Challenges of Finance and the Performance of Small and Medium Enterprises (SMES) in Lagos State

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Abstract
This study examined the challenges of finance as is experienced by business operators classified into micro, small and medium scale (MSMEs), and how this affects their financial performance. The study evaluated the efficiency of the different sources of funds available for the SMEs as well as other non financial factors responsible for the poor performance of SMEs in Nigeria. Given some of the government interventions to solving the issue of credit to SMEs, the operations of the micro finance banks were also evaluated to determine their capacity toward closing the funding gap for SMEs. This study became imperative given the conflicting reasons adduced to why small scale enterprises perform poorly in developing economies including Nigeria There was a need to find out if the major challenge of SMEs is indeed credit using the five divisions in Lagos State as the study area. The useable sample size consisted of 222 returned copies of questionnaire out of the 250 distributed representing 88.8% response rates. Quota sampling as well as stratified random sampling technique was applied in the choice of the five divisions under study and the distribution of the sampling frame; while convenience sampling technique was used to get to the individual respondents. Correlation and one sample t-test was used to test the hypotheses. The study indicated significant statistical difference for sources of funds and in the efficiency of the various sources. The challenge of funds still ranked highest followed by unstable power supply, while micro finance banks were expected to do more to assist the SMEs.
Keywords: Challenges, Finance, Lagos State, MSMEs, Nigeria, SMEs.

1. Introduction

Finance or credit is an essential input used in production as well as an enabler of the efficiency of other production inputs. Credit is considered as very vital in every sphere of business. The United Nations Commission on International Trade Law (UNCITRAL), in its Legislative Guide on Secured Transactions, emphasizes the importance the international community places on secured credit; and stated that “all businesses, whether engaged in mining, lumbering, agriculture, manufacturing, distributing, providing services or retailing, require working capital to operate, to grow and to compete successfully in the marketplace” (World Bank, 2013). It is well established that one of the most effective means of providing working capital to commercial enterprises is through secured credit.

Credit facilities are required by all classes of business organizations whether big, small, medium or micro operators. The distinguishing factor is the amount required and the application procedure or collaterals required for such credits. Levy in Ahiawodzi and Adade (2012) found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. Accessing credit has been identified as a key element for any business organization to be productive, compete, create jobs, help in poverty alleviation especially in developing nations and generally succeed. Getting credit has been rated as one of the key indicators for determining how easy or otherwise doing business in an economy can be.

Given the importance of credit to SMEs, the Federal Government of Nigeria came up with several interventions and policies aimed at providing credit facilities to SMEs which includes the establishment of Nigeria Industrial Development Bank (NIDB), Small Scale Industrial Schemes (SSIS), Nigeria Bank for Commerce and Industry (NBCI), Central Bank of Nigeria Special Credit Programme (CBNSCP), National Economic Reconstruction Fund (NERFUND), Peoples’ Bank of Nigeria (PBN) Community Bank and Industrial Development Centre, Commercial banks, and the Micro Finance Banks (Ajagbe, 2012). The most recent of the programmes being the N220 Billion earmarked by the Central Bank of Nigeria (CBN) for the Micro Small and Medium Enterprises (MSMEs) (Osagie, 2013). However, despite all these, the World Bank, (2013) ranked Nigeria as 131st on the ease of doing business while comparing business regulations for domestic firms in 185 economies. On the ease of getting credit, Nigeria was ranked 23rd, an improvement from the 38th position in 2012.

Studies of transition economies emphasized the strong role that SMEs played in generating employment and growth in economies such as Poland, Vietnam and China (Batra and Mahmood, 2003). In Nigeria, SMEs represent about 90 percent of firms in the Nigerian industrial sector on numerical basis, and despite this dominance, however, they contribute as low as one percent to GDP in contrast to countries like

Indonesia, Thailand and India where SMEs contribute almost 40 percent (HPACI, 2002). In the USA, Japan, and Western Europe, SMEs contribute 65%, 45% and 45% respectively; as well as 80% and 55% employment (Akinguola, 2011). SMEs being an important part of the business landscape in every country are faced with significant challenges which compromise their ability to function and to contribute optimally to the economy. These challenges are especially lack of short, medium and long-term capital – inadequate access to financial resources and credit facilities (Aruwa, 2004). Factors such as poor management and accounting practices are attributed to be responsible for the inability of business organizations and essentially the small and medium enterprises to access loans and equity fund from formal banks (Cork and Nisxon in Idowu, 2008). Kauffmann (2005) asserts that access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities.

