the critical long-term credit needs of SMEs. The agency would serve as insurance bank dedicated to the SMEs which could underwrite all the risks associated with any long-term developmental credits granted to the sector. An innovative and bold solution like this is what it required to unleash the huge economic potentials of SMEs with the multiplier effects that would stimulate rapid growth of industries, agriculture, per capita income, the GDP and overall prosperity of Kaduna State.

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Any error of facts, figures or reasoning contained in this thesis which result from my experienced views are entirely my responsibility.

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LIST OF ABBREVIATIONS

ANOVA- Analysis of Variance

CBN – Central Bank of Nigeria:

CPI – Consumer Price Index

DL-ECM – Distributed Lag-Error Correction Model

FCT – Federal Capital Territory

GDP – Gross Domestic Product

LRR – Legal Reserve Requirement

NBS – National Bureau of Statistics

NBFI – Non-Bank Financial Institution

PPMC – Pearson Product Moment Correction

OECD – Organization for Economic Cooperation and Development

SMEDAN – Small and Medium Scale Enterprises Development Agency of Nigeria

SMEs – Small and Medium Scale Enterprises

SPSS – Statistical Package for Social Sciences

SURE-P – Subsidy Reinvestment and Empowerment Programme

E.F.L.R.I – Enterprise Finance Lab Initiative

SME Toolkit – Small and Medium Enterprise Toolkit

CHAPTER ONE: OVERVIEW

Introduction

Kaduna State was created on 27th May 1967 from the defunct Northern Region of Nigeria. It is strategically located at the centre of Northern Nigeria and enjoyed enormous political clouts as the administrative headquarters of the North during the colonial rule. It retained this regional influence in national affairs well beyond the colonial era to the immediate post-independence period and became the proud inheritor of a hegemonic past leadership. (CAPD, 2014)

The centrality of the state conferred special geo-political advantages not enjoyed by its peers, like the concentration of strategic tertiary institutions including military, police and others security establishments. This preference gave it a significant head-start in the crucial area of commerce and industry which developed rapidly with the right "investment climate". The state was the best among its coterminous Northern states and the most developed in Nigeria, second only to Lagos State in the south west in the 1970s and 1980s.

The state's economic mainstay is agriculture; it is blessed with vast swathes of fertile land and varied weather conditions that favour large scale commercial production of food crops that could be processed into value added export commodities. More than 65 percent of the populace are actively engaged in farming; their produce includes a wide variety of grains like wheat and rice. Over 200,000 tons of groundnut are produced in the state annually. The major cash crop, cotton gives the state a comparative advantage in production, as easily the largest producer in Nigeria. Animal rearing and poultry farming is widespread with the potential of a thriving modern livestock industry. (Aregheore, 2009)

Kaduna state is an emerging industrialized metropolitan and a cosmopolitan society that boasts well over 150 commercial and manufacturing industries. The major industries are the petrochemical plant, the Federal Super Phosphate Fertilizer Company, Peugeot Car Assembly (PAN), Federal Ginger Processing Company, Flour mills, Aluminum and Carpet–making companies. The state is the defacto microcosm of Nigeria in which all ethnic nationalities of the country are found in large numbers as workers and self-employed individuals (Lloyd-Jones, 2011)

Well-endowed in culture and touristic attractions, Kaduna State commands over 57 ethnic languages, great festivals, a landscape of mountainous terrains, rivers, waterfalls and traditionally hospitable people. The state is rich in history with priceless monuments, such as the legendary Lord Lugard Hall, Lugard Bridge and awe-inspiring indigenous architecture of the palace of Emir of Zaria, the Nok Culture Safe (Museum) and the great city walls of Zaria built by the legendary warrior Queen Amina who ruled Zaria, (a famous historic city in Kaduna state) about 500 years ago, according to the renowned American historian John Henrick Clarke.

Successive regimes in the state have articulated economic policies, a vision of a stable, growing urbanized and integrated grassroots development. However the rent economy created by oil boom was wrongly seen as the “magic wand” for the state’s transformation even when it was common knowledge that diversification through agriculture and the SMES were the familiar routes taken by most leading economies. Today the state is at the crossroads of economic development.

People empowerment programs have been largely ineffectual. Three decades of a legacy of neglect of agriculture, the SMEs regarded as the engine of growth, and non-renewal and expansion of existing infrastructure led to decay and collapse of industries and loss of vital businesses. According to Ushie, Adeniyi and Akongwale (2013) this problem links to a history of capricious government spending which characteristically did not have a substantial bearing on development.

Statement of the Problem

The Northern region of Nigeria where Kaduna is located is plagued with deep-seated problems including poverty, illiteracy, unemployment and insecurity, despite its potentials for substantial socio-economic development. The North of Nigeria boasts more than 60 per cent of Nigeria's landmass with abundant natural endowments in agriculture and solid minerals. Somehow, this potential (similar to only a lesser degree in other parts of Nigeria) has not translated into economic growth and development. According to the Economist (2011) heavy reliance on oil revenues led to the neglect of agriculture and as a consequence, the North has been the worst hit. Furthermore, according to the UNDP Global Human Development Report (2011) poverty in Northern Nigeria is constantly on the increase.

Known as the ‘Center of Learning’ – and having established itself as such; Kaduna state sets the pace for all states in the Northern Nigeria as far as education and literacy is concerned according to African Outlook (2011). According to the National Literacy Survey carried out by the National Bureau of Statistics in 2010, Kaduna has a youth literacy rate of 67.3% and an adult literacy rate of 53%. In comparison, Kebbi and Sokoto have both youth literacy rates of 50.2% and 33.1% respectively; and adult literacy rates of 29.1% and 22.1% respectively. With the inclusion of three premier institutes of military training; there are over 20 higher learning and research institutions in Kaduna State. In 2012, the state budgeted 10.9 billion naira for education as opposed to 11.1 billion naira in 2011.

Despite being known as a 'Centre of Learning', Kaduna records a high rate of unemployment. As published by the National Bureau of Statistics (2010), Kaduna state has an unemployment rate of 25.7 % almost 2 % more than the national average unemployment rate of 23.9%. Compared with the unemployment rate of Kebbi state which is 17%, Kano having an unemployment rate of 25.7%, Katsina and Sokoto each having an unemployment rate of 27%, Jigawa, 28.6 %, and Zamfara with 33.4 %. According to the same NBS publication in 2010, in the North Western geo-political zone of Nigeria, 51.8% of the citizens are food poor, 70.6% completely poor, while 67.4% live on less than a dollar a day in 2010.

Kaduna State has the second highest incidence of poverty in the North-West geopolitical Zone just after Zamfara State with 52.4 % as desperately poor and 38.2% as moderately poor. Between 2003 and 2010, change in the Gini coefficient (a Gini coefficient is defined as a measure of statistical dispersion) measures an income inequality and this inequality in income is also on the increase moderately by 9.2 per cent in Kaduna State relative to other states in the geo-political zone, behind the worst cases in Kano State (25.1 per cent) and Jigawa State (18.1 per cent). This trend is likely to be on the increase with the predominance of several educational institutions in Kaduna. A year later the National Bureau of Statistics' (NBS, 2011) published an unemployment data that revealed that the unemployment rate in Kaduna State had climbed up to 30.3 per cent, Jigawa State with 35.9 per cent, and Zamfara State having an unemployment rate of 42.6 per cent.

Typically, the high rate of unemployment coupled with the amount of graduates produced each year in the state will result in a lot of people starting-up small businesses of their own in order to provide a means of livelihood for themselves. A good number of these business owners will intend to grow their ventures and this growth will require access to entrepreneurial finance.

It is common to note that small businesses face more constraints at start-up developmental phases than when established. In Africa, for example, the failure rate of Small and Medium Enterprises is 85 percent out of every 100 companies due to lack of skills and access to capital (Fadahunsi, 1997).

The small businesses are able to source and obtain micro finance mostly from the informal sector like friends and relations while large or medium enterprises, access these funds from banks. This unequal access to finance by SMEs (See Table 1) and large enterprises has undermined the role of Small and Medium Enterprises in the economic development of the country at large and Kaduna state economy in particular. The Enterprise Baseline Survey in 2012 revealed that there are appproximately17 million SMEs in Nigeria, employing over 32 million people and contributing 46.54 per cent of the Nation's GDP in nominal terms.

The problems of Small and Medium Enterprises in Kaduna State have been enduring, but most of the reforms by the government have intensified some of them. In its 1977 publication of "Small Scale Industries Credit Scheme in Nigeria, the Federal Government identified the basic problems that affected Small and Medium Enterprises to be lack of adequate capital and credit facilities for sustaining their growth and development. Institutional credit was known to be unavailable to Small and Medium Enterprises because they are generally considered high credit risks by financial institutions especially the commercial banks (Ekpenyong, 1995; Utomi, 1997).

A widespread concern is that the banking system in the region (which is supposed to be the major financier of Small and Medium Enterprises) is not providing enough support to new economic initiatives and in particular to the expansion of SMEs and the agriculture sector. According to a Statistical Bulletin published by the Central Bank of Nigeria (CBN) in 2012, while there has been an increase in the total amount of commercial bank credit available to the private sector over the years, there has been no corresponding increase in the amount of commercial bank credit made available to SMEs. There has also been a significant decline in the percentage of commercial bank credit to SMEs with respect to the total amount of commercial bank credit made available to the private sector over the years as shown in appendix A.

In many societies the gap in investment funds supply between the SMEs and commercial banks is often filled by Angel Investors and Venture Capital Investors. By investing in seed and start-up businesses requiring small investments, they help to create jobs, expand enterprises and develop the economic value of the locality. According to Wong, Bhatia and Freeman (2009) Angel Investors also participate in directing the strategy of the venture in ways that improve its performance. In Nigeria where the informal capital market structure is slowly evolving, this vital source of funding is not yet available.However, the lack of access to credit to start or expand Small and Medium Enterprises has often plagued this sector of the economy in the state. Most SMEs tend to rely on the personal resources of their owners, and/or loans from friends and relatives to fund the businesses. The expectation has been that, after the initial take-off of the small scale enterprises, the businesses should be able to raise funds from the formal sector especially Commercial Banks or Microfinance Banks to expand their operations. This has not been the case for a number of reasons as shown below (Inang and Ukpong, 1996; Iniodu and Udomesiet, 2004):

- The perception of Small and Medium Enterprises as high risks;
- Inability of the SMEs to prepare acceptable or viable bankable business plans;
- Poor record keeping, especially of financial operations which at times make the entrepreneur draw more money than expected from the business either for personal or family use;

- Discriminatory cultural practices which at times make it impossible or difficult for women to borrow or own assets or land titles;
- Weak capacity on the part of banks to down-scale their lending to SMEs including interest charges and
- High transaction cost of obtaining loans in Commercial Banks.

Purpose of the Study

The purpose of this correlational quantitative study is to review the most pressing challenges facing SMEs in the state, i.e. lack of access to finance from banks. Having learned the problem that existed from the research questions and findings, a creative and innovative approach was required to underlie the uniqueness of the study. The study would highlight the important aspects of the SMEs-commercial banks' relationships in detail for reader to appreciate the scope of the study.

Significance of the Study

This dissertation will have an impact on the SMEs in Kaduna State by making them understand the role of Banks in SME financing, how to meet the requirements for SME financing and these will in turn help contribute to employment generation and the GDP of Kaduna. The study will reveal the extent to which banks understand the SMEs from an entrepreneurial finance standpoint. A succession of governments in Kaduna State have articulated policy measures and programmes to achieve sustainable industrial growth and development, through appropriate alternative funding. Dado (2011) states that these policies were drafted so as to enhance greater innovative skills, improve productivity and increase SMEs' accessibility to finance.

The sources of funding for SMEs are broadly classified into internal and external sources for most small businesses. Internal sources (personal income, friends and relatives or local/informal institutions) of finance constitute a dominant source, while external source of finance constitutes bank finance (and other forms of institutional credit arrangements) which in most cases the SMEs are unable to access (OECD 2006). Financial institutions in Nigeria are mandated to set aside 10% of their profit after tax (PAT) for the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) under the auspices of the Central Bank of Nigeria (CBN) – annually so that they can invest in the small and growing businesses; but the bane of the SME operators has always been their inability to access funds from the commercial banks despite setting aside funds meant for the scheme. These funds are set aside by the commercial banks to invest in the SME schemes as agreed in the 246th meeting held on the 21st December, 1999.

Lending institutions are then required to improve their ability to provide financial resources to SMEs through commercial mechanisms that lower cost and minimize their risk exposure. Only in this way will financial institutions find SME lending to be more profitable, According to Alrejo & Fayomi, (2005) cost minimization and risk management are the major areas that Banks should be concerned about if they are to boost profitability in small business financing.

Various banks have devised “glorified” support programmes for the SMEs sector in areas of capacity building so as to use the funds discretely as corporate social responsibility rather than direct loans. Others retained the funds as reserves to be recapitalized into the system. There are also banks that gave a negligible percentage of the funds to a select few SMEs that met their requirements.

Research Questions and Hypotheses

The study is poised to ascertain the extent of constraints facing SMEs with credit to start-up and expand their operations. Accordingly, the following research questions are raised:

R1. Is there a relationship between the challenges faced by SMEs and credit facilities provided by banks?

$H1_o$: There is no relationship between the challenges faced by SMEs and credit facilities provided by banks

$H1_a$: There is a relationship between the challenges faced by SMEs and credit facilities provided by banks

R2. Do SMEs attribute their growth to specific banking products?

$H2_o$: SMEs do not attribute their growth to specific banking products

$H2_a$: SMEs attribute their growth to specific banking products

Scope of the Study

The study is focused on SMEs in Kaduna State and as such will cover only banks and SMEs in the state. Businesses and Banks located in 3 senatorial districts – made up of four local governments, namely; Kaduna-North, Kaduna-South, Igabi and Chikun local governments – will be covered. A total number of 20 commercial banks, in addition to 2 government supported development banks, The Bank of Industry (BOI), and the Bank of Agriculture (BOA) will be interviewed. The study will also consider 5 Micro finance institutions in Kaduna; and a total number of 300 SMEs will be sampled in this dissertation from a population of 500.

Limitation of the Study

This study is constrained by limited time and resources (both financially and materially). Challenges were also encountered from some respondents who would not dare to participate in the research for personal reasons. Stringent conditions were also laid before the researcher, else, no responses would be provided because most of the banks have their headquarters in Lagos, Nigeria and such information can only be given out by the headquarters. However, some banks were able to fill and submit the questionnaires under conditions of anonymity.

Limitation of capital had been mostly responsible for the stagnation of the sector in the state. This study was designed to investigate the problem and proffer appropriate innovative strategies for solving the problem.

The critical evaluation and analysis of an existing form of knowledge is central to any purposeful research. According to Hassan (1995) literature review is an essential step in research activities; it is a process involving the systematic identification, location and analysis of documents containing information relevant to the research areas of interest. The procedure adopted in this study was to conduct an extensive review of related literature in order to provide the missing knowledge on the subject and the background against which the reader could evaluate the findings and conclusions.

CHAPTER TWO: LITERATURE REVIEW

Introduction

The review of relevant literature for the study comes from academic research data bases like EBSCO HOST research data base and the work of authors who developed theories in Finance, Entrepreneurship, Banking and allied disciplines.

Three decades of a legacy of neglect of agriculture, the SMEs, regarded as the engine of growth and non-renewal and expansion of existing development infrastructure led to decay and the collapse of industries and loss of vital businesses. Oil revenue development index had stagnated with teeming unemployed youths and rising poverty profile that threatened peace and security of the state. It had become clear to policy makers that the Small and Medium Scale Enterprise provided the best hopes of creating jobs, empowering the youths, to improve living standards across the state.

