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Barriers to Accessing Financial Institutions Funding for Nigerian SMEs

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Abstract: Small businesses are recognized worldwide as a catalyst of socio-economic development. Like all developed and developing countries, due to the economic importance of SMEs, the federal government of Nigeria is developing policies and strategies to diversify its economy from total dependence on oil. Part of the economic development diversification effort by the federal government of Nigeria is to develop entrepreneurship and small businesses. The most crucial aspect of SMEs in Nigeria is their contribution to employing most citizens. Despite the importance of socio-economic development, most SMEs fail within the first five years. Many challenges are facing SMEs in Nigeria, which resulted in their failure. Although financial resources have been a critical success factor to SMEs, they find it difficult to access financial institutions funding to finance innovation and business opportunities to ignite success and growth. Many studies had identified numerous barriers to access to financial institutions funding, but they apply to locations of the findings. The objective of this paper was to identify the barriers that are preventing small businesses from accessing financial institutions funding in Nigeria. In this study, 296 small business owners/managers participated in a quantitative self-administered survey, and 15 owners/managers with adequate knowledge of small business managers participated in a semi-structured interview. The mixed research method revealed four barriers to accessing financial institutions funding to Nigerian SMEs: inadequate access to financial institutions; inadequate education, skills, and experience of owners/managers; exorbitant interest rates; and gender discrimination. The study made seven recommendations for removing the barriers which might spur financial institutions' funding of SMEs in Nigeria. Improving access to financial institutions funding will increase success and growth, reducing unemployment and igniting socio-economic development as envisaged by the federal government of Nigeria. The study concluded that most of the recommendations would be implemented by government and regulators through appropriate policies and strategies that will increase the access of small business financial institutions funding.

Keywords: Entrepreneurship, Financial Institutions Funding, Socio-economic Development, SMEs

1. Introduction

Small businesses are termed as one of the foundations of the economic development of nations. SMEs in Nigeria are contributing to economic development through the provision of employment and reduction of poverty. Despite the many advantages of SMEs in the Nigerian economy, 70% fail within the first three years of their formation [11]. There are critical success factors that are considered as contributing to the success of SMEs [23]. Finance resources are regarded as one of the most critical success factors influencing the success of SMEs in Nigeria [9]. Despite being critical to the success of SMEs in Nigeria, there is a problem for SMEs' access to financial institutions financing [9]. Researchers have identified inadequate access to finance as one of the factors negating the success of SMEs in Nigeria. The Nigerian government is working tirelessly to develop the SMEs sector for economic development. Part of the Nigerian federal government support for SMEs development was the 2003 creation of Nigeria's small and medium development agency (SMEDAN). Within the mandate of SMEDAN, there was an effort to navigate SMEs towards accessing institutional financing for success and growth. Since access to institutional financing will increase the success of SMEs in Nigeria, identifying the barriers to accessing funding might serve as a guide to develop policies that will remove the barriers and increase access to financial institutions funding for Nigerian SMEs.

2. Problem Statement

The continuous fluctuation of oil prices worldwide, coupled with the need to diversify the economy and increase socio-economic development in Nigeria, triggered the quest for entrepreneurship development [37]. Despite the importance of SMEs in employing citizens, most failed within the first five years [26]. Many SMEs' failures in Nigeria were attributed to many challenges facing the sector [9]. There are opportunities for SMEs' success and growth in Nigeria, but the challenges retard the growth. Most SMEs in Nigeria was funded by private and family sources, making it difficult to succeed and grow [26]. The main problem of this study is that many challenges retard the SMEs' success and growth [9]. The specific problem identified for the study was that one of the significant challenges negating the success and growth of SMEs is that most SMEs do not access financial institution financing in Nigeria. The mixed methodology study investigated the barriers to access to financial institutions financing for Nigerian SMEs. The findings might serve as a guide to develop strategies and policies that will remove the barriers to access to financial institutions financing. Accessing financial institutions financing by SMEs will improve success and growth, thereby employing more Nigerian citizens: making the quest for the federal government of Nigeria of socio-economic development through SMEs feasible.