An economy whose credit market is characterized by segmentation and possible borrowers' inability to keep to loan terms and agreement may necessitate credit rationing (Ewung, 2008). Credit or finance rationing by formal financial institutions create access problem which is traceable to the lending policies displayed in form of prescribed minimum loan amounts, complex application procedures, and restrictions on credit for specific purposes (Schmidt and Khropp in Ewung, 2008). The fragmented nature of the Nigeria credit market is defined by its formal and informal sources. The emergence of demand for short-term credit especially among traders and farmers likely lead to the development of an informal unit to meet that demand (Atieno, 2001). In other words, the inability of the formal credit sources to satisfy existing credit demand gave greater prominence to informal institutions that could meet the demand of short term credit needed by small and medium entrepreneurs to enhance their production efficiencies. Semboja (2004) opines that micro credits are used for investment and generation of wealth or for maintaining constant level of consumption, which means that small and medium operators would require credit for either productive or consumptive use. However, this work is interested in the productive aspect which has to do with the SMEs. The study will specifically examine the problems of funding as experienced by the small and micro enterprises (SMEs) within Lagos.

Lagos State is one of the 36 states in Nigeria, created on 29 May, 1967 at the first wave of States creation in Nigeria after independence. Lagos served as Nigeria's Capital from 1960 until 12th December, 1991 when the capital was moved to the Federal Capital Territory, Abuja. Occupying a land area of only 3,577kmsquare, it is the smallest in land size and the most densely populated in the country. It is bounded by Ogun State in the West, North and East; Republic of Benin in the South West, and Atlantic Ocean in the South. The State is endowed with 180km palm- fringed Atlantic water front. In spite of the movement of the capital to Abuja, Lagos remains the commercial capital of the nation and economic hub of West Africa till date; a premium and preferred destination of businesses and investments, and the largest market in Sub-Saharan Africa (LPR, 2012). Recent survey indicates that Lagos State had the highest number of SMEs in the country with 17 per cent of the national figure (Osagie, 2012).

The State recognizes the importance of SMEs to its economy and has actively provided conducive policy and physical environment for the SMEs in addition to providing the entrepreneurs with small scale credit schemes and technical support. Examples include the launch of the Enterprise Registration and Identification Agents (ENTRIDA), the Eko Micro Finance Schemes, the Lagos State Micro Finance Institute (LASMI). It also has nine industrial estates that act as incubation centres for small start-up businesses as well as four major Central Business Districts (CBDs) across the State (LPR, 2012).

The State views the MSMEs as an integral part of its' daily life, hence, the government evolved policies and programmes that are meant to accommodate and integrate the sector into the development process of the State with a view to harnessing its tremendous potentials for the purpose of economic growth and development. Numerous empowerment programmes through the State's Ministries of Women Affairs and Poverty Alleviation; and Youth, Sports and Social Development, offer opportunities for all classes of Lagosians to learn various vocations after which they are provided with needed capital to start off a micro or small scale businesses. Over 20,000 youths were recently trained in all the local government areas and Local Council Development Areas (LCDA) through this initiative. The courses/vocations on offer at the Skill Acquisition Centres which number over fifteen and spread across the state include: textile/hat making & craft, sewing, tie and dye, baking, pottery and photography, hair braiding/weaving, balloon & flower decoration, cakes & snacks production, soap and pomade production, bead making, production of stove thread/insecticide, welding, tiles laying, aluminum fabrication, screen/transfer printing technology, vulcanizing/ wheel balancing and alignment, handset repairs, refrigeration and air conditioner repair (LPR, 2012).