However, the full potentials of the SMEs could not be unleashed by an informal sector beset with varying problems which ranged from poor access to bank credits, operating in unconducive environment including poor infrastructure like power supply to poorly skilled employees.

This problem was the focus of this study. It aimed to investigate the most pressing problems of the SMEs sector and proffer solutions that could help to reposition it as a vital partner in the socio-economic transformation agenda of the State. In Kaduna State, the crucial role of SMEs in job creation and stimulation of overall sectorial productive activities has been retarded by lack of access to entrepreneurial funds from commercial banks. The recent global recession had made the problem of accessing credits even more acute; banks usually looked down on SMEs as high risks and funds set aside as loan to the sector were discretely used as corporate social responsibility budget in support of all manner of capacity building programs for SMEs rather than give them as entrepreneurial credits. This attitude was responsible for the declining performance of SMEs with unusually high rate of unemployed youths, rising profile of poverty and insecurity in the state.

THEORETICAL FRAMEWORK

Money Market and Central Banking Theory

As part of the securities market, the money market brings together the lenders and borrowers who are concerned with the exchange of money instruments as it relates to borrowing and lending for short periods. It is a short-term credit market (which consists of borrowers and lenders of short-term funds) that does not deal in cash or money, but deals in monetary assets such as trade bills, promissory notes and government papers or bills which are drawn for short term periods to meet the short-term requirements of borrowers and to make liquidity or cash available to lenders (Somashekar, 2009). The term money market includes the markets for trading in short-term inter-bank loans, short-term inter-company loans, short-term local authority debt instruments, bills of exchange, certificates of deposit, commercial paper, and foreign currencies and it is the established organization for buying and selling rather short-term funds that generally mature in less than one year and for the most part, these markets constitute the major banks within the financial system and other financial institutions with large companies also borrowing and lending in the money market (Ogilvie & Parkinson, 2005).

The central bank which is usually responsible for monetary control, involved in prudential regulation and placing government debt in the most favorable terms possible is a government financial establishment that is not involved in contending for market share with other banks that function in the private banking sector. There are two important theories that dominate the literatures on central banking, the first relates to how the central bank carries out its functions, and the second relates to the amount of independence enjoyed by the central bank (Heffernan, 2005). The central bank issues notes, is involved in the purchase and sales of government securities, regulates the amount of available credit, channels these credits, and controls the cost of these credits, deals with foreign exchange and operates as a banker to both the government and banking institutions (Somashekar, 2009). The central bank also happens to be an important source of short-term liquidity in domestic currency because certain assets can be rediscounted or used as collateral for short-term loans (Machiraju, 2008).

The Theory of Banking Institutions in Nigeria

Financial systems have long been recognized to play an important role in economic development through the mobilization and distribution of savings for production, provision of well-structured organizations for financial administration and monetary management and serves as the establishment for managing liquidity in the system (Kehinde & Adejuwon, 2011). In a developing economy like Nigeria, the banking sector takes part in carrying out a very significant, sacrosanct and sensitive responsibility by acting as a catalyst for growth and development and for this reason their performance directly have an effect on the growth, efficiency and stability of the economy therefore making it necessary that governments all over the world engender a conducive financial atmosphere by proffering proper policies that would help evolve efficient banking systems not only for the provision of efficient intermediation, but also for the protection of depositors, encouragement of efficient competition, maintenance of public confidence in the system, stability of the system and protection against systemic risk and collapse (Oladejo & Oladipupo, 2011). According to Kehinde and Adejuwon (2011), the degree of financial deepening in Nigeria has remained comparatively low despite the fact that there have been a variety of transformational and institutional changes put in place by the financial authorities. There is evidence to show that the low level of monetization of the economy, the towering rate of inflation and the low amount of private sector credits have a negative effect on the financial deepening of Nigeria and while conventional economic policy plays a significant role in Nigeria's economic recovery.

The nation's economy needs to strengthen its institutional and regulatory policies and supports so as to be able to sustain the transformational agenda. According to Oladejo and Oladipupo (2011), banks in Nigeria are over regulated particularly with regards to the issue of minimum capital requirement. Banks should also be allowed to decide the level of capital required for their stay in the industry, and governments should put the banking environment together in such a way that it is more enabling by providing the infrastructural base to make efficient banking services possible.

Micro-Credit Products in the Nigerian Money Market

There is presently an enormous unexploited potential for financial intermediation at the micro and rural levels of the Nigerian economy. Several attempts by the government in the past to block up this gap through supply driven creation of financing institutions and schemes have failed owing to high cost of operation, problems of debt servicing, feeble refinancing facilities, client apathy, dropout rate, to name a few (Iganiga, 2008). Loan growth is strong in the micro finance banks operating in Nigeria, MFI loans have been growing far more rapidly than deposits (Emeni, 2008).

The Characteristics of Small Businesses and Business Forms

The definition of Small and Medium Enterprises is for the most part dependent on the scale and structure of the business in the economy. It differs from country to country with the most frequently used measure of definition been that of employment or number of employees. Owing to the fact that it is simple and the ease of data collection, annual capital turnover and financial assets are also used to measure or define a business although both create some sort of difficulty in that regard because small businesses in terms of number of employees can have large turnover as a result of buying in large quantities of components (UNIDO & OECD, 2004).

Funding Requirement Determination – Business Plan

The business planning process is an interconnected organizational effort that is geared at systematically putting in order management knowledge, gathering together the resources of the enterprise, and centering these collected resources on accomplishing the company's objective (Fields, 2002). For starting a business, a business plan is a measure of the procedures, time, cost and paid-in minimum capital for a small and medium-sized business taking into consideration the demand in the market. Changes in technology such as the growing use of information and communications technology in business processes (IFC, 2013) is also important.

Equity Financing

Equity financing is the sales and purchase of common and preferred shares and this is essentially a permanent form of financing that requires no repayment (Fields, 2002). Equity financing is the risk and permanent capital of an economic entity purchasing these common and preferred stocks (Ogilvie & Parkinson, 2005). Holders of preference shares are those which have clearly stated rights to the profits and the distribution of a firm's capital and these preference shares are as a rule restricted to a particular dividend amount which must be paid before the payment of dividends of ordinary shareholders while shareholders who are holders of ordinary shares or the common stock of the company are the owners of the company and they have the right to partake in the successes and failures of the company for an indefinite period of time

(Geddes, 2006). Besides mobilizing funds for the business selling these shares, equity may also be made available with the intention of increasing the number of people who own shares in the company, watering down the concentration of voting power, and making the stock more liquid for use in the stock market. There are three particularly important categories under the general heading of the stockholder’s equity; they are venture capital, preferred stock and common stock (Fields, 2002).

Long-Term Debt Financing

Usually, the sources of finance for entrepreneurs and the public in general are discussed under two categories namely equity and debt where equity is the risk and permanent capital of an economic entity, and bank borrowing constitutes raised debt (Ogilvie & Parkinson, 2005). While debt generally falls into two categories namely the short-term debt and long-term debt, long-term debt have maturity greater than a year and can be issued by financial authorities at the behest of governments, financial institutions and corporations and the debt is bond/fixed income/fixed interest rate market and comprises the largest segment of the capital market and fixed rate debt is for the most part, a widespread form of long-term debt with the interest rate set at the instance of issue and is maintained at that level until the debt matures (Geddes, 2006). Long-term debt contract and equities are regarded as capital market instruments and the expression capital market is used for describing the organizational arrangements for making available and borrowing of long-term loans.

The capital market is wrapped around the system through which entrepreneurs and the general public take up long-term securities either directly or through financial intermediaries and it consists of a series of channels through which the savings of the public are mobilized and made available to entrepreneurs for undertaking investment opportunities (Somashekar, 2009). In the event of a failure, long-term debt makes up for operating losses and with the introduction of the regulatory requirements that allowed notes and debentures with maturities of at least 7 years to be used to meet capital standards, long term debts increased substantially among large banks around the world since the 1960, and it is believed that there will be an increase in market discipline with the issues of long-term debts whereby creditors can monitor how secure and reliable banks are in the financial market and signal their feelings and views in security prices. It should be noted that interest on debt capital is tax deductible and debt is less expensive after tax source of external capital than equity (Machiraju, 2008).

Short and Medium-Term Financing

Short-term financing are those debts that mature in less than or within a year and are called money market securities issued by governments, financial institutions, and corporations with corporations also providing short-term loans when they have excess cash at their disposal and the principal short-term financing in a good number of economies been that of the government-issued treasury bills and all other money market securities priced in relation to the treasury bills (Geddes, 2006). The distinction between short-term, medium-term and long-term financing is to a certain extent fuzzy, but as a guide, short-term debt financing matures within or less than a year. Medium-term financing matures between 1 to 5 years, and long-term financing have their maturity set at five years and above with the majority of medium-term financing been either loans which could be termed loans or mezzanine finance or leasing which could be finance lease or operating lease and are for the most part used by small businesses as a result of the problems they face in raising business capital (Ogilvie & Parkinson, 2005).

Working Capital Management

All businesses to a certain level or another have need of working capital and working capital is the available capital for carrying out the day-to-day operations of an organization which normally is the surplus of current assets over current liabilities (Ogilvie & Parkinson, 2005). Banks also have at their disposal certain amount of capital to make protection available against unexpected losses and conventionally the capital of a bank is made up of a very small fraction of its total assets. The leverage ratio of banks is very small when compared to similar ratios of that of non-financial institutions (Machiruja, 2008). The well-organized management of working capital is important from the point of view of both liquidity and profitability in view of the fact that inefficient management of working capital implies that funds are unnecessarily tied up in redundant assets, consequently reducing liquidity and also reducing the ability to invest in productive assets such as plants and machinery thereby affecting profitability which makes a company's guiding principle in working capital management of two types of decisions namely investment and financing decisions (Ogilvie & Parkinson, 2005).

Valuation Theory

Financial decisions have an impact on value in that to maximize value, there must be cost minimization, and thus, the main principle behind the provision of finance for an enterprise is to create value and the true measure of an investment policy is the effect it has on the value of capital employed (Vernimmen et al., 2009). According to Ogilvie and Parkinson (2005), valuation models are generally categorized into four alternatives based respectively on assets, earnings, dividends, and cash flow, and characteristically using the capital asset pricing model to calculate a discount rate with each method having its individual merits and demerits and not invariably appropriate in all circumstances. The concept of valuation is characteristically very multifaceted and notoriously contentious and the valuation of a business enterprise and business asset is well established in published academic papers and empirical investigations. The use of information from public companies has made available the groundwork for the analysis and understanding of business valuation and the most obvious difference between valuing investment in public companies and non-public companies is the lack of information from private businesses with the effect that the application of recognized valuation methodology and the rigorous analysis of private companies provide the foundation for business valuation (Hitchner, 2003).

Financing Strategy

Financing strategy is a course of action as well as the inventory, arrangement and deployment of the financial resources necessary to accomplish a well detailed financial objective. That is, the characteristic of strategy which falls within the boundaries of financial management which includes decisions on investments, financing and dividends (Ogilvie & Parkinson, 2005). According to Myers (1984), financial strategy is the process of deciding how to commit a firm's financial resources across the lines of business. The central focus of a financial strategy is on the financial characteristic of strategic decisions which implies a close connection with the interests of shareholders and consequently a connection with capital markets and also, a sound financial strategy must take into account all the stakeholders both external and internal in the business (Bender & Ward, 2009).

Small and Medium-Scale Enterprises (SMES)

In 2009, there was no generally agreed upon or universally applicable definition of SME. In almost all countries and organization diverse factors mostly related to given socio-economic environment, influence the definition of SMEs. Various government ministries, research institutes, agencies, private sector institutions, etc. used different definitions (Lemuel 2009).

Various characteristics are incorporated in SME definitions across the globe (Yesseleva 2013). These characteristics include number of employees, sales/revenue, assets, annual turnover, balance sheet total, legal type, capital/investment and industry sector (APEC, 2010).The definition of an SME in this dissertation is an enterprise that must have been **registered** with the corporate affairs commission; been in business for at least **five years**; have at least **five employees**, and an annual turnover of a minimum of **₦ 12M** (**twelve million naira)**.

Banking Sector Financing

In a bank oriented financial system, savings are for the most part transferred from those who generate them. That is from those who generate surplus to those who use them to shore-up their deficit by the intermediation of banks'. This process is called financial intermediation (Machiraju, 2008).

Information Asymmetry

Information asymmetry between two parties is when these parties possess different information and this difference in information affects their behavior in their interactive situations. It is an intuitive model for competitive behavior in market scenarios with its key concepts been adverse selection, counteracting institutions, signaling and screening which makes it useful in explaining many important market institutions especially the financial market (Auronen, 2003). The existing literature on asymmetric information which looks at the impact of financial structure on economic activities focuses on the differences in information available to different parties in a financial contract since borrowers have informational advantage over lenders because borrowers know more about the investment project they want to undertake while lenders are for the most part in the dark (Mishkin, 1991).

Bharath et al. (2008) using an information asymmetry index based on adverse selection investigated the possibility of information asymmetry in affecting the capital structure decisions of firms in the United States from 1973 – 2002 and found that information asymmetry does affect the capital structure decision of firms. According to Mishkin (1991), the existence of asymmetric information between borrowers and lenders furthermore results in a problem of moral hazard which have a negative effect on the efficiency of financial markets due to the fact that borrowers have more information about the project of investment than lenders and lenders have difficulties ascertaining the quality of investment borrowers desire to undertake, the borrower then has an opportunity to engage in activities that may be advantageous to him personally but will in the process increase the probability of loan default and as a consequence harm the lender.

Lending Technologies

Information verifiability is a distinct trait of lending technology. Lending technologies can be distinguished based on different dimensions such as the primary source of information, screening and underwriting policies/procedures, structure of the loan contracts, and monitoring strategies and mechanisms among others (Berger & Udell, 2006). Two main lending technologies used to finance Small and Medium Enterprises can be primarily distinguished by the type of information that a bank uses in granting and monitoring the loan. On the one hand, transaction-based lending technologies are primarily based on borrowers' hard quantitative information, such as the strength of the financial statement or the value of their assets, which are relatively easy to document and transfer.

On the other hand, relationship lending is extended primarily based on borrowers' soft qualitative information, such as the entrepreneurs' characteristics including skills and integrity, which are difficult to verify. Since soft information is accumulated through close bank-borrower relationships, long and broad banking relationships should accompany relationship lending. Disparities in market access has been attributed to differences in lending technologies and speculations which cause lenders to differ in their capacities and incentives to develop and use soft information about a new loan applicant in place of the noisy signal that comes through the applicant's minority status (Mitchell & Pearce, 2011).

Capital Structure

The capital structure of a company is the sum of its equity financing and that of its debt financing and the ratio of debt to equity in a company's financial structure determine what sort of financial gearing (which is defined as the exploitation of debt finance in order to increase the return on equity through the organization of borrowed funds in such a way that the consequent return is greater than the cost of servicing the debt) also called financial leverage. It has, where high gearing implies, that debt constitutes for the most part a sizeable proportion of the financing of the company's assets and low gearing is when debt is low in relation to equity in the company's capital structure (Ogilvie & Parkinson, 2005). Speaking in terms of financial assessment of a company which will include only the financial market values of assets and liabilities rather than in terms of accounting assessment, since a company's operating assets are financed by equity and debt, a company's value is also determined by its equity value in the financial market. The financial market value of its net debt which implies that the value of a business is the sum of its equity value in the financial market and the financial market value of its net debt (Vernimmen et al., 2009).