3. Purpose

The purpose of this paper is to identify the barriers that are preventing Nigerian SMEs from accessing financial institutions funding and further explore the possible ways of removing the barriers to improving access to financial institutions financing by Nigerian SMEs. Identifying the barriers will serve as a guide to SME owners/managers and policymakers to develop policies and strategies that can be used to mitigate the barriers and ignite SMEs funding through financial institutions in Nigeria. SMEs can then have enough funding to finance identified opportunities and expansions to spur success and improve growth. Notwithstanding the failure of SMEs within the first five years [2], increased funding will improve success. An improved success will result in more employment opportunities for Nigerians resulting in socio-economic development as envisaged by the federal republic of Nigeria.

4. Research Question

What are the barriers preventing SMEs in Nigeria from accessing financial institutions' funding? Identifying the barriers will ignite policies that will remove the barriers to improve SMEs' access to financial institutions funding.

5. Methodology

The study reviewed related literature and identified other researchers' views on the barriers to SMEs' access to institutional financing globally. The study identified the barriers preventing Nigerian SMEs from accessing financial institutions funding. Quantitative and qualitative research methods were employed. The quantitative data was collected by distributing 400 self-administered survey questionnaires. The questionnaire ordinal scale collected data based on the SMEs owners/managers' opinion on the financial institutions' funding barriers. The data was collected and analyzed through the Kruskal Wallis test using the SPSS statistical package and determined which of the seven barriers is the most preventing Nigerian SMEs from accessing financial institutions funding. The intention was to rank the barriers according to the prevention impact in ascending order, with the most ranking as the number one and the least impactful ranking as number seven.

The second segment of the analysis used qualitative data. It arrived at information that will be used by owners and managers of SMEs in Nigeria to remove the barriers preventing them from accessing financial institutions funding. Therefore, 15 owners/managers with adequate information on SMEs financing were selected using purposeful sampling and participated in open-ended interview sessions. Thematic analysis revealed the most important approaches of removing/avoiding barriers to financial institutions' funding of Nigerian SMEs.

The participants to the self-administered quantitative survey and open-ended qualitative interview were the owners/managers of SMEs operating in Dutse, Nigeria. The study was limited to Dutse because of the limited time scope and funding. The mixing of the quantitative and qualitative data findings was done by infusing the qualitative data into the quantitative data analysis/finding, which re-enforces the findings and provides solutions on how to avoid/remove the barriers to financial institutions funding of Nigerian SMEs.

6. Literature Review

The researcher searched various academic databases and revealed scholars' findings on the subject. Based on the findings, the survey revealed all the possible barriers preventing Nigerian SMEs' financial institutions' funding.

6.1. Importance of SMEs

The Nigerian government prioritized most of its economic incentives programs towards SME development because of their importance towards socio-economic development by providing employment and reducing poverty [11]. A study showed that 60% of businesses in Nigeria are small ([11, 27]) and employ most Nigerian labor [11]. Despite their importance, Researchers found that 80% of Nigerian SMEs fail within the first five years [2]. This article will consider the SMEs definition of SMEDAN: which states are businesses employing 10 to 199 persons [37]. Therefore, owners/managers of companies with employees from 10 – 199 participated in the study.

6.2. SMEs Financing

A study of how banks and service providers help SMEs secure financing found that SMEs are essential to the development of economies but are faced with financing challenges [38]. The study that finds whether financial literacy influences access to finance for SMEs growth found that financial literacy positively affects SMEs' growth [5]. A study found financial institutions as the catalyst of solving the financial difficulties of small businesses, which makes forecasting risk associated with supply chain finance very critical for all SMEs' financial decisions [41]. A study found a lack of adequate funding of SMEs negating growth and retaining the opportunity to become public quoted firms [29]. A study indicated that SMEs in Nigeria depended on family and personal savings to fund business operations [28]. Microfinance loans, loans from cooperative societies, and loans from commercial banks are institutional funding sources of Nigerian SMEs [12]. The basic considerations by financial institutions when evaluating loan applications are collateral, financial records, appropriate managers, and a good relationship with the firm [40]. Despite that, a study found Nigerian financial institutions not ready to take the risk of offering SMEs loans [26]. A study further stated that SMEs employ traditional factors of quick and current ratio to determine the level of risk associated with the supply chain finance when making financial decisions [41].