1.2. Objectives of the Study

This study examined the funding challenges of doing business in Nigeria by SMEs and how that affects their performance using Lagos as a case in point. The study is necessary because there have been several studies on SMEs, even within Lagos but none known to the authors have studied the five divisions in Lagos state. These include Island, Ikeja, Ikorodu, Epe, and Badagry. This study became imperative given the conflicting reasons adduced to why small scale enterprises perform poorly in developing economies including Nigeria There was a need to find out if the major challenge of SMEs is indeed credit. A continuous study is necessary however, as SMEs grow in lips and bounds and their contributions to the economy cannot be overemphasized. The study is further justified because according to Histrich and Peters in Onakoya, Fasanya and Abdulrahman (2013), the study of entrepreneurship has relevance today as it helps SMEs better fulfill their personal needs, as well as highlight their economic contributions to national growth and development. A breakdown of the specific objectives includes:

i. Identify the financial challenges associated with doing business in Nigeria;
ii. Evaluate the efficiency of the different sources of funds available for SMEs;
iii. Investigate factors responsible for poor performance of SMEs in Nigeria;
iv. Evaluate if micro finance banks (MFBs) have capacity to fill the gap of providing funds for better SMEs performance in Nigeria.

1.3. Hypotheses

Ho_1: The sources of funds are not significantly statistically different for SMEs

Ho_2: There is no significant relationship between been aware of the existence of MFB's and applying for loan from MFBs.

Ho3: Efficiency of funds is not significantly statistically different for SMEs

2. Literature Review

There is no universally accepted definition of Small and Medium Scale Enterprises. Logically, the defining feature of an SME is size, measured by number of employees, sales or assets. By these criteria, SMEs can be distinguished from microenterprises and large enterprises. In terms of the specific cutoff, there is a profound lack of consensus (IEG World Bank, 2013). SMEs are defined as formal enterprises and thus different from informal enterprises (Ayyagari, Beck and Demirgüç-Kunt, 2003). In the United States of America, Britain and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees. In Britain, small-scale business is defined as that industry with "an annual turnover of Two million pounds or less with fewer than 200 paid employees". In Japan however, they are classified in terms of the type of Industry and number of paid employees.

The World Bank has no single definition; for its enterprise surveys, 5 to 99 employees. In some of its prominent research, SMEs are defined as having up to 250 employees. Other research uses the enterprise survey definition (Dalberg Global Development Advisors, 2011). However, Both International Finance Corporation(IFC) and Multilateral Investment Guarantee Agency (MIGA) (World Bank group) define SMEs as having from 10 to 300 employees and assets between $100,000 and $15 million (about €11.4 million) or sales in the same dollar range (IEG World Bank, 2013). Aruwa (2004) aver that SMEs are variously defined in Nigeria as in other economies, on the basis of the size or amount of investment in assets, total annual turnover, and the number of employees. Within this framework, the classification of enterprises as 'medium' and 'small' naturally varies from one economy to another and from one period to another. In Nigeria, the National Council of Industry, under the Federal Ministry of Industries, periodically revises the classification of SMEs. Other institutions, such as the Central Bank of Nigeria and the Nigerian Association of Small Scale Industries (NASSI), adopt classifications that vary from those of the Federal Ministry of Industries. There is however, greater concurrence of opinion when it comes to defining SMEs in terms of assets' value than on any other basis. Because in case of an economic downturn, the impact on turnover and the number of people employed is greater than the impact on assets' value.

From Table l, SMEs are divided into Medium Scale (MSE), Small Scale (SSE) and Micro Enterprises (ME). The Federal Ministry of Industries defines a medium scale enterprise as any company with operating assets less than ₦200 million, and employing less than 300 persons. A small-scale enterprise, on the hand, is one that has total assets less than ₦50 million, with less than 100 employees. Annual turnover is not considered in its definition of an SME. The National Economic Reconstruction Fund (NERFUND) defines a SSE as one whose total assets is less than ₦10 million, but made no reference either to its annual turnover or the number of employees. These and other definitions of NASSI, the National Association of Small and Medium Enterprises (NASME), the Central Bank of Nigeria and other institutions are indicated in Table l:

Table l: Definition of SME by Nigerian institutions

Parameters	**Asset Value (₦'m)**			**Annual Turnover (₦'m)**			**No of Employees**		
Institution/Class.	MSE	**SSE**	**ME**	MSE	**SSE**	**ME**	MSE	**SSE**	**ME**
Fed.Min.ofIndustry	<200	<50	n.a.	n.a.	n.a.	n.a.	<300	<100	<10
Central Bank	<150	<1	n.a.	<150	<1	n.a.	<100	<50	n.a.
NERFUND	n.a.	<10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NASSI	n.a.	<40	<1	n.a.	<40	n.a.	n.a.	3 - 35	n.a.
NASME	<150	<50	<1	<500	<100	<10	<100	<50	<10

Source: World Bank, SME Country Mapping 2001.