There are advantages and disadvantages of increasing debt in the capital structure of a company, the major demerit being that the higher the debt, the lower the earnings available to the shareholders of the company due to the accumulated payable interest rate which implies an increased risk on the part of the shareholders (Ogilvie & Parkinson, 2005). Due to an adequate amount of evidence that reveals that the financial gearing or leverage of companies is not exceedingly unpredictable with respect to the fact that financial gearing or leverage does not change so often which implies that companies are by and large satisfied with the level of debt they have. There is an optimal capital structure that takes full advantage of the enterprise value of a company in the financial market by the well thought-out use of debt and the leverage it offers which makes it possible for the company to minimize its cost of financing (Vernimmen et al., 2009).

Non-Bank Financial Institution (NBFI)

While banks provide credit lines loans to businesses, non-bank lenders provide non-line-of-credit loans to businesses (Mitchell & Pearce, 2011). Non-banking financial institutions represent an important constituent of the financial system organization. They have penetrated into those areas where banks could not, due to procedural constitutions by taking both the operational and regulatory risk and ventured into areas where banks did not dare (Kainth, 2008).

Private/Angel Investments

Angel investors comprise a mixture of investors ranging from informal investors, friends and family, individuals, group investors, and accredited and unaccredited investors. Angel investors are often entrepreneurs themselves who bring value to the invested company by way of mentoring and industry connections. As these investors do not form the part of a known population, there is a significant lack of information on Angel investors, their investments and their networks.

With Angel investors investing in seed and start-up companies requiring small and less sophisticated investments, the overall size of the Angel capital market itself remains small, but packs a significant impact on economies they operate in. Both Angel and Venture Capital investors are complementary and play a significant role in the overall development of enterprises. Their investment activity enables creation and expansion of enterprises, thereby generating jobs, as well as developing the economic value of the locality according to Center for Venture Research, (1978).

Kaduna State was carved out of the former Northern Region on 27th May 1967 with great political significance as the administrative headquarters of the North during the colonial period to the time of Nigeria's independence in 1960. Being located at the centre of Northern Nigeria gave the state the unique advantage of being the preferred place for the concentration of strategic economic, educational, political, military and industrial establishments as well as the nerve centre of major national policy decisions. With a population of 6million (2006 census) agriculture is the economic mainstay in which 65 percent of the population is actively engaged. The state is also blessed with solid mineral resources.

Accessing commercial banks' funds to grow businesses always proves difficult for the SMEs sector. This is because of the inability of most SMEs to meet the requirement of banks and the perception of the sector as high risks. This dissertation aimed at studying the efficacy of bank products in raising entrepreneurial finance for the SME operators

Kaduna state forms a part of the major cities of Nigeria today with a huge opportunity to emerge as a leading commercial city in the Northern Region. However, after the global economic meltdown, the state practically lost its entire manufacturing sector. This research would present a literature review, a quantitative analysis of bank loan data and a qualitative analysis of the reason that loans were not being made to SMEs. Data would be collected from data publications of both private and publicly – owned financial institutions and other stakeholders in SMEs while the primary and the quantitative data would be obtained from administered questionnaires. A random sample of 300 would be drawn from a population of 500 SMEs in Kaduna State and questionnaires would be administered to the head of 20 commercial banks in the state. This methodology was used in order to obtain a reliable data from core stakeholders which would guide the findings and recommendations of this study.

This literature review dovetailed with previous research on the subject. It was predicated on select set of literature germane to current discourse on the limitation of access by SMEs to business credits that were provided by banks. The method of review adopted was a systematic organization of analyses of details with appropriate subheads to show the topics covered. The year range of literature review was from 2008- 2013 designed to apprise readers of the immediacy and exigency of the search for solutions to the problem and provide missing knowledge about the topical issue. The place of this study in the overall research effort was to seek convergence with my research findings from the synthesis of wealth of ideas in previous literature on the subject matter and put a new, different approach on the table towards an effective solution to the problem of stagnation of SMEs in Kaduna State. The keyword was access to entrepreneurial credits

a. **Performance Of Small And Medium Enterprises In Kaduna State (Loto, 2012)**

In his review of the performance of Small and Medium Enterprises in Kaduna State (Loto, 2012) noted that the activities of SMEs have been enormous and have assisted to downsize the level of unemployment and poverty in the state. The review stated however that the challenges faced by SMEs in the state could not be over-emphasised. These hurdles ranged from poor credit facilities to unconducive business environment. After the recent global economic meltdown, Kaduna practically lost its entire manufacturing sector; thousands of jobs were lost which further aggravated the level of poverty in the region.

These developments affected Kaduna’s macro-economic stature and indeed Nigeria’s manufacturing sector even before the global meltdown. Loto, (2012) observed that SMEs, drive the informal sector in the state with positive impact on the economy and could have done better if it had unhindered access to entrepreneurial finance.

b. 2010 NBS, SMEDAN Comparative Growth Of SMEs And Employment Generation

In a survey conducted by the National Bureau of Statistics (NBS) in collaboration with the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2010, Kaduna State has a total of 1,282 SMEs operating within it, 89 per cent of these SMEs were classified as small scale enterprises in terms of number of employees, employing between 10 to 49 people while the remaining 11 per cent were classified as medium scale enterprises, employing between 50 to 199 people. Compared to a state like Kano State also in the North Western region of Nigeria which has 96 percent of its 1,808 SMEs classified as small scale enterprises in terms of number of employees, employing 10 to 49 people and the remaining 4 percent are classified as medium scale enterprises in terms of number of employees. Of all the States in the North Western region of Nigeria, Kaduna State has the highest number of what the study classified as Medium enterprises in terms of number of employees; 145 of these, with Katsina State having 70 medium scale enterprises (although higher in percentage than Kaduna State in that regard), Kebbi State having 11, Sokoto State having 19, Jigawa State having 14, and Zamfara State having no medium scale enterprises in terms of number of employees.

Comparing Kaduna State with her counterparts in other regions of the northern part of Nigeria, like the Federal Capital Territory (FCT), Abuja in the North Central region which has 80 medium scale enterprises in terms of number of employees and these constitute 16 percent of the number of SMEs within the territory. A state like Bauchi State in the North Eastern region of the country which has 49 medium enterprises in terms of number of employees constituting 9 percent of SMEs in the State. Kaduna State although having more medium scale enterprises in terms of numbers, ought to have more medium scale enterprises in terms of percentage because the state has the capacity to do so.

This is made evident when compared to the counterparts of Kaduna State in the remaining geo-political zones. In other regions of the southern part of Nigeria, Anambra State in the South Eastern geo-political zone has 81 medium scale enterprises in terms of employees which constitute 11 percent of SMEs present within the state, Rivers State in the South Southern geo-political axis with 60 medium scale enterprises in terms of employees which constitute 8 per cent of SMEs within the state, and Lagos State with 389 medium scale enterprises constituting 8 percent of SMEs within the state. In terms of number of employees, Kaduna State has the highest number of medium scale enterprises within the country, surpassed only by Lagos State, but surpassing Lagos State in terms of percentage of SMEs which are classified as medium scale enterprises (NBS-SMEDAN, 2010). According to the survey, as at December 2010, 53 percent of the SMEs in Kaduna State have their total capital below 10 million naira, 10 per cent of the SMEs within the state have theirs between 10 to 20 million naira, 12 per cent between 21 to 30 million naira, 3 per cent between 31 to 40 million naira; another 3 per cent between 41 to 50 percent, and 19 per cent above 50 million naira.

In comparison with other states in the North Western geo-political zone, Kaduna State has the highest number of SMEs in the 50 million naira and above total capital mark. Kaduna State has 187 SMEs above the 50 million naira and above mark, Sokoto State having 95 SMEs in the 50 million naira and above range, Kano State having 41 SMEs, Katsina State having 36 SMEs, Zamfara State having 19, Kebbi State having 16, and Jigawa State having 7 SMEs in the 50 million naira and above mark (NBS-SMEDAN, 2010). There is a need to take this comparison further to include the counterparts of Kaduna State in other geo-political zones of the country. In the North Central geo-political zone of the Nigeria, the Federal Capital Territory (FCT) Abuja has 95 SMEs in the 50 million naira and above range which constitute 29 per cent of SMEs in the territory. Bauchi State in the North Eastern geo-political zone has 56 SMEs in the 50 million naira and above mark which constitute 11 per cent of SMEs in the state.

c. The Role of Banks and their Impact on SMEs In Kaduna State (Anthony, 2012), (Akpansung And Babalola 2012)

In order to understand the role of banks in Kaduna State as regards their impact on small and medium scale enterprises within the State, there is a need to discuss the role of banks in general, how they are structured, what they are structured to do, and how they go about carrying out these functions within the economy in which they reside. The role of banks in the financial system has always been the mobilization of private domestic savings and the distribution of these savings via the provision of credit for businesses and individuals with the aim of improving economic growth (Anthony, 2012). This important role of banks in the financial system is called financial intermediation and is an important feature of banks that has an impact on economic growth and can also be affected by the state of the economy (Akpansung & Babalola, 2012). The practice of savings and investment that is the main feature of the Nigerian economy like in most developed countries is structured around the concept of financial intermediation (Andries, 2009). This in theory means that banks must balance the deficit and surplus sectors of the economy by lending to businesses. This function is very important to this research as it will reveal the reality of whether Bank's in Kaduna State really play their core function of intermediation.

Financial intermediation is a vital responsibility carried out by the financial markets by mobilizing financial resources for long-term investment (Kizito, 2012). The center of attention of modern theory of financial intermediation has been how financial intermediation is put to use, how its use impacts on the economy holistically and how government policies affect the behavior of financial intermediaries in creating assets for those with surplus funds and liabilities for those with deficits (Andries, 2009). Isa and Terungwa (2012) state that risk aversion is a main feature of banks and that this characteristic is in line with the purpose for which they are established.

Anthony (2012) using the distributed lag-error correction model (DL-ECM) and distributed model to explore the determinants of bank savings in Nigeria in addition to examining the effect of bank savings and bank credits on the nation's economic growth from 1970 – 2006. The resulting study recommended an increase in the country's productive base which will result in a reduction in the level of unemployment, a reduction in domestic inflation, a pursuit of a developed financial sector, and a credit allocation that favors the private sector as opposed to the public sector, among others. The financial system is an integration of institutions with the responsibility of directing resources to those who will eventually put them to profitable use (Sanusi, 2012).

Akpansung and Babalola (2012) examined the relationship between the availability of banking sector credit and economic growth in Nigeria over the period of 1970 – 2008 using the Granger causality link test to establish the link between the pairs of variables of interest and a two-stage Least Square (TSLS) estimation technique for the regression model investigated the relationship between banking sector credit and economic growth in Nigeria between 1970 and 2008. The result of their findings revealed a positive impact on economic growth by providing the private sector with credit. Terungwa (2011) and Fadare (2011) extended the views canvassed here by stressing that a laudable economic vision of any country is only achieved if predicated on a robust economic policy with a culture of commitment to its execution. This is the Achilles' heel of many otherwise good policy initiatives of government on SMEs in Nigeria.

Globalization is an occurrence that is not only shifting the world economy but also its policies as well and it does present a lot of advantages but these advantages are not bestowed on any country without human effort and intervention because there is a required minimum threshold of development of the much needed establishments, infrastructure and conducive atmosphere before any economy can optimally obtain these benefits (Mobolaji & Ndako, 2008). In order to promote global integration, there is a need for well-functioning financial markets and also, in order for a country to have a competitive advantage in the global economy for global capital, there is a need for that country to have a competently functioning domestic financial market (Kizito, 2012). According to Mobolaji and Ndako (2008) using four financial development indicators such as Domestic Credit, Private Credit, Liquid liability and Broad Money, and also testing their hypothesis with Johansen Co-integration Tests, investigated the impact of globalization on the financial sector in Nigeria for the period 1960 – 2005 and came to the conclusion that the effect of globalization on the Nigerian financial sector has been negligible due to a long history of financial repression and heavy regulatory policy.

Kizito (2012) applying the descriptive approach, studies the role of financial markets in the development process in Nigeria and concludes this study by stating that the Nigerian financial market has been performing below its potential notwithstanding some economic expansion in recent times. Financial markets carry out a significant responsibility in the process of development for any economy, have the responsibility of directing financial resources from the surplus unit to the deficit units to accomplish some types of economic activities. This responsibility is known as financial intermediation (Kizito, 2012).

d. The Role of Financial Institutions in Providing Finance for Businesses: (Josiah Et.Al 2012) (Oluitan, 2012)

Any organization with a collection of assets that consist largely of claim can be defined as a financial institution and this organization's role is to function as intermediaries in the financial market (Josiah et al., 2012). The importance of financial institutions in the provision of finance for businesses and in the process engendering economic growth, have been extensively discussed by several literatures (Oluitan, 2012). According to a study conducted by Josiah et al. (2012), which investigates the role of financial institutions in providing capital investment for businesses in the Nigerian economy using regression analysis and an estimation technique called Ordinary Least Squares (OLS) by extending non-linear relationship to linear regression model, other than making significant contribution to developing the Nigerian Stock Market, financial institutions have not done much for making available the necessary funds for businesses in Nigeria with the implication that there is a serious inadequate accessibility of credit to fund capital investment in the economy and for that reason a serious threat will be posed to the development of infrastructure which will in turn result in a lack of adequate infrastructure in the economy and pose a hindrance to economic development. There is a need to persuade financial institutions to gather together more deposit for lending that will aid capital investment because capital investment is very important to economic growth (Josiah et al., 2012).

An essential factor that contributes to the behavior of banks and how effectively they carry out their responsibilities is the environment in which they find themselves (Olokoyo, 2011). Any economy with an aim at boosting its real capital formation has got to be able to make available an environment that is sympathetic towards the effect of assets coming in from foreign countries and also be able to support domestic savings (Josiah et al., 2012). We shared identical views on the question of promoting foreign direct investment through the creation of an ideal investment climate in any part of Nigeria. Foreign capital injection into the economy is a desirable value added economic gain for the nation.

The financial sector is responsible for sustaining the well-organized distribution of resources and the growth and development of the economy (Kizito, 2012). To be able to do that, there is a need to organize the financial institutions in such a way that promotes the ability to gather together savings and helpful investment because the collecting together of financial resources leads to capital formation, since capital formation necessitates the production of domestic goods and services which in turn encourages investment (Josiah et al., 2012). According to Yusuf (2012) which investigates the sources of business information and services of micro and small business enterprises in the North-West geo-political zone of Nigeria using the One-way Analysis of Variance (ANOVA) in testing the difference in satisfaction of different enterprises groups with information resources and the Pearson and Product Moment Correlation (PPMC) procedure to test the relationship between level of awareness of information resources and services and accessibility of information of micro and small scale business entrepreneurs, there is a significant relationship between entrepreneurs' knowledge of the necessary information for their business and their access to such information and the ease of access to business information is significantly correlated to the availability of the information, the awareness and how noticeable these sources and services are to entrepreneurs.