Similarly, a study suggested that supply chain finance is one of the most fundamental factors that help SMEs improve performance [3]. A study found inadequate access to financing as the major factor preventing small businesses from participating in the Brazillian hospitality industry [24]. The significant increase in the need to finance small businesses is negating the development of the SMEs sector [3]. Despite the growing needs of SMEs financing through institutional ways, many barriers prevent them from accessing the funds for development and growth [22].

6.3. Financial Institutions

In Nigeria, many financial institutions offer supply chain finance services to SMEs, including some government-affiliated institutions to develop the sectors. Because financial institutions provide financing to SMEs for growth and success, despite barriers that hinder SMEs from accessing the financing, the study discovered the barriers and the likely strategies to mitigate the barriers to improve SMEs' access to financial institutions financing in Nigeria.

6.4. Barriers to SMEs Financial Institutions Funding

Small businesses source external financing from either lease, trade credit, franchising, and non-banking sector loans that are mostly short-term financing [18]. Most SME owners/managers found it difficult to raise bank financing and resort to raising SMEs funding from family members, friends, or re-mortgage their properties, especially homes, to raise capital or additional funding [19]. Similarly, a study of SMEs development in the Slovak Republic found that 77% of SMEs had a problem accessing external funding [20]. The ethnicity of owners/managers is part of the factors determining the accessibility of SMEs bank funding in the UK [19]. Specific procedural bottlenecks served as a problem to SMEs when trying to access bank loans. A study of barriers to financing Greek SMEs found that they had limited development capacities but relied upon initial capital, making it challenging to obtain domestic loans from financial markets [18]. Because SMEs have no proper development plan, players of financial markets find it challenging to approve loans [18]. It was also discovered that the failure of SMEs to have a realistic plan makes it difficult for them to raise the required collateral to secure institutional funding [18]. It was also discovered that it is difficult to evaluate the Greek SMEs using the banking procedures due to inadequate planning and inaccurate records, making it a barrier to obtaining funding [18]. The study in Greek found out that SMEs have weaknesses in their financial management systems, making it difficult for them to raise surpluses that will guarantee the return of invested capital and profits [18]. There was also the claim that the skills of owners/managers are low and cannot guarantee a realistic return on invested capital [18]. A study shows that a well-planned financial infrastructure developed to support and provide SMEs with financial access in a competitive way will ignite the growth and survival of small and medium enterprises [22].

Another critical barrier is the issue of loan application procedures referred to as financial institutions' operational bottlenecks, which brings about the need for skilled managers to process and secure the funding of SMEs [18]. SMEs found the cost of financial institutions funding very exorbitant, making it difficult for them to pay due to their inability to raise enough return on invested capital to repay the loan and interest and eventual profits to the owners [18]. SMEs owners/managers' education, experience, and skills of SMEs owners/managers are linked to access to bank loans: owners/managers with higher educational levels, higher technical and management skills, and substantial experience of processing bank loans efficiently and effectively [8]. The barriers of Serbian SMEs to finance were linked to inadequate micro-finance institutions and non-support of the financial institutions' [33]. A study of barriers to female access to banking facilities in Bangladesh found lack of support from bank officials, bank officials' bias to customers, the cumbersomeness of application processes, and high maintenance cost and interest rates as the significant barriers negating them from accessing bank loans for their SMEs [16]. A study further found that improper marketing opportunities, inadequate training among owners/managers, inadequate access to raw materials, and lack of bank officials' training among Bangladesh's SMEs as factors that are preventing them from accessing institutional funding [13]. A similar study found gender discrimination against women as the barrier preventing women in the third world from accessing bank loans ([21, 36]). A USA study on removing barriers to capital for entrepreneurs found demographic, geographic, and wealth barriers as the most significant barriers preventing entrepreneurs from accessing capital [17]. The regulatory changes made by the EU to the bank lending processes increased funding costs to SMEs, which increased the barrier to access to financing of SMEs in Europe [4]. A study found that bank transaction costs and high-interest rates prevent rural Sri Lanka businesses from accessing institutional funding [39]. Lack of records to enable lenders to establish the creditworthiness of SMEs has been identified as an excellent barrier to accessing financial institutions' funding [31]. A researcher found inadequate information about SMEs, high-interest rates, shorter maturity loans, and complicated covenants as barriers to SMEs' access to financing [31]. It was found that most bank officials preferred to work with male entrepreneurs than female entrepreneurs, negating the efforts of women owners/managers of SMEs when accessing external fundings for their organizations [1]. High tax rates and constraints developed by the financial systems were identified as barriers preventing Albanian SMEs from growing [14].