Onakoya, Fasanya and Abdulrahman (2013) supports this view by stating that "small and medium enterprises have been identified differently by various individuals and organizations such that an enterprise that is considered small and medium in one place is seen differently in another; even within a country, the definition changes over time". The definitions of SMEs therefore vary from country to country and even within a country. The problem of SMEs identification is more acute in the developing countries because apart from the fact that small and medium scale business are difficult to count, they are also difficult to measure individually, hence statistics on the number, size, geographical distribution and activities of enterprises and the SME sub-sectors are partial and highly unreliable (USAID in Akinguola, 2011). In this study, SMEs are defined as those enterprises employing between one and twenty workers; as well as investing between N20,000 and above N500,000 in their businesses.

Aremu and Adeyemi (2011) in their studies concluded that SMEs in Nigeria exist to generate employment, reduce the level of poverty, create wealth, as well as reduce income disparities. According to Ekanem (2006), SMEs are important in promoting "rapid development, increased utilization of local resources and provision of a training ground for indigenous managers and semi-skilled workers, reduction of the rural-urban drift, development of indigenous technology and raising the living standard of rural dwellers" among other things. Also, it is generally accepted that SMEs form the foundation on which large businesses are based (Onakoya, Fasanya and Abdulrahman 2013).

2.1 State of MSMEs in Nigeria

A national survey conducted by the Federal Bureau of Statistics (FBS) across the 36 states of the federation and the Federal Capital Territory (FCT) in 2012, analyzed by the Minister of Trade and Investment, Mr. Olusegun Aganga at its inaugural presentation, showed that there were a total of 17.28 million SMEs in the country out of which 17.26 million are micro enterprises valued at less than N5 million (This Day Newspaper, July 20, 2012); This represents about 99% of the MSMEs in Nigeria while Lagos State had the highest number of SMEs in the country with 17 per cent of the national figure, followed closely by Kano State, with Osun state having the fewest SMEs with only 0.4 per cent.

The survey also showed that only 3 per cent of the SMEs in Nigeria had access to the export market, a situation, which the Minister said was contrary to the development of the nation's economy (This Day Newspaper, July 20, 2012). The SMEs currently employ about 32.4 million people and makes about 46.54 per cent contribution to the GDP. The report also indicated that about 80 per cent of the SMEs are excluded from the financial market. About 83.2 per cent of the enterprises have initial start-up capital of below N10 million while 7 per cent have initial start-up capital of between N10 million and N20 million; the main source of capital is personal savings, with 54.4 per cent; followed by loan (22.0 per cent); and family source of capital (16.7 per cent). For the micro enterprises, the most source of capital is personal savings representing about 84.6 per cent, family source (29.8 per cent), loans (9.2 per cent) and cooperative/esusu (8.0 per cent).

2.2 Challenges of SMEs

In general, businesses face a lot of challenges all over the world, especially in starting up. These also vary and are divergent in nature and intensity from place to place. This is also true for SMEs. In Nigeria, SMEs face lot of challenges that hinder their existence and growth. These range from lack of infrastructure to poor power supply to inadequate security to inconsistent government policies to transportation challenges to lack of government support and most of all, inability to access funds (Ajaero, 2012).

Ekpenyong (1997) study showed that the financial institutions (commercial banks) who are traditionally supposed to finance SMEs provide very little financial support to the SMEs. The reasons are that "small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995 in Onakoya et al. 2013). Inadequate capital and

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inaccessible credit facilities are also part of the major obstacles facing SMEs in Nigeria (Ekpeyong, 1997; Utomi, 1997). In essence, SMEs are considered as high credit risks by financial institutions. Sacerdoti (2005) posits that merchant banks even with excess liquidity levels are reluctant to finance SMEs. Micro-finance banks, facing limited credits, fail also in this respect.

Onakoya et al. (2013) posit that the major problem facing SMEs in Nigeria is based on government policies. They argue that the various government policies geared towards stabilizing the economy, end up limiting financial institutions set up to assist SMEs. These come in forms of reduced subventions, deregulation of interest rates resulting in scrapping of erstwhile concessionary interest rates previously available to SMEs, thereby making it increasingly difficult for them to get credit for business. In addition, they are further limited in operations and sources of finance by government regulations requiring them to "register their businesses and pay high registration fees; file certain statements of accounts; provide information about their activities (which the enterprises may consider to be confidential); and pay taxes" (Ekpeyong and Nyong; 1992) among other things.