The ability of financial markets to contribute in the most advantageous way to the growth and development of an economy is for the most part dependent on their informational, operational and allocation efficiency because an inadequate performance in the capital market will deter the active participation of both domestic and foreign investors in the financial market (Kizito, 2012). A good number of important factors that contribute to the continuous flow of entrepreneurial finance have got to be efficiently and effectively studied and a case in point is that of bank credit which is regarded as the life blood of any financial system in order to serve as a conduit between the borrower and lender, most especially in a developing economy like Nigeria (Tawose, 2012). The Nigerian capital market is still at the rudimentary stage and thus cannot be market-based financial systems since these are characterized by well-structured capital markets which make available a considerable quantity of the financing for industries (Augustine, et al., 2012). According to Kizito (2012), the Nigerian financial market in comparison with its peers in emerging market economies is relatively shallow and oligopolistic.

e. The Central Bank of Nigeria (CBN) and Supervision of Credits for Overall Economic Development (Tawose, 2012)

The management of credit comprises a sensitive variable that should be under the administration and supervision of financial authorities under the general jurisdiction of the Central Bank of Nigeria (CBN) (Tawose, 2012). Prevalent in a good number of developing countries is the fact that the central banks have a significant say and responsibility in the developmental projects because they possess the drive and the capacity to draft policies and ensure that their respective governments and other stakeholders subscribe to the conclusive implementation of such policies (Alegieuno, 2008). The duty of consistent economic growth and development via the control of interest rates and availability of credit falls on the Central Bank of Nigeria (Rose, 2003). Tawose (2012) suggests that the rate of interest on loanable funds must be permitted to operate through a market mechanism to make certain that interest rate is determined by the demand and supply economics of loanable funds.

The function of the Central Bank of Nigeria to enhance the availability of credit to the economy is of vital importance in strengthening SMEs (Doguwa, Olowofeso, & Essien, 2011). The availability of an unwavering financial environment makes possible the basis for efficient operation of a market economy (Oyelola et al., 2013). Economic reform policies are said to have an impact on the performance of Small and Medium Enterprises (Dabo, 2011). This also has an effect on the commercial banks and suggestions have been made as to making more effort towards discussion and collaboration between commercial banks and the Central Bank of Nigeria in order to be able to take into consideration the consequences of regulatory measures at the stage of policy formulation (Olokoyo, 2011).

Terungwa (2011) posited that a laudable economic vision of any country is only achievable if it is predicated on a robust economic policy with a culture of commitment to its execution. According to Fadare (2011), there is a need to get policy options right because this step is important to achieving and maintaining financial stability particularly as deposit money banks have a propensity to act in response to policy directions by regulating their lending strategies. A policy of economic transformation that will result in the enhancement of economic growth and development should be put into practice and not just on paper (Dabo, 2011). Government should be quick and unwavering in formulating and implementing policies that pertain to SMEs in order to avoid the abortion of meaningful policies (Sokoto & Abdullahi, 2013).

Oni and Daniya (2012) suggested that it will be difficult for SMEs to blossom if governments and financial institutions do not fully commit themselves to the successful implementation of the plans and programs they design for SME growth. In a research paper by Mbutor (2009) which made use of the reaction of the GDP and CPI to determine the effect of monetary policy, it was proved that of all the channels of monetary policy transmission in Nigeria, the credit channel is the dominant and accordingly lending rate has the highest impact on GDP. In a similar study by Ogun and Akinlo (2010), they came to the conclusion that Bank credit channel alone has no effect on the Nigerian Monetary Policy. It has been recommended that the CBN compel all other financial institutions to firmly stick to laid down banking policies and regulations (Oni & Daniya, 2012).

In order to have a sustainable economic growth and development via entrepreneurship, there should be in place policies and regulations that promise a freedom of trade, within and outside the country to SMEs (Oyelola et al., 2013). It has been recommended that the Central Bank of Nigeria reduces its Minimum Rediscounting Rate (MRR) and encourages commercial banks to be able to marshal larger amount of deposit liabilities and give them enough room to be able to extend an adequate amount of credit to the domestic economy from finances available as loan, by financial authorities through reduced Legal Reserve Requirements (LRR) considerations (Josiah et al., 2012). There is the presence of a negative correlation between interest rates and the growth of Nigerian economy; this implies that an increase in the interest rate will lead to a decrease in the country’s GDP, consequently impeding growth of the real sector (Udoka & Roland, 2012). In order to forestall inflation, there is a need for a stabilization policy to be put in place by financial authorities (Tawose, 2012).

f. Micro Finance Institutions and Poverty Alleviation, (Awojobi and Bein, 2011)

Microfinance is a very important approach in poverty alleviation since the lack of capital is a major constraint to poverty reduction (Awojobi & Bein, 2011). A research study carried out on the impact of microfinance on entrepreneurial development of Small scale enterprises revealed that microfinance institutions in Nigeria and around the globe are active participants in the provision of finance and have been constructive to business development and economic growth (Olu, 2009). Micro finance institutions participate in shouldering a considerable amount of responsibility in the process of providing financial intermediation since they can reach different categories of business delivery and also be of assistance in raising the standard of living for low income earners (Babandi, 2011). Micro finance is the occurrence that reproduces the provision of both credit and savings service to people with low income and this provision of funds in form of credit and microloans gives financial ability to the poor to engage in productive economic activities which can help increase their income level and consequently alleviate poverty in the economy (Awojobi & Bein, 2011).

Abraham and Balogun (2012) pointed out the difference between micro credit which is very small loans borrowed by non-salary earners with little or no collateral, and micro finance as other financial products including micro credits targeted at poor and low-income people. Sokoto and Abdullahi (2013) recommended that there is a need for the availability of funding to SMEs through the microfinance banks in a bid to guarantee a boost in their level of productivity and ability to compete in the market. The high level of poverty in Nigeria is a pointer to the fact that micro financing is yet to be at its best in the country (Awojobi & Bein, 2011). Abiola (2011) was able to show that economic units that have better access to credit are less dependent on internal funds for their investments.

He compared the investment sensitivity of two Nigerian States, Lagos State with a high presence of Microfinance Banks (MFBs) and Ekiti State with an inadequate presence of Microfinance Banks (MFBs) before coming to the conclusion that an improvement in access to credit, improves investment sensitivity for businesses and Emeni (2008) posited that microfinance institutions in Nigeria face such challenges as incompetent administrative practices, and the need of a proper policy framework. In order to be able to accommodate the differences among social groups, there has to be flexibility in the structure for microfinance institutional operations (Babandi, 2011). Microfinance requires the combined contribution of both government and non-governmental organizations and financial authorities (Awojobi & Bein, 2011). Rather than just concentrating on a small number of rural and urban cities, there is an urgent need for these micro finance institutions to spread out, improve on the type of services they provide and how they provide these services, and diversify in terms of services rendered to their various customers of interest in more rural areas (Emeni, 2008).

g. Commercial Banks as Instrument for Supporting Growth of SMEs (Machiraju, 2008), (Olokoyo 2011)

Commercial Banks are financial institutions that depend on the economies of scale and profits that are a consequence of internalizing certain financial activities instead of depending on market transactions by providing packages of financial services that individuals deem too expensive to try to fund on their own, produce and keep an eye on by themselves (Machiraju, 2008). Commercial Banks are said to top the list of significant financial institutions in the financial system when it comes to savings and the distribution of finances due to their amount of total assets and deposit liabilities (Olokoyo, 2011). According to Machiruja (2008), commercial banks do not only mobilize and deploy large amounts of uncollateralized public funds in their capacity as financial intermediaries; they also leverage such funds through credit unions.

In Nigeria, it has been documented that commercial bank credit is an indispensable instrument for supporting SME growth and development (Egbetunde, 2012). Despite this fact, there has been a tremendous decline in the share of commercial bank loans available to Small and medium scale enterprises in Nigeria from about 8.65 per cent in 2002, 0.85 per cent in 2007 and 0.14 per cent in 2012 (Central Bank of Nigeria [CBN], 2012). It has been discovered that the volume of deposits held by commercial banks goes a long way in dictating their lending behavior (Olokoyo, 2011). The majority of the banks in the country do not give adequate attention to the development of SMEs by providing finance because of their lack of proper corporate governance and this fact has probably magnified the risky nature of SMEs and as a consequence, the growth and development of SMEs in Nigeria is severely hampered (Isa & Terungwa, 2012).

According to Tawose (2012), a good number of the credits approved by Nigerian commercial banks are for the most part, of a short-term nature. The risk inherent in SMEs is highlighted by the fact that SMEs have a high rate of mortality; indeed about 80 per cent of SMEs do not make it to their 5th anniversary (Adebisi & Gbegi, 2013). The particular nature of commercial banks which make them institutions that are involved with the creation of liquidity for businesses, carries risks which are exclusive to the management of commercial banks and the fundamental function of commercial banks is the management of risk (Machiraju, 2008). Non-performing loans are directly caused by increased financial deepening, foreign exchange reserves, growth of credit to the general economy and in the price level (Fadare, 2011).

In times of monetary tightening, banks with less deposit will have difficulty in supplying funds for those who need them (Mogboyin, Asaolu, & Ajilore, 2012). Asikhia (2010) suggests that with a flexible market-focused strategy, banks can increase their performance in the development and amassing of resources. This answers the question of how commercial banks should go about getting the attention of those with surplus resources and preserving or putting these resources into effective use so as to be able to improve on their lending performance (Olokoyo, 2011). Tawose recommended that in order to encourage a saving culture amongst those who dwell in rural areas, there is a need to establish more commercial banks in those areas and that this will consequently gather together the much needed savings for industrial development. Olu (2009) recommended that the Nigerian financial institutions put in more effort in providing funds for SMEs. In 2011, the Central Bank of Nigeria initiated the 500 billion naira Power/Manufacturing facility approval of 200 billion naira facility for SMEs Credit Guarantee Scheme (Doguwa et al., 2011).

According to Tawose (2012), there is a need to further enhance the capability of commercial banks in Nigeria in order for them to be able to approve long-term loans that would make the performance of the industrial sector better. The trick is in directing credit to the productive private sector for investment purposes, as opposed to the economy in general, because this not only reduces non-performing loan portfolios of banks but encourages long term economic growth and counters the crowding out effect (Fadare, 2011). Commercial banks largely hold the key to successfully raising entrepreneurial capital in Nigeria (Lemuel 2009). The Nigerian financial system which is broadly dualistic in nature – comprising the informal and formal sector (Lemuel 2009) – is still relatively underdeveloped with the money market dominating the landscape (Kaufmann 2005). Banks constitute a large part of the formal sector of the Nigerian financial system.

According to Iorpev (2012) the consolidation policy that led to the creation of large commercial banks in Nigeria might have shifted the market of for most banks away from SMEs towards larger, well established businesses, yet for the SMEs, banks remained the leading alternative in the search for funding for business initiatives. Besides banks, there are other forms of non-bank financial assistance available to SMEs; these form the informal sector of the Nigerian financial system. The Non-banking financial sector is defined as “financial intermediaries that operate in specialist sectors but who are not allowed to combine the traditional retail banking functions, insurance marketing service, and capital market transactions as their line of business” (Lemuel, 2009, pp. 10).

h. Small and Medium Scale Enterprises as Drivers of Economic Growth (Akinola and Irdoo 2013)

The growth of Small and Medium-scale Enterprise sector in Kaduna State now deserves serious attention through a study that will shed more light and bridge the isle between banks and the small and medium scale enterprises sector. Hitherto, no study has emerged that analyzed the efficacy of banking products in raising entrepreneurial finance for SMEs in Kaduna State.This dissertation aims to understand firstly, the importance and growth of the SME sector in Kaduna State on the one hand and secondly how banks are facilitating the process through their policies, products and services. The results of the study would proffer solutions and ideas that would help banks and SME owners / managers in Kaduna understand each other better which in turn will result in deepening entrepreneurial finance for these enterprises.

These findings will provide a way to mitigate the information asymmetry that exists between SMEs and commercial banks and also help SMEs better understand the procedures that will help in accessing commercial bank products. The dissertation could also generate interest in other options for raising non-banking entrepreneurial finance for SMEs within Kaduna State. The only practical and dependable decision for economic growth and development is the manufacture of goods and deployment of services in the most creative and reliable way (Akinola & Iordoo, 2013). Small and Medium Enterprises are the drivers of economic growth and development and this fact is rapidly been caught up with by governments, experts in development and policy makers around the world (Dabo, 2011). Stein, Goland, and Schiff (2010) introduced their paper by pointing out the significant impact of SMEs to economic development.

Their paper revealed that SMEs are essential to the development of the economy and the creation of jobs and that the appreciation of this fact is on the increase as implied by efforts from governments directed towards encouraging them. In countries with advanced economies relative to that of Nigeria, the Small and Medium Enterprise is said to be at the fore of economic growth and development (Aremu & Adeniyi, 2011). At one point or the other, these developed nations have articulated policies and schemes towards the materialization of developmental objectives (Alegieuno, 2008). It is said that collectively, the individual consequences of SMEs exceed that of bigger companies (Adebisi & Gbegi, 2013). The ability of an organization to generate employment is very important in reducing the occurrence of poverty amongst economic agents (Sokoto & Abdullahi, 2013).

The inherent ability of small and medium scale enterprises to generate employment opportunities at a significantly low expense in capital has been signified as one of the advantages by the proponents of the sector (Aremu & Adeyemi, 2011). Other advantages include developing an entrepreneurial culture in a society (Memba, Gakure, & Karanja, 2012), an effective means of mitigating rural-urban migration (Doguwa et al., 2011), proficient and successful employment of local raw materials (Oni & Daniya 2012), and they contribute to better distribution of income (Adebisi & Gbegi, 2013). SMEs in Nigeria are for the most part financed by the informal sector (Isa & Terungwa, 2012). Njeru et al. (2012) introduced their paper by stating that theoretically, it is possible that a firm's size should have a sort of relationship with its chosen source of finance and went on to suggest that the relative cost of formal financing might be higher for smaller firms than larger ones.

After having approached formal financial markets with little or no success, owners of micro and small business enterprises fall back on informal finance in order to finance their enterprises either for start-up or expansion capital (Olusola & Tayo, 2012). For SMEs to be properly financed, they need to have access to the financial services of the financial system in which they are located, and this access is vital to the growth of these enterprises which in turn will result in economic growth and poverty reduction (Anthony, 2012). One way for SMEs to gain the much needed finance to enhance profitability is through public listing on the Nigerian stock exchange since equity financing should be much cheaper but due to the high cost of this endeavor SMEs are hardly found in the public market (Akinola & Iordoo, 2013). Oyelola et al. (2013) revealed the business environment for that engenders the spirit of entrepreneurship and sustainable economic growth in Nigeria is lacking due to the state of the necessary infrastructures, the rate of extortion imposed on SMEs by government officials, and the need for genuine support for SMEs. Oni & Daniya (2012) concluded that the full advantages of SMEs cannot be realized without the direct involvement of the government and financial institutions.

This government involvement could come in the form of building the capacity of SMEs and training them in corporate governance (Isa & Terungwa, 2012) or by providing a permanent solution to the circumstances surrounding infrastructural deterioration as suggested by Oni & Daniya (2012). Undue extortion of SMEs in form of multiple taxation has a negative effect on the survival of this important sector of the economy (Adebisi & Gbegi, 2013). The pecking order of a business capital structure within the context of the prevalent economic condition is affected by how sensitive it is to information asymmetry at different phases of the business life cycle (Rocca et al. 2009).

There are several definitions for what constitutes an SME around the world (Mamman et al., 2013). The major factors used in defining and determining whether or not an enterprise is an SME in Nigeria according to the Central Bank of Nigeria (CBN, 2003) are the number of employees, assets, and capital/investment. The National Policy on Micro, Small & Medium Enterprises defined Small enterprises as those companies with more than ten but less than forty-nine employees and total asset of more than five million but less than fifty million naira (excluding land and building), and medium enterprises as those with number of employees more than fifty and less than a hundred and ninety-nine having total assets of above fifty million but less than five hundred million naira (excluding land and Building). Small & Medium Enterprises are therefore those enterprises with about ten to a hundred and ninety-nine employees and total asset of about five million to five hundred million naira. With this definition and SME, the author adjusts his definition of SMEs in this research paper to fit with that of the National Policy on MSMEs.