The literature review revealed that many barriers prevent SMEs from accessing financing from financial institutions. They vary according to location/country; therefore, there is the need to investigate the barriers preventing SMEs from accessing bank loans in a different location. Although studies attempt to investigate Nigeria's barriers, they demand replication in cities across the country. This study investigated the barriers preventing SMEs in Dutse Jigawa State, Nigeria, from accessing financial institutions financing and further developed ways by which the varies can be reduced or eliminated. Presenting the barriers and possible remedies will induce the Dutse, Jigawa State business environment with more successful SMEs that will employ more citizens, igniting Nigerian economy growth. Isolating the variables for the study was done after considering the various literature reviewed in the study. After careful analysis of the multiple studies on barriers to financial institutions financing to SMEs, the following have been identified as the most frequently appeared factors that prevented SMEs from accessing institutional funding: inadequate education/skills/experience of owners/managers: gender discrimination, exorbitant interest rate, cumbersome application/processing procedures, inability to raise collateral, inadequate access to financial institutions, and bias/Lack of Support from Bank Officials. Therefore, the seven barriers identified stand as the independent variables while the access to financial institutions funding is the dependent variable.

7. Conceptual Model Development

The model seeks to determine whether any of the seven barriers prevent SMEs from accessing financial institutions funding. Figure 1 shows the relationships and where the seven hypotheses of the study lie.