Small and Medium-scale Enterprise should take the front stage in the growth and the development of the economy especially in Kaduna State – small scale enterprises are the new focus of governmental policies with regard to economic growth around the world (Lemuel 2009). Small businesses have always been and are the building blocks of industrialization in developed countries, and it is stated that the sector is not just a provider of goods and services, but is also essential in the promotion of business competition, product and service innovation and in improving the enterprise culture which is necessary for private sector development and industrialization (Memba, Gakure, and Karanja 2012). Yet, most start-ups remain small because of financial obstacles – among other things – to accumulating capital: limited access to finance continues to be a constraint in the growth and expansion of the sector. The main sources of capital for these start-ups are their internal funds and informal savings. Access to formal finance is poor due to insufficient capacity to deliver financial services to SMEs (Memba et al); a high risk of default among SMEs; inadequate financial facilities (Kaufmann 2005), and information asymmetries (Njeru, Namusonge, and Kihoro 2012).

According to a survey published by the European Central Bank in November 2012, bank financing remains the most important source of external financing for SMEs across Europe. This fact is no less true for SMEs around the world. Despite this fact only a few SMEs access external financing from commercial banks (Kaufmann 2005, European Central Bank 2012). There are factors that contribute to the decline in the ability to access external financing, some of them are demand-driven such as: deterioration in the general economic behavior and worsening of business-specific outlook which reflect high risks. The financial characteristics of SMEs affect their ability to access external capital; a less than positive assessment of their own capital and credit history is also a reflection of high risk (Zarook, Rahman, and Khanam).

Due to these factors, banks will be less than willing to provide loans and this will result in imposing supply restrictions in the provision of bank loans: such as the terms and conditions of bank loan financing, interest rates, and, collateral requirements. Financial institutions are not the only sources of capital for SMEs (Kaufmann 2005). The role of non-banking financial institutions and financial markets, both on the debt and equity side has been explored. Venture Capital is one source of non-banking financing prevalent in the developed financial markets for small and start-up firms (Memba et al). The impact of venture capital on growth of SMEs is real and practical. There exists another group of sources of non-banking finance referred to as business angels. But, banks have always been and still remain the most important source of external finance for Small and Medium-scale Enterprises.

The role of effective governance i.e. setting up a friendly regulatory frame work beneficial to Small and medium-scale Enterprises is crucial to the growth and success of SMEs. Government policies have an impact on the availability of bank products. SMEs are generally very vulnerable and only a few of them manage to survive due to harsh economic circumstances which result from unsound government policies; inadequacies resulting from the state of infrastructural facilities; high cost of operation; corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, to mention a few (Lemuel 2009). Lack of tangible security coupled with inappropriate legal and regulatory frame work that does not recognize innovative strategies for lending to SMEs can lead to entrepreneurial demise. Political instability and strong dependence on a few raw materials also hinder business growth. Creating a condition for private sector growth is not enough; there should be an adequate financial system in place for the possibility of such growth. In Nigeria, SMEs take up about 95% of manufacturing sector and these are important to the economy (Kauffman 2005); but insecurity, corruption and poor infrastructure prevent these SMEs from being beneficial to the growth of the economy.

There are four approaches to permanently increasing SMEs' access to finance (Kaufmann 2005).

- Improving business conditions;
- Helping SMEs meet the requirements of formal financing;
- Making the financial system more accessible to SMEs, and
- Expanding the supply of finance through the non-financial private sector.

According to a study carried out by Yesseleva (2013), seeking professional advice from accountants and financial advisors is a credible signal to financial institutions. This financial advice, coupled with several lending technologies will help mitigate the information asymmetry plaguing the relationship between banks and SMEs. Kaufmann (2005) proposed that the financial system should be made more accessible to SMEs. Lemuel (2009) also recommended that future research in the field of entrepreneurial financing should be carried out to discover how non-banking financial Institutions (NBFIs) can be developed in Nigeria so they can assist in providing the much needed support that they are acclaimed to offer especially in the western World. Moreover, it has recently been established that NBFIs can be just as effective for SMEs start-up and growth funding (Badulescu, 2011; Dagogo and Ollor 2009).

According to a survey report published in 2012, Nigeria has close to twenty three thousand Small & Medium – Scale Enterprises and over a thousand of these SMEs are resident in Kaduna State (National Bureau of Statistics [NBS] & Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2012). A good 88.72 percent of the one thousand two hundred and eighty-two SMEs resident in Kaduna State are small enterprises (NBS & SMEDAN, 2012). According to NBS and SMEDAN (2012), 83 percent of Small & Medium Enterprises in Nigeria have their initial start-up capital lower than ten million naira and as at December 2010, 68.9 percent of SMEs in the country have their total capital below ten million naira.

The figures in the survey suggested that personal savings were the main source of finance for SMEs across the country, with 54.4 percent of SMEs, loan came in second with 22.0 percent and family was the third main source of finance with 16.7 percent. In Kaduna State however, as at December 2010, 52. 9 percent of SMEs have their total capital less than ten million naira and 66.1 percent have total asset value of below ten million naira (NBS & SMEDAN, 2012). SMEs in Nigeria have been advised to be more open to innovative ideas and make the necessary effort in committing themselves financially to guarantee growth (Olu, 2009). The lack of corporate governance has been suggested as one of the major reasons surrounding the lack of access to formal financing by SMEs (Isa & Terungwa, 2012). Potential business owners have been advised to carry out a full feasibility study to appraise the profitability of a business in order to keep away from making investments in unprofitable businesses (Oni & Daniya, 2012), since profitability goes a long way in influencing the capital formation of these enterprises (Akionla & Iordoo, 2013).

There should be a holding on to internal organizational competence so as to mitigate wastefulness that increases the costs of operation and profit reduction (Njeru et al., 2012). A competitive market helps to engender productivity and it has been suggested that producers must have the ability to persuade consumers in order to increase their market share (Oyelola et al., 2013). Mamman et al. (2013) suggests, vertical integration as a way for SMEs to get ahead in Kaduna State. The use of information technology in SMEs cannot be over emphasized as literatures abound that point to this. Oyelola et al. (2013) call for an optimal utilization of information communication technology. The administrative boards of SMEs should cultivate a habit of preparing a well-timed, clearly written and up to standard financial statement of their companies (Akinola & Iordoo, 2013).

According to Njeru et al. (2012), the size of the enterprise has no significant impact on their ability to access either debt or equity financing but that it would be practical for SMEs to focus their attention on increasing their profitability so as to be able to improve their ability to access finance. Going by Rocca et al. (2009), the financial behavior of businesses is affected to the extent which their particular information is transparent. Business information is made up of all factors important to the daily functions of a business and it is predisposed to a combination of factors which are largely outside the control and influence of a business such as political, economic, social and technological factors (Yusuf, 2012). There is a positive impact on the economy with a well-developed and properly functioning SME sector (Adebisi & Gbegi, 2013). Rural development in order to prevent rural-urban migration has been suggested as one of the things which should top the list for policy makers (Oni & Daniya, 2012).

Empowering agriculture-focused SMEs through agricultural development projects due to its labour intensive activities and its ability to employ a lot of youths can get a lot of people out of poverty and impact positively on the economy (Adeleke, 2012). The provision of the necessary infrastructure for business and the smooth operation of market (Oyelola et al., 2013) are essential to the economic development of Nigeria. A harmony of initiatives rather than a duplication of effort between government agencies is also crucial to the improving the necessary support for SMEs (Akinola & Iordoo, 2013). It has been suggested that governments and banks reach an agreement on ways to share the inherent risk in financing SMEs so as to bring about an enthusiasm on the part of banks to direct funds to SMEs (Isa & Terungwa, 2012).

It has been recommended that government and policy makers should have in mind the size of SMEs when setting tax policies due to the fact that there is a significant relationship between SMEs' size and its ability to pay taxes (Adebisi & Gbegi, 2013). There is a need for government to utilize and encourage the public to go out and purchase made in Nigeria goods and services and also set up a sustained relationship with the private sector as it pertains to the consumption of SMEs' products (Sokoto and Abdullahi, 2013). Akinola & Iordoo (2013) suggest that government should create an alternative stock exchange that is devoted to the Micro, Small and Medium Enterprises in Nigeria like other developed countries in the world have done and to make this possible by making the listing requirements less rigorous to these enterprises. It has been suggested that SMEs despite their low credit ratings could develop asset backed securities which they could sell to raise funds for their businesses with no need of exposing their investors to unnecessary risk (Akinola & Iordoo, 2013). SMEs could also enhance their credibility to financial institutions by making use of the advice of business and financial experts such as accountants to increase their chances of accessing external debt finance (Yesseleva, 2013).

Zarook et al. (2013) confirmed that due to certain external factors such as socio-demographic and political factors having an impact on the ability of SMEs to access finance, the financial performance of SMEs as expressed by liability-assets ratio, profit, and return on assets has no significant effect on the ability of SMEs in Libya to access finance. In order to be able to properly support the development of SMEs, there is a need for understanding the financial characteristics of these SMEs at different stages of their life cycle (Rocca et al., 2009). The inadequacies of government agencies set up for the purpose of making available the necessary information for business leads to a lack of awareness in the need of business information and makes it difficult for businesses to have access to these information (Yusuf, 2012). To be able to efficiently make business information available towards the need of small of business enterprises, it is necessary that more articulated services replace the existing information gap (Yusuf, 2012).

i. The Impact of Banks on SMEs (Augustine et al 2012)

For banks to be able to encourage growth in the Nigerian economy there is a need for a change from a habit of short-term funding to that of long-term funding but this change can only come to pass if the government can guarantee a favourable macroeconomic environment (Augustine et al., 2012). The development of the processes of financial intermediation for economic activities is important for the purpose of financial development in Nigeria (Oluitan, 2012). While mature businesses can afford to affect their capital structure by providing internal capital to substitute their dependence on debt financing, debt financing is essential to the development of SMEs in the early stages of their life cycle and this fact is even more so in countries with underdeveloped and inefficient financial markets (Rocca et al., 2009). One of the ways banks can promote economic growth is through long-term funding of the real sector (Augustine et al., 2012). Economic growth is defined as a positive change in the national income or the level of production of goods and services by a country over a certain period of time (Oluitan, 2012). Financial economists have seriously debated the relationship between financial development and economic growth (Augustine et al., 2012).

Studies have shown that access to capital has a considerable effect on the profitability of SMEs in Nigeria (Akinola & Iordoo, 2013). Entrepreneurs in a good number of developing countries in the world have limited access to formal financing (Njeru et al., 2012). In countries that are inclined towards banking, businesses have a propensity to implement specific financing strategies and a different pecking order of financial decision-making as they develop through the several stages of their business life cycle (Rocca et al., 2009). Contrary to the bank-based theory of financial structure, which is the close involvement of banks with industries through long-term financing, banks in Nigeria do not have close ties with industries (Augustine et al., 2012). In comparison with the economic growth before interest rate deregulations, the economic growth of Nigeria after interest rate deregulation is greater (Udoka & Roland, 2012). According to Augustine et al. (2012), the ability of the financial market to contribute to a nation's economic growth is for the most part dependent on the ability of businesses to source fund from the financial market.

j. The Informal Financial Market (Olusola & Tayo, 2012, (Udoka & Roland 2012)

The direct involvement of the government in the activities and provision of financial services by the financial institutions paved the way for an unparalleled enlargement of informal money markets in Nigeria that became an indispensable part of the financial intermediation process (Olusola & Tayo, 2012). Udoka and Roland (2012) recommend an evolution of a strong monetary policy for Nigeria in order to improve lending to the real sector economy for productive economic activities. According to Olusola and Tayo (2012), despite the policy set in place by the financial regulatory authorities on rural banking, there are very inadequate markets and institutions providing credits to micro and small entrepreneurs and a good proportion of micro credit and savings are still managed informally. The characteristics of informal financial services include ease of access, flexibility in loan use, rapid processing and flexibility in interest rates; however these characteristics differ in amount (Olusola & Tayo, 2012).

Lack of capital is a major constraint to the participation of the poor in productive economic activities (Awojobi & Bein, 2011). Adeleke (2012) citing the National Bureau of Statistics (NBS,

2012) report, stated that in general the unemployment rate in Nigeria amounted to 21.per cent of the total labour force in July 2010, which pointed to an increase from 19.7 per cent as at March 2009, and 14.7 per cent in 2008. It has been stated that about 70 percent of the Nigerian population finds employment in the informal sector of the economy or in agriculture (Egbetunde, 2012). In Nigeria, the need for new innovation is impossible to ignore and governments have been advised to give priority to capacity building in order to boost technological innovation (Oyelola et al., 2013). There is a need for sustaining policies with a focus on high growth or knowledge intensive SMEs that will inspire the development of new creative enterprises or those that support the expansion of existing ones (Sokoto & Abdullahi, 2013).

Despite the universal opinion that taxation is an important source of fund for improving the state of the economy and making social services available to the public (Atawodi & Ojeka, 2012) made it clear that there is a significant negative correlation between taxes and the ability of a business to sustain itself and expand. In some cases, all the tiers of government collect a form of tax or the other from SMEs in Nigeria (Adebisi & Gbegi, 2013). In a bid to facilitate and attain the goal of having a robust and thriving SME sector, there is a need for an appropriate tax policy that will not be a hindrance to the growth and the development of small and medium enterprises in Nigeria (Atawodi & Ojeka, 2012).

In order to be able to put together a suitable policy and strategy targeted towards the alleviation of poverty and improvement in living standards, there is a need for an excellent understanding of the characteristics and degrees of poverty in Nigeria (Awojobi & Bein, 2011). It has been suggested to the government and policy makers that laying emphasis on the strength of the poor rather than their limitation is a realistic approach to poverty alleviation (Sokoto & Abdullahi, 2013). Also, policy makers have been advised to promote the development of a financial system that is capable of sustaining small and medium-sized firms with capital that will be sensitive to the needs of these SMEs in the form of equity financing (Rocca et al., 2009). Sokoto and Abdullahi (2013) suggested that functional education is essential to increasing human capital formation that would be able to seize and make technology suitable for local use for the vitality of the SMEs in North western Nigeria in particular and Nigeria in general.

The OECD’s recommended research standard instrument (the questionnaire format) was used as a reliable methodology of primary data collection in this study. The secondary sources of data to reinforce the primary data comprised of interviews, observations, published materials, journals and related information on the topic posted on the web. I used face validity that enabled me to tap a diversity of views that readers could use to establish the authenticity and logic of the study.

CHAPTER THREE: METHODOLOGY

Introduction

This chapter explains the research methodology. It introduces the scientific bases that give the study empiricism. The purpose of the study is discussed which flushes into an elaboration of the population and selection of samples for the study. This then leads to a discussion of the research processes, instruments and the statistical methodology.

The activities of Small and Medium Scale Enterprises (SMEs) have assisted to downsize the level of unemployment and poverty in Kaduna State. However the challenges faced by SMEs in the state could not be over-emphasized. They ranged from poor credit facilities to unconducive business environment. The unemployment market is bloating every year. For instance, out of about 250,000 tertiary graduates that are produced every year by all tertiary institutions in the country, only about 5,000 are said to secure paid-employment every year. Hence, going through the higher institutions of learning and /or possession of professional qualification in disciplines like accounting, law, engineering and even medicine is no more a guarantee of getting the desired employment because of the shrinking economy. A way out is through encouraging the development of entrepreneurial skills and transforming challenges to business opportunities.(Izedonmi and James 2010).

The purpose of this research project was:

- To review the most pressing challenges faced by SMEs – their inability to access finance from banks in the state;
- Investigate if bank loans were efficacious in helping small businesses to grow, and

- Investigate other related causes of the problem with a view to proffering sustainable remedies.