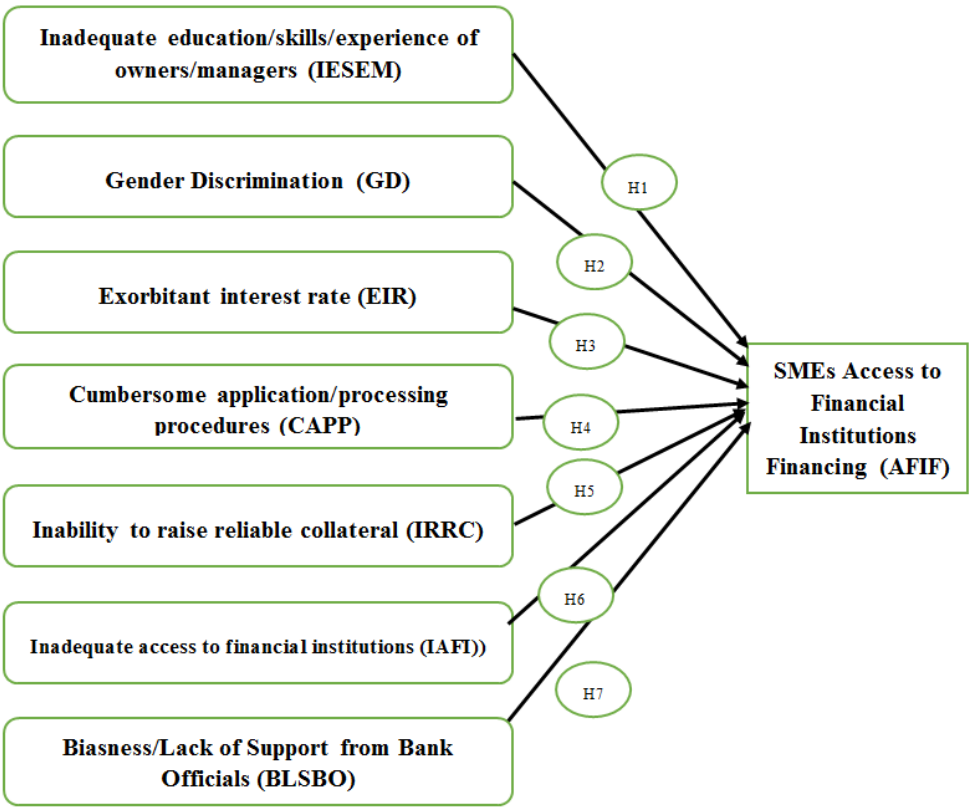

Figure 1. *Conceptual framework of the study.*

8. The Hypothesis

The study seeks to establish a negative relationship between the seven barriers to SMEs' access to financial institutions funding (AFIF). The intention is to deduce the seven variables and verify whether any of the seven independent variables prevent Dutse Jigawa State SMEs from AFIF.

Therefore, it is hypothesized:

H1 – That inadequate owners/managers' education, skills, and experience is a barrier to SMEs' access to financial institutions funding.

H2 – Gender discrimination by financial institutions officials is a barrier to SMEs' access to financial institution funding.

H3 – Exorbitant interest rate is a barrier to SMEs' access to financial institutions funding.

H4 – Cumbersome loan application procedures/processing are barriers to SMEs' access to financial institutions funding.

H5 – Inability to raise reliable collateral by owners/managers of SMEs is a barrier to SMEs' access to financial institutions funding.

H6 – Inadequate access to financial institutions by SMEs is a barrier to financial institutions funding.

H7 – Biases/lack of support from bank officials is a barrier to SMEs' access to funding for financial institutions.

9. The Research Findings

There are three areas of concern regarding the findings of the study: the demographic data findings; the results of the ordinal regression analysis that revealed the results of the hypothesis; and the Kruskal Wallis test that ranked the barriers of access to financial institutions funding to SMEs in order of impact in ascending order.

9.1. Demographic Information

Out of the 400 questionnaires distributed, 296 were collected over four months period. The demographics data revealed that 85.8% (254) respondents were males while only 14.2% (42) respondents were females indicating the dominance of male SMEs owners/managers in Dutse, Jigawa State. The most dominant age group of respondents was 30-49, representing 54.1% (160), while 21.6% were aged 50-60, and those ranging from 18-29 years constituted 20.3% of the respondents. The information indicated fewer persons aged over 60 years (4.1%) operating SMEs in the area. The result indicated that older people do not participate in SMEs ownership in Dutse, Jigawa State, Nigeria. SMEs owners/managers with Bachelor's degrees dominated the SMEs of Dutse, with 138 owners/managers (46.6%), followed by A-level holders with 28.7% (85), indicating that most of the owners/managers of SMEs in SMEs are Dutse, Jigawa State, Nigeria are educated. The study revealed that most SMEs owners/managers are experienced in SME management because 127 owners/managers (42.9%) worked for three years or more in the firm while 24.7% worked for the firm for between 6 to 10 years. The result of the study indicated that 64.9% of the companies under consideration employed 10-49 persons, while 31.1% (92) employed 50-99 persons. Only a few employ more than 100 persons, indicating that the growth of SMEs is not fast, requiring more resources, including funding to grow and employ more persons. About 123 (41.6%) of the companies under the study recorded an annual turnover of between 2-10 million naira while 110 (37.2%) of the companies recorded an annual turnover of less than 2 million: indicating that there is room for growth to improve the turnover of SMEs in Dutse, Jigawa State, Nigeria.