Research Design

Scientific problems can be solved only on the basis of data; a major responsibility of the researcher was to set up a non-experimental study that was capable of providing the data necessary to the solution of the problem. The most effective procedure for data collection was by planning each aspect of the data collection process. Firstly, the researcher ensured that sufficient data for the study could be obtained before embarking on the research. Secondly, the type of data required for the study and method of data analysis to answer research questions and verify hypotheses as well as locations to source the needed data. The research was designed to collect data from SMEs and financial managers in order to assess the lingering problem related to credit accessibility of SMEs in Kaduna State. Improving the supply of credit to productive enterprise in Nigeria should be seen as a priority for the growth of the economy (Iniodu and Udomesiet, 2012). To achieve this objective, a sample of SMEs was drawn from three major cities in Kaduna State and studied in relation to the problem at hand from a quantitative perspective. Small and Medium scale businesses in Kaduna State are faced with a number of challenges that have hindered their profitability and growth over the years. Among these challenges are limited access to credit facilities and ineffectiveness of government policies set aside to assist the growth of SMEs in the State in particular and the country at large. Arikawa (2002) observes that another consequence of the debt overhang is the inflow of foreign investment and export guarantees. Because of Nigeria's problem with debt servicing, Export Credit Guarantee Agencies (ECGAs) suspended insurance cover for exports, not only of goods and services, but also of investment capital to the country. Without export credit cover and other facilities, Nigerian importers are required to provide 100 percent cash cover for all their orders and are, placed at competitive disadvantage compared to their counterparts elsewhere who have access to ECGA covers and import credit facilities. This study would review the challenges faced by SMEs in the state by engaging the owners of SMEs and managers of commercial, specialized and micro finance banks to provide empirical evidence on the problems faced by SMEs in the State. To achieve the objectives of this study, the quantitative technique of data collection would be employed.

The quantitative technique involves collection and analysis of highly structured data in the positivist tradition (Erinosho, et al, 2002). In view of this, it would examine variables that can be assigned values which could be empirically observed, measured and verified. The specific instrument used here is the questionnaire. The questionnaire is designed in such a way that quantitative data are generated from the respondents for the purpose of answering the research questions and testing the hypotheses. The researcher adapted the European Commission and European Central Bank questionnaire on access to finance of SMEs (ECB, 2013) to obtain information from SMEs owners, Managers of commercial, specialized and micro finance banks in three locations in Kaduna State to obtain the quantitative data.

The technique employed to satisfy the research objectives were the frequencies, analysis and cross tabulations. These methods would show the obvious relationships between the variables.

Target Population and Sample Selection

The total population of the study was the entire SMEs in Kaduna State, Nigeria. However, due to the size of the population, a non-probability sampling method was adopted to obtain the requisite data for this study. A sample total of 300 Small and Medium-scale Enterprises spread across broad categories of SMEs (sole proprietorships, partnerships, cooperatives and farmers) was used, based on their location in the state. The state was divided into three strata which cover the three major cities: Kaduna, Zaria and Kafanchan and the questionnaires were distributed to capture at least 100 SMEs in these cities. Also, 20 commercial banks were studied using structured questionnaires, 2 Development Banks, and 5 Microfinance banks. Terms were carefully defined so that as far as it was humanly possible, misinterpretation and misunderstanding of the relevant data to be collected would be avoided. (Appendix B).

The first step in obtaining a sample was to define the population. Convenience sampling was used to select the population (Boxill, Chambers, & Wint, 1997). This meant identifying the characteristics which members of the study group had in common and which were used to identify units of a particular group. Three factors would be used to determine the size of an adequate sample size for this research: these were nature of population, types of sampling design and degree of precision desired:

a. 1 to more than 500 employees

b. Up to 200 million Naira annual turnover

c. 327 sample size (27=Banks, 300 = SMEs)

Using a sample that was too large was a waste of resources while using a sample that was too small meant getting results that were likely to be lacking in validity. This study would try to balance these two issues by distributing relatively adequate number of questionnaires amounting to three hundred and twenty-seven (327).

Procedure

The researcher identified locations where SMEs and Banks are highly concentrated. The three main senatorial districts: Zaria City, Kaduna City and Kafanchan City. A 2012, SMEDAN survey of Nigeria revealed that there are 1,287 Small and Medium Enterprises in Kaduna State (Appendix E).

Firstly, 100 SMEs were targeted in each of the senatorial districts and contacted directly through research assistants. Secondly, the bank's main branches were located in Kaduna serving the state as a whole; all 27 banks were contacted directly and the main respondents were the branch managers. **Instrument Reliability and Validity**

The reliability and validity of the data was conducted by the pilot study embarked upon by the researcher before the actual data were collected from the sampled population. The questionnaires used for the pilot study were subjected to a test that confirmed the validity and reliability of the data.

About 90 percent of the research articles and statistical materials consulted on the topic were recent from 2010 – 2013; they covered a wide breadth of knowledge most invaluable to the study; for example Kehinde and Adejuwon (2011), in their work on the Role of Banking Institution in Nigeria posited that Financial systems have long been recognized to play an important role in economic development through the mobilization and distribution of savings for production, provision of well-structured organizations for financial administration and monetary management and serves as the establishment for managing liquidity in the system. According to IFC (2013) Business Plan, changes in technology such as the growing use of information and communications technology in business processes is also important. There are three particularly important categories under the general heading of the stockholder's equity; they are venture capital, preferred stock and common stock.

Disparities in market access has been attributed to differences in lending technologies and speculations which cause lenders to differ in their capacities and incentives to develop and use soft information about a new loan applicant in place of the noisy signal that comes through the applicant's minority status (Mitchell & Pearce, 2011) lending technologies. In his review of the performance of Small and Medium Enterprises in Kaduna State (Loto, 2012) noted that the activities of SMEs have been enormous and have assisted to downsize the level of unemployment and poverty in the state. In a survey conducted by the National Bureau of Statistics (NBS) in collaboration with the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2010 NPS, SMEDAN comparative growth of SMEs and employment generation, Kaduna State has a total of 1,282 SMEs operating within it, 89 per cent of these SMEs were classified as small scale enterprises in terms of number of employees, employing between 10 to 49 people while the remaining 11 per cent were classified as medium scale enterprises, employing between 50 to 199 people.

Validation of questionnaire investigations applies same procedures as the validation of any instrument of test or measurement. The researcher used face validity that permitted multiple sources including personal interviews. This was to tap a diversity of views the reader could use to establish the authenticity and empiricism of the study. An important aspect of this interface was the follow-up visit designed to align respondents' oral answers with information earlier provided in their returned questionnaires to test their biases and sincerity; validity of questionnaires was established before being administered to respondents and each of the questions used in the survey related closely to the topic under investigation.

All instruments were subjected to Cronbach Alpha test for validation of internal consistency. Reliability test relates to the study instrument. Specifically, reliability test is a measure of internal consistency of the study instrument. The most commonly used measure of internal consistency is Cronbach alpha. Cronbach alpha coefficient ranges between 0 and 1. An instrument is considered to be reliable if Cronbach Alpha is at least 0.7. Reliability tests were conducted to assess the internal consistency of the variables used for this study (Breakwell, Hammond, Fife-Schaw & Smith, 2006; Skevakis, 2010). The result of the test is presented in table below with total items of 67 is found to be reliable as the Cronbach alpha (0.867) is higher than the acceptance level of (0.7). Appendix C.

Table 1: Reliability Statistics

Cronbach's Alpha	No. of Items
.876	67

Research Questions and Hypotheses

The study is poised to ascertain the extent of constraints facing SMEs with credit to start-up and expand their operations. Accordingly, the following research questions are raised:

R1. Is there a relationship between the challenges faced by SMEs and credit facilities provided by banks?

$H1_o$: There is no relationship between the challenges faced by SMEs and credit facilities provided by banks.

$H1_a$: There is a relationship between the challenges faced by SMEs and credit facilities provided by banks.

R2. Do SMEs attribute their growth to specific banking products?

$H2_o$: SMEs do not attribute their growth to specific banking products.

$H2_a$: SMEs attribute their growth to specific banking products.

Data Analyses

The data organization phase of this thesis will be conducted empirically to examine the relationships between the challenges faced by SMEs and access to finance in Kaduna State. For effective organization and analysis of data, appropriate mechanism was designed to collect both primary and secondary data so that relevant materials and information related to the study were used. Therefore this chapter captured all variables such as the population universe of the study, sampled population, sampling procedures, employed and the statistical techniques used for the analysis of data.

The Statistical Package for Social Sciences (SPSS) Software was employed to run the necessary tests. These tests were the reliability test, correlation analysis frequencies as well as cross tabulation. The empirical findings on the impact of banking on SMEs in the state described the frequencies of the responses on major challenging that SMEs faced in running their businesses. The debt accumulated by them was tabulated and finding customers, cost of production; regulation as well as availability of skilled manpower were major issues to SMEs in the state.

Descriptive Statistics

The descriptive statistics will illustrate what the data shows. It will help to simplify the data collected in a sensible manner. The basic description of all response items using frequency distribution and cross tabulations. The cross tabulation will provide a way of analyzing and comparing the results for one or more variables with the results of another. It will examine the relationships between the challenges faced by SMEs and credit facilities provided by banks. The cross tabulation will also examine the attributes of SMEs in terms of their level of growth in relation to the products provided by the banks. The demographic data will describe the sample population of SMEs in Kaduna state in terms of the number of their employees and the type of business they are into.

Correlation Analysis

The correlation analysis will measure the extent of association between the product offered by banks and the growth level of the SMEs in Kaduna State. The proxy for bank product is the bank's credit standards while the proxy for growth of the SMEs is the annual rate of turnover of their businesses. The Pearson product moment correlation coefficient will measure the linear correlation between the products and growth of SMEs. The absolute values of the Pearson correlation coefficients are less than or equal to 1. The formula for estimating the Pearson correlation can be expressed mathematically as:

Expected Findings

$$\rho_{X,Y} = \frac{E(XY) - E(X)E(Y)}{\sqrt{E(X^2) - (E(X))^2}\,\sqrt{E(Y^2) - (E(Y))^2}}.$$

The statistical analyses will provide evidence that either rejects or accepts the null hypotheses. A number of tables will illustrate the results from the research questions, specifically the first research question (R_1) will be answered in the **analysis of the results of the statistical frequency of the most pressing challenges faced by banks and a cross tabulation of the most pressing challenges and credit facilities provided by banks**. The second research question (R_2) will be answered in the **analysis of the correlation between annual turnover and access to finance**. In this case, annual turnover will serve as a growth indicator. The results will lead to rejection or acceptance of the null hypothesis which will be presented on a separate table as a summary of research hypothesis.

Summary

The method of data collection and analysis are presented in this chapter. From the research design, the researcher ensured that adequate data could be obtained before the study commenced. The SMEs and Banks are the primary respondents for this study. To get the needed data from the respondents, the state was divided into three locations (Zaria town, Kaduna and Kafanchan).

The instrument for data collection is the closed ended questionnaire. The reliability and validity of the data was conducted by a pilot study before the actual data were collected from the sampled population. The data analyses were carried out using the Statistical Package for Social Sciences (SPSS) and this was used to conduct a descriptive statistics and the correlation analysis.

CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA

Introduction

This chapter seeks to present an analysis of the study from a scientific perspective using the data gathered from the field research. A quantitative approach using statistical methods is used to present data and test hypotheses which will reveal the key findings. The unemployment market is bloating every year; for instance, out of about 250,000 tertiary graduates that are produced every year by all tertiary institutions in the country, only about 5,000 are said to secure paid-employment every year. Hence, going through the higher institutions of learning and/or possession of professional qualification in disciplines like accounting, law, engineering and even medicine is no more a guarantee of getting the desired employment because of the shrinking economy; a way out is through encouraging the development of entrepreneurial skills and transforming challenges to business opportunities (Izedonmi and James, 2010).

The purpose of this study was to review the most pressing challenges faced by SMEs in the state. The research project would investigate if bank loans were efficacious in helping small businesses to grow. It would also investigate other related causes responsible for stagnation of the sector with a view to proffering appropriate strategies to reposition the SMEs sector in Kaduna State.

The analysis and interpretation of the raw data of an investigation are the means by which the research questions are answered and the hypotheses are tested. Analysis is defined as the ordering and breaking down of data into constituent parts. It consists of the statistical calculations performed with the raw data to obtain answers to the questions that prompted the research. The researcher converted the data from the questionnaire responses into structured statistical information.

This is done by tabulating the data, calculating the responses question by question and then summarizing it. Data analysis is done in a way that would help the user of the research to understand the relationship between factors in the research. It also helps to identify the patterns and details that provided chains to the truth of the hypothesis formulated. (Emaikwu 2012).

The empirical findings on the impact of banking activities in Kaduna state on SMEs are presented in this chapter. The analysis commences by describing the frequencies of the responses by the respondents on major challenges they face in running their businesses. These included declining annual turnover, external financing, conditions and applications for credit while test of hypothesis was conducted.

Table 2: *Employees by SMEs*

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	1-49 employees	250	83.3	89.0	89.0
	50-99	31	10.3	11.0	100.0
	Total	281	93.7	100.0	
Missing	System	19	6.3		
Total		**300**	**100.0**		

Table 1 shows that most of the firms in Kaduna state are small in size. Among the 281 valid questionnaires, 89% of the respondents have between 1-49 employees and only 10.3% have employees between 50 and 99; this is an indication that a large chunk of the SMEs in Kaduna state employs only a small proportion of the people living in the state (SMEDAN Report, 2010).

This table is presented to reveal the dominant types of businesses that exist in the state. From the result based on the number of employees that they have, most of the businesses are operating on a small scale.

Table 3: *Frequency of most pressing challenges faced by SMEs*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Finding Customers	15	5.0	5.3	5.3
	Competition	12	4.0	4.3	9.6
	Access to Finance	202	67.3	71.9	81.5
	Cost of production	11	3.7	3.9	85.4
	Availability of skilled Staff	26	8.7	9.3	94.7
	Regulation	15	5.0	5.3	100.0
	Total	281	93.7	100.0	
Missing	System	19	6.3		
Total		**300**	**100.0**		

The table shows that the most pressing challenge faced by SMEs in Kaduna state is limited access to finance. It is evident from the table that 67.3% of the respondents do not have access to finance and only about 8% complained about skilled manpower. Few among the respondents complained about finding customers, competition between firms of the same industry, cost of production and regulations. From the results, it is clear that the dominant challenge faced by businesses in Kaduna State is limited access to credit facilities and suggest a dire need for banks to take-up the opportunity to increase credit accessibility to SMEs in the state. The finding is consistent with the study conducted by Josiah (2012) which opined that financial institutions have not done much for making available the necessary credit facilities for SMEs.

Table 4

Bank loan * Most pressing Challenges Cross tabulation

Count		Most pressing Challenges						Total
		Finding Customers	**Competition**	**Access to Finance**	**Cost of production**	**Availability of skilled Staff**	**Regulation**	
Bank loan	Applied but only got a limited part of it [between 1% and 74%]	15	12	27	11	26	15	106
	Applied but refused because of cost too high	0	0	175	0	0	0	175
Total		**15**	**12**	**202**	**11**	**26**	**15**	**281**

The relationship between credit facilities offered by banks and challenges faced by SMEs in Kaduna State is presented in table 3. This addresses the first research question and the result revealed that most of the SME owners applied for loans or credit but could not access because of high interest rate. High interest rate is obvious due to fact that the Central Bank Nigeria through its monetary policy committee has pegged interest rate at 12% and this has forced most of the commercial banks to offer credits to business owners above the official lending rate to remain profitable. The table revealed that as regards applications from SMEs to specific product of banks like loans, only 27 of the respondents got a limited part. Other SMEs applied for loans but refused to collect because the interest rate was too high. This suggested that a large percentage of the SMEs that sort for loans from banks could not accept such loans and could not grow due to constraints in accessing finance. This finding is in consonance with a study conducted by Udoka and Roland (2012) which revealed the presence of a negative correlation between interest rates and the growth of Nigeria's economy. Increase in interest rates will lead to a decrease in the country's GDP.