9.2. Regression Analysis Results

Using the SPSS statistical package, the seven barriers identified from the literature review were considered independent variables. After regressing the data, four barriers were identified as preventing Dutse, Jigawa State, Nigeria, access to financial institution funding. Table 1 shows that IESEM, GD, EIR, and IAFI significantly prevent SMEs from accessing financial institutions funding. Because the significance test shows that all the four factors are 0.050 or less, confirming their significant impact. Therefore, inadequate education, skills, and experience of owners/managers; gender discrimination; exorbitant interest rates, and inadequate access to financial institutions prevent Dutse, Jigawa State, Nigeria SMEs from accessing financial institutions funding negating their success and growth. Therefore, four hypotheses were accepted, while three were rejected.

Table 1. *Hypotheses Testing Results.*

S/No.	Barriers to AFIF	Standardized Coefficients Beta	Sig.	Comment
1	H1 - Inadequate education, skills, and experience of owners/managers (IESEM) is a barrier to AFIF	.119	.050	Accepted
2	H2 - Gender Discrimination (GD) is a barrier to AFIF	.159	.010	Accepted
3	H3 - Exorbitant interest rate (EIR) is a barrier to AFIF	.014	.029	Accepted
4	H4 - Cumbersome application/processing procedures (CAPP) are a barrier to AFIF	.106	.140	Rejected
5	H5 - Inability to raise reliable collateral (IRRC) is a barrier to AFIF	.095	.202	Rejected
6	H6 - Inadequate access to financial institutions (IAFI) is a barrier to AFIF	.252	.000	Accepted
7	H7 - Biasness/Lack of Support from Bank Officials (BLSBO) is a barrier to AFIF	.072	.256	Rejected

Table 2. *Kruskal Wallis Test Ranking of the four significant Barriers to SMEs AFIF.*

Ranking	Barriers to AFIF	Kruskal Wallis H
1.	Inadequate access to financial institutions (IAFI)	3.578
2.	Inadequate education, skills, and experience of owners/managers (IESEM)	2.495
3.	Exorbitant interest rate (EIR)	1.340
4.	Gender Discrimination (GD) is a barrier to AFIF	.461

9.3. Kruskal Wallis Test Results

The purpose of the Kruskal Wallis test was to rank the seven barriers based on their impact on preventing access to financial institutions funding. The result will guide owners/managers to identify which of the barriers is much more impactful to preventing SMEs' access to funding from the financial institution to develop strategies of removing the barriers. Table 2 shows that inadequate access to financial institutions is ranked number one among the four barriers to AFIF, indicating that most SMEs want to access the funding. However, there are not enough institutions to offer such services. This tally with the interview conducted with fifteen owners/managers of SMEs, thirteen of them confirmed that there are not enough banks or micro-finance institutions to offer to fund their firms. Inadequate education, skills, and experience of owners/managers are the second barrier preventing Dutse, Jigawa State, Nigeria SMEs from AFIF. Eight of the fifteen owners/managers that participated in the interview considered education and skills as a factor when accessing loans from banks. There owners/managers with inadequate education and skills might not influence financial institutions to offer loans to their firms. Exorbitant interest rate is ranked number three, and all the fifteen owners/managers of SMEs interviewed during this study mentioned it as a barrier to AFIF. Although it is ranked number three, a further qualitative questioning indicated that most SMEs avoided financial institutions' funding because of exorbitant interest rates charged by banks and other financial institutions. Gender discrimination is ranked number four as preventing AFIF. All-female owners interviewed in the study fill discriminated against when they tried accessing financial institutions funding. These four barriers should be considered a top priority when designing ways of improving AFIF for SMEs, eventually improving SMEs' success and growth.

9.4. Theoretical and Practical Implications of the Findings

Most SMEs in Nigeria use owners/managers' private funding and that for their friends and family for success and growth. As businesses grow, there are needs for continuous innovation and growth, which require adequate financing. The inability of SMEs to access financial institutions' funding makes it difficult for them to explore more opportunities for growth and success. The four barriers preventing Nigerian SMEs from accessing financial institutions financing will serve as a template that will guide owners/managers and policymakers to develop strategies and policies that will remove the barriers and improve the success and growth of SMEs in Nigeria.

The findings will spur Nigerian SMEs to more success and growth, eventually providing more Nigerians with more employment opportunities. If more Nigerians are employed, there will be a reduction in the poverty level in the country, thereby improving the country's socio-economic development.

This study is limited to Dutse City, Jigawa State, Nigeria, and implementation of the findings might be limited to the city. The replication of the study in other cities and locations is necessary to ensure that the model is applicable. It is also worth noting that the data collected are the opinions of owners/managers of SMEs, and there might be biased information: the use of SPSS statistical software package to determine the findings might have reduced or eliminated the bias.

10. Recommendations

The fifteen owners/managers of SMEs that have depth knowledge of SMEs management who were interviewed during the qualitative data collection revealed most of the recommendations as follows:

1. Most owners/managers of SMEs in Dutse are male; the study revealed the need to encourage women's participation in entrepreneurship development and small business management. Therefore, the small and medium development agency of Nigeria (SMEDAN): the body charged to develop the sector by the federal government of Nigeria) should develop policies and strategies that will enlighten and trigger the involvement of women in entrepreneurship and small business management.
2. All the fifteen owners/managers interviewed during the study revealed the need for the federal government of Nigeria to increase access to financial institutions by reducing the bureaucracies of registering micro-finance banks in the country. Reducing the bureaucracies will spur more micro-finance banks, which will increase access to financial institutions.
3. Although there are policy guidelines to commercial banks on the need to recognize SMEs, there is laxity on the part of the central bank of Nigeria on imposing guidelines that will spur more commercial banks funding of SMEs. Thirteen of the fifteen respondents recommend an improved policy guideline from the central bank of Nigeria on funding SMEs with strict adherence to improve access to loans.
4. Ten of the interview respondents recommend the need for SMEDAN to develop a strategic skills development program that will improve the owners/managers on the importance of financial

institutions' funding and how to secure it.

5. If more financial institutions offer loans to SMEs, there will be competition, and money prices might likely decrease. The exorbitant interest rate might be resolved if more micro-finance banks are registered.
6. Most financial institutions require an excellent business plan before they offer to fund. SMEs need to ensure that they have an excellent business opportunity that is innovative and will grow a business before requesting funding from financial institutions.
7. SMEs should consider hiring professional financial advisers to guide them when applying for financial institutions' fundings. The hiring of professional financial advisers by SMEs will improve the chances of securing loans. They will avoid all the barriers that are likely to prevent an SME from accessing the funding.

11. Conclusion

The Nigerian federal government has recognized the importance of SMEs in the country's socio-economic development because 70% of job opportunities are provided by the sector [34]. Astudy identified many challenges facing the SMEs in Nigeria, resulting in their failure within the first five years [37]. There are many challenges identified as negating the success and growth of SMEs [34]. It was suggested that inadequate financial institution funding is one of the critical challenges negating the success and growth of SMEs in Nigeria [9]. The paper investigated the barriers to financial institution funding for Nigerian SMEs. The findings revealed four barriers that were preventing owners/managers of SMEs in Nigeria from accessing financial institutions funding. Although inadequate owners/managers' education, skills, and experience were some of SMEs' critical success factors [23], they also served as barriers to financial institutions' funding of SMEs in Nigeria. Therefore, recommendations on recruiting educated, skilled, and experienced managers or using the firm's resources to develop existing managers' education. SMEs must consider skills and experience to increase success and growth. The Nigerian society is diverse, with most people living in the rural areas where access to many services, including financial institutions funding, remains challenging. The finding on inadequate access to financial institutions reflects that issue of rural dwelling in Nigeria. Despite the recommendation that more micro-finance banks should be allowed to operate, there is also the need for more rural banking development policies in Nigeria to increase SME funding access in rural areas. Although there are many regulatory policies towards lower lending rates to SMEs [37], there is the need for increased registered financial institutions that will spur competition, bringing down the exorbitant interest rates experienced by SMEs in Nigeria. Much of the gender discrimination issues are also aligned with women's education. Women should be educated to ignite their quest for empowerment, improving their entrepreneurship and SMEs management involvement. More policies are necessary with strategies to curve out the barriers to accessing financial institutions funding of SMEs in Nigeria.

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