Table 5: Most Pressing Challenges and External Finances Provided by Banks

		Increased	**Remained unchanged**	**Total**
Most pressing challenges	Finding customers	0	15	15
	Competition	0	12	12
	Access to finance	28	174	202
	Cost of production	0	11	11
	Availability of skilled staff	0	26	26
	Regulation	0	15	15
	Total	**28**	**253**	**281**

From table 4, aside the issue of interest rate addressed in table 3, other issues such as finding customers, competition, cost of production, regulation and availability of skilled staff are also paramount. The cross tabulation of most pressing challenges and external finances also address the first research question which states: is there relationship between the challenges faced by

SMEs and credit facilities provided by banks? Access to finance showed that it has remained constant or unchanged for most of the businesses in the past 24 months and this can be as a result of a number of reasons. These reasons range from bad business plan, ineffective management structure and low profitability among others. From the table, only 28 respondents revealed that the access they have to credit facilities provided by banks have increased in the past 24 months but a large proportion of the responses shows that access to external finances have remained unchanged in the past 24 months. This result therefore suggests that limited access to external finances by businesses can be attributed to other factors such as ineffective management, bad business plan and not solely the high interest rate. This finding is supported by a study conducted by Fadare (2012) that suggested the need to get policy options right was important to achieving and maintaining financial stability as banks have a propensity to act in response to policy directions by regulating their lending strategies.

Table 6: *Correlation between Annual turnover and Access to Finance*

		Annual turnover	**Products**
Annual turnover	Pearson Correlation	1	.249**
	Sig. (2-tailed)		.000
	N	281	281
Products	Pearson Correlation	.249**	1
	Sig. (2-tailed)	.000	
	N	281	281

**. Correlation is significant at the 0.01 level (2-tailed).

Correlation expresses the relationship between variables. Table 5 shows the correlation between the annual turnover (growth) of the SMEs for this study and products offered by banks. This table is shown to answer the second research question which states that; SMEs do not attribute their growth to specific banking products. Applying the Pearson correlation, the result shows a weak relationship. This establishes a fact that the level of turnover by firms in Kaduna state has weak relation to the bank products offered by the commercial banks. The interpretation of this is that high level of turnover (growth) is associated strongly with high access to finance while low level of finance produces low level of rate at which firms sell and replace goods in a year, with overall low inventory. The results suggest that the reason behind low level of growth of small and medium scale enterprises in Kaduna State is attributed to the inadequacy of attractive bank products created to provide special credit facilities to SMEs. In consonance, Kizito (2012) posited that the financial sector is responsible for sustaining the well-organized distribution of resources and the development of the economy. The Pearson correlation result of 0.249 and P-value of 0.000 revealed a significantly weak relationship between growth of SMEs and bank products offered by commercial banks in the state.

Table 7

Cross tabulation of most pressing Challenges and External Financing

		External Financing not changed			**Total**
		Yes	**No**	**DK/NA**	
Most pressing Challenges	Finding Customers	0	11	4	15
	Competition	12	0	0	12
	Access to Finance	152	50	0	202
	Cost of production	0	0	11	11
	Availability of skilled Staff	26	0	0	26
	Regulation	14	0	1	15
Total		**204**	**61**	**16**	**281**

Using the research questions: (a) is there relationship between the challenges faced by SMEs and credit facilities provided by banks? and (b) do SMEs attribute their growth to specific banking products? helped to illuminate (as shown by the above table), the relationships between the challenges faced by firms and the profile of their external financing. The profile of their external financing, from the total of 281 responses collated, 202 responses are from SMEs who present their case against external financing of their businesses. According to some respondents, limited access to external finance has not changed over the past one year while others are of the view that theirs has actually declined. This is evidence against the idea that funds are available to

SMEs, but not tapped. This aligns with a recent CBN study (Access to Credit Facilities by SMEs, 2012) that

> *"There is a tremendous decline in the share of commercial bank loans available to SMES from about 8.65% in 2002 to o.85% in 2007"*

Table 8: **Summary Results of Cross tabulation and Correlation for all Research Hypotheses**

	Hypothesis	**Cross tabulation**	**Correlation**	**Decision**
H_1:	There is a relation between the challenges faced by SMEs and credit facilities provided by banks	About 175 out of 281	-	Reject H_o
H_2:	SMEs attribute their growth to specific banking products	-	Sig.(2-tailed) P-value 0.000	Reject H_o

Table 7 summaries the cross tabulation and correlation results directed to achieve the research hypotheses for this study. For the first hypothesis, the cross tabulation result dealing with the challenges faced by SMEs and Bank credits illustrates that 175 out of the total 281 responses do not have access to bank credits. Therefore, the null hypothesis of no relation between these variables is rejected and conclusion made that the challenges faced by banks is related to limited access to finance (SMEDAN Report, 2012).

Also, the table presents the correlation between products offered by banks and growth of SMEs. The Pearson correlation result shows that the r_p= 0.249 and is significant at 0.05 level of significance. This result suggests the rejection of the null hypothesis and reaches a conclusion that SMEs operating in Kaduna State attribute their low level of growth to inadequate bank products provided by banks (Loto 2012).

Conclusion

The results of this study shows that more needs to be done to improve Kaduna State's economic climate, through more support to SMEs. Most studies have shown that businesses in Nigeria are faced with the problem of inadequate finances to grow their businesses. This might be due to the fact that the commercial banks do not have specific products for the benefits of SMEs but see them as customers targeted for profit making. The findings of this study support previous researches even though it is specifically focused on SMEs and Banks in Kaduna State. In the area of access to finance, Oni and Daniya (2012) suggested that it would be difficult for SMEs to blossom if governments and financial institutions do not fully commit themselves to the successful implementation of the plans and programs they design for SMEs' growth.

According to Tawose (2012), there is a need to further enhance the capability of commercial banks in Nigeria in order for them to be able to approve long-term loans that would make the performance of the industrial sector better. This is further substantiated by a survey published by the European Central Bank in November 2012, bank financing remains the most important source of external financing for SMEs across Europe. This fact is no less true for SMEs around the world. Studies have shown that access to capital has a considerable effect on the profitability of SMEs in Nigeria (Akinola & Iordoo, 2013). Augustine et al. (2012) pointed out as well that the ability of the financial markets to contribute to a nation's economic growth was for the most part dependent on the ability of businesses to source fund from the financial market.

CHAPTER FIVE: SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

Introduction

The findings provided the right panaceas, given the breadth of the study. This chapter takes the findings from the data analyses presented in chapter 4 to the next level, constructing its usefulness to a cross section of stakeholders, its practical implications and providing concrete recommendations that can be put into practice as a result of the findings. This is in addition to opening up ideas for future research. The chapter also brings the study to a conclusion.

The Purpose of this research project was;

- To review the most pressing challenges faced by SMEs – their inability to access finance from banks in the state.
- Investigate if bank loans were efficacious in assisting small businesses to grow and
- Investigate other related causes of the problems of finance limitation with a view to proffering sustainable solutions.

The research questions of this study are:

1. Is there any relationship between the challenges faced by SMEs in Kaduna State and credit facilities provided by banks?
2. To what extent can SMEs attribute their growth to specific banking products?

According to the findings and the answers were direct: Lack of access to credit from banks was the major contributory factor to the declining performance of the SMEs sector in Kaduna.

Research Findings

The findings touched all aspects of the research questions. The relationship was strong and well-connected. The challenges faced by SMEs were directly linked to the historically poor funding disadvantage of the SMEs. The findings are summarized as follows:

1. SMEs in Kaduna State are small and not growing, a substantial percentage can only employ between 1– 49. This result is shown in table 1, and is consistent with the 2010 survey of SMEs in Kaduna State by SMEDAN. Among the 281 valid questionnaires, 89% of the respondents have between 1 – 49 employees and only 10.3% have employees between 50 and 99.
2. The most pressing challenges faced by SMEs to a very large extent remain access to finance; the result is shown in table 2. It is evident from the table that 67.3% do not have access to finance and only about 8% complained about skilled manpower.

   The findings are consistent with the study conducted by Jossiah (2012) which found that financial institutions have not done much for making available the necessary credit facilities to SMES.
3. Interest rates deter SMEs from accessing bank credit facilities. In comparison to other challenges faced by SMEs, looking for customers, competition, cost of production, availability skilled staff, regulation, access to finance tops the list of challenges. The SMEs that actually did seek loans from banks, refused to accept the facilities due to high interest rates, as depicted in table 3. The table revealed that applications from SMEs to specific product of banks, like loans only 27 of the respondents got a limited part. This finding is in consonance with a study conducted by Udoka and Roland (2012) which revealed the presence of a negative correlation between interest rates and growth of Nigerian economy. Increase in interest rates will lead to decrease in the country’s GDP.

4. Over the last 24 months the most pressing challenges faced by SMEs have not changed. Limited access to banking credits remained “the hard nut to crack”, despite the assertion by banks that they have eased lending policies – table 4. From the table, majority of SMEs respondents revealed that the access they have to credit facilities have not changed in the past two years. Fadare (2012) suggested the need to get policy options right which is important for achieving and maintaining financial stability as banks have a propensity to act in response to policy directions by regulating their lending strategies.
5. There is a relationship between annual turnover and access to finance, but this relationship is very weak and largely insignificant – table 5. This further explains why SMEs in Kaduna are unable to meet their growth objectives. According to Kizito (2012) the financial sector is responsible for sustaining the well-organized distribution of resources and the development of the economy. The Pearson correlation results of 0.249 and P-value of 0.000 revealed a significantly weak relationship between growth of SMEs and bank products offered by commercial banks in the state.

Practical Application

The findings application to professional practice was instructive. Low business skills were the bane of SMEs. Many professionals were capable of extra-ordinary turn around if they knew the solutions, had the knowledge, the awareness and the entrepreneurial spirit.

The implications of the findings should be carefully studied by the academic community, the public sector, SME operators and bankers. For decades, the SMEs problems which were always related to poor funding had remained unsolved; the core of SMEs problems was not just at the heart of financial limitation alone. The gap in existing literature, which led to proliferation of poorly researched studies was partly to blame. Research lacking in-depth scientific investigation could not solve today's complex socio-economic phenomena.

The problem was that past literature did not emphasize the place of current research in today's overall research efforts. Some of the literature reviewed the SMEs challenges from narrow perspectives that the SMEs operators were self- made individuals who had resources and were talented; that what they lacked were basic skills in business, good public relations image, including a robust generosity lifestyle to get along.

The studies provide ample applications for SME owners to develop strategies for engaging the banking sector. The most pressing challenges faced by SMEs to a very large extent remain access to finance as the result showed in table 2. It is evident from the table that 67.3% do not have access to finance. The SME owners can use the findings as a basis to form financing committees in their associations, and back up their arguments with the banking institutions with empirical evidence so as to ease access to finance.

The banking sector can also use the findings firstly to review their policies especially as the findings refute their arguments that they have eased their lending policies – table 4. Secondly, the implications of the finding of high interest rates further worsening the already unattractive terrain should be well considered. For example, the SMEs that actually did seek loans from banks, refused to accept the facilities due to high interest rates, as depicted in table 3. This finding can be used by the commercial banks and the central bank to press for a differentiated interest rate regime for organizations qualifying as Small and Medium Scale.

The academic community can use the study as vital information and case for studies in lending to SMEs in Kaduna State. The study deserves a place in the libraries of all Business Administration, Accounting and Banking and Finance Departments of Universities, particularly in Nigeria and the world in general. It can also be used to trigger further research in the fledgling area of entrepreneurial finance.

Recommendations

In recent times, the relevance of SMEs has been noticed by the Nigerian government in particular and other developing countries in general. It is therefore imperative to consider conditions that would ensure sustained growth in this sector. The SMEs should be seen by Nigeria as an important sector of the economy requiring specific incentives to assist its developmental strides. The problems of SMEs are features of underdevelopment of an economy.

Small and Medium Scale Enterprise Operators

i. SME management Skills: SME operators need to subscribe to training courses in Entrepreneurship. The research findings indicate a clear gap in the skill base of SME operators. In particular, it was evident that many of the SME operators lacked knowledge of basic financial management, business planning, and entrepreneurship.

ii. Knowledge of the Banking System: SME operators would do much better if they had more knowledge about how banks operate and the requirements for raising entrepreneurial capital from the banks. SME business groups should be formed by SME owners to partner with business schools where they can develop customized training for all their members to acquire skills in financial literacy and business planning. The certificates can be used to support their loan proposals to banks.

iii. SME operators need to be more informed about their importance. The ministry of Trade and Commerce in Kaduna State should embark on massive education of SME owners. Education for SMEs should be a key part of the budget which should include partnership with relevant training institutions to deliver training in Entrepreneurship

This will encourage them to take more risks and adopt a new attitude towards their business growth strategy.

iv. SME Owners Need Management Structures and Basic Operating Procedures; SME operators in Kaduna State need to review their current approach to business management.

Bankers are very keen on proper keeping of records from an accounting stand-point, clear assignment of duties and responsibilities from a managerial stand-point as well as the specification of processes and procedures for setting goals and achieving them from a business planning stand-point. These are very important attributes for SMEs in Kaduna State. Tawose (2012), argues that a good number of the credits approved by Nigerian commercial banks are for the most part, of a short-term nature. This is an attestation to the fact that structure is lacking in the way SMEs operate. The risk inherent in SMEs is highlighted by the fact that SMEs have a high rate of mortality given that about 80 per cent of them do not make it to their 5th anniversary (Adebisi & Gbegi, 2013).

Banks

A very important discovery of this research was the kind of mindset that SMEs had about banks and vice versa. Although the SMEs considered lack of access to formal credits as discriminatory, banks viewed SMEs as customers of last resort, a segment of the market that lacked structures, standard operating procedures an collateral. Largely a “one man” business whose capitalization/borrowings are two small and profitability per account too low. However, the study shows that the SMEs in Kaduna State have great potential that can be harnessed and turned into strategies asserts for accelerated economic growth and development. This finding is supported by Lotto (2012).

Banks in the state including micro-finance institution need to articulate a new philosophy of innovative banking approach towards the turn-around of SME sector. They should seize existing opportunities large investment in the sector and development from the bottom. This is the most practical was to expand the shrunk economy of the state in which the bank have much to gain. The following measures can help banks achieve a deliberate SMEs growth objective.

i. **Dedicate trained "SME account officers" to manage different SME segments:** Trained SME account officers can work with SMEs and build-up their capabilities as a strong, profitable customer base from, the bottom rungs.

ii. **Develop capacity among bank staff, skills for small business valuation, accounting, finance, entrepreneurship:** These officers would provide such services to the SMEs at a fee or in exchange for the commitment of a given deposit size to pass through the bank based on account.

iii. **Commercial Banks should pursue single digit interest rate on loans to SMEs:** banks should work with the Central Bank (Federal Reserve) to operate a discriminatory interest rate regime for loans granted to SMEs. This concessionary interest rate should not exceed 7%. Olu (2009) recommended that the Nigerian financial institutions put in more effort in providing funds for SMEs. In 2011, the Central Bank of Nigeria initiated the 500 billion naira Power/Manufacturing facility approval of 200 billion naira facility for SMEs Credit Guarantee Scheme (Doguwa et al., 2011).

iv. **The Central Bank should re-engage the entire financial system to focus on SME growth and development:** A number of the following steps can be taken.

- Re-calibrate the credit bureau network to start a reward system for SMEs who pay-up their facilities thereby ranking them as AAA, AA, AB, e.t.c type rating. This will significantly enhance the risk assessment of SME. An SME that has earned a certain credit rating will strive hard not to be downgraded and therefore set a benchmark for other SMEs to follow. Once entrenched, this threshold will serve as an accountability framework for the intensity of SMEs towards credit.

- Encourage banks to expand their products to other types of financing options that do not necessary require landed property as security for the loans.
- Reward banks that have a substantial amount of their risk – asset portfolio in the SME sector.

To buttress this assertion, (Doguwa, Olowofeso, & Essien, 2011) posited that the function of the Central Bank of Nigeria to enhance the availability of credit to the economy is of vital importance in strengthening SMEs. Economic reform policies are said to have an impact on the performance of Small and Medium Enterprises (Dabo, 2011). This also has an effect on the commercial banks and suggestions have been made as to making more effort towards discussion and collaboration between commercial banks and the Central Bank of Nigeria in order to be able to take into consideration the consequences of regulatory measures at the stage of policy formulation (Olokoyo, 2011).

Terungwa (2011) suggested that a laudable economic vision of any country is only achievable if it is predicated on a robust economic policy with a culture of commitment to its execution, while (Dabo, 2011) added that a policy of economic transformation that will result in the enhancement of economic growth and development should be put into practice and not just on paper.

v. **Enhanced Operational Capacity should serve as criteria for lending:** Commercial banks should set as a condition precedent to loans, qualitative criteria like the installation and utilization of an SME toolkit within the business, training of at least three key operators of the business on such a toolkit to qualify for a certain level of funding from the bank. A good example is the SME toolkit developed by the International Financial Corporation (IFC)

vi. **Commercial Banks should partner with the EFLRI research of the Harvard Kennedy School of Government**

EFLRI is an acronym for Enterprise Finance Lab Research Initiative. EFLRI's mission is to evaluate the impact of psychometric screening tools and alternative financial contracts on access to finance and entrepreneurial growth in the developing world's 'missing middle.' EFLRI is an Evidence for Policy Design (EPD) research project led by Asim Khwaja.

(http://www.hks.harvard.edu/centers/cid/programs)

A tested research product, EFLRI examines three critical points for loan applicants;

- The drivers of entrepreneurial ability
- Psychometric screening & Micro-Equity
- Impact of psychometric screening on access to finance

Commercial banks in Nigeria should partner with the EFLRI center and obtain licences. Over

2000 entrepreneurs across Africa and Latin America have been pilot tested on various psychometric instruments. The data is being analyzed to better understand the psychological and intellectual drivers of entrepreneurial ability and risk of default.

Government

1. Government should accelerate the development of markets for financial services suitable to the special features of SMEs by promoting product innovation and building institutional capacity. In financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs profitable and sustainable.

2. Easy accessibility to credit facilities through specialized or development oriented financial institutions. Funds available through this means should be provided at a preferential interest rate to SMEs.

3. The government could also assist by establishing a well-funded National Credit Guarantee Fund that could supply long term finance to SMEs and serve as buffer for credit facilities from banks and other financial institutions over and above the equity provided under SMIEIS. The National Credit Guarantee Fund and Empowerment Programme (SURE-P) which comprise a wide range of intervention programs including Women and Youths Empowerment towards poverty alleviation could also be mandated to fund SMEs.

These recommendations are geared towards the following stakeholders

- The federal and state government in Nigeria who are the initiators of policies related to SMEs development
- The CBN, Commercial and Micro-finance Bank who have responsibility to optimize use of capital resources.
- The academic community in Nigeria who needs to put the recommendations in public domain to create greater awareness.
- The SMEs operators in Kaduna State who have been waiting for a “breakthrough.”

- The general public who may want to become future SMEs entrepreneurs.

The suggestions of (Sokoto & Abdullahi, 2013) that Government should be quick and unwavering in formulating and implementing policies that pertain to SMEs in order to avoid the abortion of meaningful policies also point in the same direction as this study judging from the points laid out above. Furthermore, Oni and Daniya (2012) suggested that it will be difficult for SMEs to blossom if governments and financial institutions do not fully commit themselves to the successful implementation of the plans and programs they design for SME growth.

Recommendations for Future Research

Funding for the “missing middle,” that group of micro entrepreneurs too large for microfinance but too “small” for formal banking loans need to be addressed through innovative policies. This is where sustainable job creation lies. Future research is recommended because the problem is growing by the day with large numbers of college graduate. According to the National Bureau of Statistics (2009) the total number of graduates produced annually by Nigeria is over 754,000. Graduate unemployment has increased over time in the last years and as at 2007, the percentage extent of mismatch between registered unemployed graduates and placement was 91% (Akinyemi et al, 2012). This shows the swelling ranks of the teeming unemployed youths in Kaduna State and Nigeria as a nation. This will be part of the continuous interests in exploring novel possibilities that can convert most of Nigeria’s huge population into a thriving entrepreneurial society like China and India. These points lead to the conclusion reached in a research paper by Mbutor (2009) which emphasized the importance of **“credit channels”** as prime in determining the effect of the monetary policy. It was proved that of all the channels of monetary policy transmission in Nigeria, the credit channel is the dominant and accordingly lending rate has the highest impact on GDP. With these points above, it is clearly shown that there is a very high potential for SME's growth which can be achieved by more research on the lending policies, bank credit facilities and Government support policies on SMEs.

Further research is also recommended for other states. This dissertation should be used as a model for conducting further investigation in the role of banks on other 35 States of Nigeria. This should be a significant importance to the National Planning Commission, the organ of government responsible for crafting strategies of government policies.

Summary and Conclusion

The study had brought into sharp focus the decades of challenges which SMEs in Kaduna State had endured. Because of the informal nature of the SMEs sector the public interest in the problems were low but the causative effects could not be wished away. Ironically the SMEs which was regarded as the bedrock of sustainable socio-economic transformation in most countries was unable to unleash its huge potential in Kaduna State and indeed Nigeria for poor funding and limited access to formal banking loans. The socio-economic gap left unfilled by the sector grew wider and with it, massive employment, lack of job creation and increasing poverty level and threats to internal security loomed large. The research project identified innovative concrete panaceas to the problems; it is hoped the recommendations would be implemented by the key stakeholders in the SME space.

SMEs development has not been effectively promoted in Nigeria over the years. Various programmes have been launched by government to tackle the problems of SMEs, yet, the problems still linger. There should be a harmony of the programmes as suggested by (Akinola & Iordio, 2013). The findings from this research show that SMEs in Kaduna State face challenges that are related to access to credit facilities. This is supported by the findings of (Njeru, 2012) who pointed at limited access to formal finance as the major problem of SMEs. As supported by (Olusola and Tayo, 2012), the interest rate regime in Nigeria has been a stumbling block to affordable credit to SMEs in Kaduna State.

The SMEs have resorted to the traditional or informal financial institution to access credit; this institution has not been able to meet the needs of SMEs in the state. The limited access to credit by firms threatened their survival and has led to continuous increase in unemployment, decrease in economic activities, impeded economic development and increased rate of poverty in the state. Therefore, an environment with accessible credit facilities will promote economic growth and development (Adebisi & Gbegi, 2013).

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APPENDIX A

Commercial Banks' loans to SMEs

Period	Commercial Banks Loans to SMEs (₦'Million)	Commercial Banks Total Credit to Private Sector (₦' Million)	Commercial Banks Loans to SMEs as Percentage of Total Credit (%)
1992	20,400.0	75,456.3	27.04
1993	15,462.9	88,821.0	17.41
1994	20,552.5	143,516.8	14.32
1995	32,374.5	204,090.6	15.86
1996	42,302.1	254,853.1	16.60
1997	40,844.3	311,358.4	13.12
1998	42,260.7	366,544.1	11.53
1999	46,824.0	449,054.3	10.43
2000	44,542.3	587,999.9	7.58
2001	52,428.4	844,486.2	6.21
2002	82,368.4	948,464.1	8.68

2003	90,176.5	1,203,199.0	7.49
2004	54,981.2	1,519,242.7	3.62
2005	50,672.6	1,991,146.4	2.54
2006	25,713.7	2,609,289.4	0.99
2007	41,100.4	4,820,695.7	0.85
2008	13,512.2	7,799,400.1	0.17
2009	16,366.5	9,667,876.7	0.17
2010	12,550.3	9,198,173.1	0.14
2011			
Q1	13,133.2	9,009,438.9	0.15
Q2	109,587.2	9,231,557.4	1.19
Q3	14,952.5	10,240,403.5	0.15
Q4	15,611.7	9,614,445.8	0.16
2012			
Q1	14,875.1	9,520,552.0	0.16
Q2	15,065.4	10,048,406.5	0.15
Q3	14,995.8	10,274,095.4	0.15
Q4	13,863.5	10,440,956.3	0.13

Source: Central Bank of Nigeria (CBN) Statistical Bulletin, 2012.

APPENDIX: B

SME Definition Criteria in APEC Countries

Country	Number of Employees	Sales/Revenue	Assets	Capital/ Investment Sector
Australia	X			
Brunei Darussalam	X			
Canada	X	X		X
Chile	X	X		
China	X	X	X	X
Hong Kong, China	X			X
Indonesia	X	X	X	
Japan	X	X	X	
Korea	X	X	X	X
Malaysia	X	X		
Mexico	X			X
New Zealand	X			
Nigeria*	X	X		X
Papua New Guinea				X
Peru	X	X		
Philippines	X			X

Russia	X	X		
Singapore	X	X		X
Chinese Taipei	X	X	X	X
Thailand	X	X		X
United States	X	X		X
Vietnam	X			X

Note. The Table was sourced from APEC (2010, p.3).

*The row for Nigeria was inserted by the researcher and the features are from CBN (2003, p.8).

APPENDIX: C

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Employees	174.7010142	262.871	.000	.876
Company	174.6510142	262.411	.057	.876
Sector of Business	173.7510142	263.432	-.084	.877
Annual turnover	174.7010142	262.871	.000	.876
Year of Company 's registration	172.7010142	262.871	.000	.876
Ownership	174.6010142	262.050	.043	.876
Gender	173.7010142	262.871	.000	.876
Educational Qualification	173.7010142	262.871	.000	.876
Years of experience	171.7510142	263.432	-.084	.877
Most pressing Challenges	172.7010142	262.871	.000	.876
Turnover	172.7010142	262.871	.000	.876
Labour Cost	173.7010142	262.871	.000	.876
Material cost	174.7010142	262.871	.000	.876
Energy Cost	174.7010142	262.871	.000	.876
Net Interest Expenses	173.7010142	262.871	.000	.876
Profits	172.7010142	262.871	.000	.876
Profits Margin	167.3010142	278.092	-.302	.896
Debt	174.6510142	262.411	.057	.876
External Financing not changed	174.7010142	262.871	.000	.876
External Financing has improved	173.7510142	263.432	-.084	.877
External Financing have changed negatively	174.5510142	262.737	.000	.877
Interest rate have increased	173.7010142	262.871	.000	.876
Service fees has reduced	174.7010142	262.871	.000	.876
Credit limit has been reduced	173.7010142	262.871	.000	.876
Renewal of recredit has declined	173.7010142	262.871	.000	.876
Financial provider has withdrawn from my sector	173.7010142	262.871	.000	.876
Financial providers no longer meet my needs	173.9010142	261.292	.106	.876
Diversification of Finance	174.6510142	262.411	.057	.876
Documentation request too complex	174.7010142	262.871	.000	.876
Service fee too high	174.6010142	260.997	.179	.875
Interest rate too high	174.7010142	262.871	.000	.876
Branch Closed	174.3010142	270.829	-.496	.881

Bank overdraft, Credit line or credit cards overdraft	174.7010142	262.871	.000	.876
Bank loan	173.7010142	262.871	.000	.876
Trade credit	173.7010142	262.871	.000	.876
Bank overdraft, Credit line or credit cards overdraft	171.7010142	262.871	.000	.876
Bank loan	171.7010142	262.871	.000	.876
Trade credit	170.7010142	262.871	.000	.876
Amount Received	174.7010142	262.871	.000	.876
Provider of last finance	173.7010142	262.871	.000	.876
Usage of finance received	174.7010142	262.871	.000	.876
Zscore: Most pressing Challenges	175.9255071	262.871	.000	.876
Zscore(challenges) Most pressing Challenges	175.9255071	262.871	.000	.876
Loans to small and medium sized enterprises	171.7510142	255.221	.195	.876
Loans to large enterprises	171.9510142	245.937	.471	.871
Short-term loan	171.8010142	235.039	.711	.866
Long-term loans	172.1510142	243.305	.535	.870
Overall	171.9010142	240.134	.600	.869
Cost related to your bank's capital position	171.8510142	234.958	.732	.866
Your bank's ability to access market financing (e.g money or nond market financing)	171.9510142	234.463	.700	.866
Your bank's liquidity position	172.1010142	229.208	.731	.865
Competition from other banks	171.5510142	244.105	.516	.870
Competition from non-banks	171.7510142	242.063	.573	.869
Competition from market financing	171.8510142	246.958	.481	.871
Expectations regarding general economic activity	171.8510142	244.326	.569	.870
Industry or firm-specific outlook	171.7510142	243.432	.560	.870
Risk on the collateral demanded	172.0010142	239.945	.684	.867
Your bank's margin on average loan (wider margin=tightened, narrower margin=eased)	171.8510142	242.326	.480	.871
Your bank's margin on riskier loans	171.8010142	233.250	.707	.866
Non-interest rate charges	171.9510142	234.989	.686	.866
Size of the loan or credit line	172.1010142	233.734	.660	.867
Collateral requirement	171.6010142	240.471	.763	.867

Loan covenants	171.7510142	241.642	.616	.869
Maturity of loan	171.9010142	247.187	.396	.873
How has the demand for credit changed over 24 months in your bank	171.8510142	250.432	.282	.875
How is credit standard to approve loan to SMEs likely to change in the next 24 months?	171.7510142	251.747	.284	.875
How is demand for credit by SMEs likely to change in the next 24 months?	171.8510142	245.274	.507	.871

Appendix D

Category of Research Interest

S/N	Stakeholder	Number of Questionnaires
1.	Commercial Banks	20
2.	Development Banks	2
3.	Micro Finance Banks	5
4.	Bank of Agriculture	1
5.	Bank of Industry	1
6.	SMEs – sole proprietorships, partnerships, family businesses etc.	300

APPENDIX: E

SECTOR	10 – 49		50 – 199		Total
	Number	Percentage	Number	Percentage	
Agriculture, Hunting, Forester and Fishing	696	92.77	54	7.23	750
Mining and Quarrying	134	80.43	33	19.57	167
Manufacturing	5,939	89.28	713	10.72	6,652
Building and Construction	194	81.13	45	18.87	239
Wholesale and Retail Trade; Repairs of Motor Vehicles and Household goods	3,916	96.90	125	3.10	4,041
Hotels and Restaurants	2,088	94.52	121	5.48	2,209
Transport, Storage and Communication	680	83.89	131	16.11	811
Financial Intermediation	2,166	93.22	158	6.78	2,323
Real Estate, Renting and Business Activities	908	94.62	52	5.38	960
Education	1,508	93.75	101	6.25	1,608
Health and Social Work	2,542	95.75	113	4.25	2,654
Other Community, Social and Personal Service Activities	495	97.98	10	2.02	505
Total	21,264	92.78	1,654	7.22	22,918