The amount of money needed for business operations directly influences the sources which the entrepreneur will approach. Due to the fact that funds are not easily accessible, some have argued that small enterprises with a small capital base would tend to use the informal institutions. There are many sources of funds available to SMEs. Ekpeyong and Nyong (1992) classified these into three (3). They are:

- Formal financial institutions such as commercial banks, merchant banks, Savings banks, insurance companies, and development banks;
- Informal financial institutions consisting of money lenders, landlords, credit and savings associations (co-operative societies); friends and relations; and
- Personal savings.

Various studies by Nigerian researchers have shown that due to the difficulties experienced by SMEs in obtaining credits from the formal financial institutions, most of them resort to the informal financial institutions (Leonard, 1977 in Ekpeyong and Nyong (1992); Ojo, 1984; Nigerian Institute for Social and Economic Research (NISER), 1983/1984). Azende (2011) study of Benue and Nassarawa States of Nigeria states that the introduction of the Small and Medium Scale Enterprises Equity Investment Scheme (SMEEIS) in Nigeria made no significant difference in the percentage of loans available to SMEs as their conditions were unaffordable by the SMEs.

Okraku and Croffie (1997) in their study of the Ghanaian experience did not differ in their findings. SMEs also depended primarily on personal savings, business profits, family members and friends for finance. They argued that in Ghana, SMEs had little or no access to credits from the formal financial sector. In a survey research by Ekpeyong and Nyong (1992), they also reported the same trend with the initial sources of investment for SMEs coming mainly from the informal financial institutions represented largely by personal savings, loans from friends, relations, and other such sources with some percentage from Commercial banks. All these studies lend credence to the fact that the formal financial sector, represented by Commercial banks, Savings banks, insurance companies, SMEEIS and development banks, have not contributed well enough to the existence, operations/activities or growth of SMEs.

Business organizations could measure performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern SMEs have adopted a hybrid approach of using both the financial and non-financial measures. These measures serve as precursors for course of actions (Chong, 2008).

Theoretical frameworks exist to evaluate how performance and effectiveness on usage of resources is measured. These frameworks can be achieved through a number of approaches like the goal approach, system resource approach, stakeholder approach and competitive value approach (Chong, 2008). The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources (Yuchtman and Seashore, 1967). Both approaches measure the extent to which an organization achieves its goals and accesses to the resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors (Daft 1995). All four approaches intend to measure the extent that an organization has met its planned targets; the first two approaches focus on meeting the internally-set targets while the latter two meeting the needs and expectations of the external stakeholders. Among these, goal approach is most commonly used method due to its simplicity, understandability and is internally focused. Information is easily accessible by the owners-managers for the evaluation process (Pfeffer and Salancik 1978). For the remaining three approaches, they are deemed challenging to the owners-managers of the SMEs (Quinn and Rohrbaugh 1981). Quinn and Rohrbaugh (1983) conclude that among the approaches, the goal approach is a better fit for the SMEs where targets are being set internally based on the owners-managers' interest and capability.

In this study we measure performance using the goal approach which directs the owners-managers to focus their attentions on the financial measures. These measures include profits, revenues, returns on investment (ROI) (Smith, Bracker, and Miner 1987), returns on sales and returns on equity (Richard 2000; Barney 1997) rather than the non-financial measures.

3. Methodology

This study employed survey research design through the distribution and administration of questionnaire to 250 SME operators within the five divisions (Island, Epe, Ikeja, Badagry and Ikorodu) of Lagos State suggesting the use of quota sampling. The sample was further stratified into production, service and trading oriented enterprises. For instance, the producers of pure water, ice blocks, packaging products, insecticides, perfumes/body cream/hair cream, air fresheners, fashion designers, shoes; barbers/hair stylists, mechanics, security outfits, and merchants/traders, operating within the five divisions in Lagos state. These were drawn using convenience sampling technique. A total of 222 copies representing 88.8% were returned and usable. This formed the sample size of the study. These groups are seen as representative of other enterprises expected to benefit from micro credits both from government, banks or financial institutions to generate more income, reduce poverty and add to the growth and development of the Nigerian economy. The study design is appropriate because survey is the best way to find out respondents' perception of issues without necessarily influencing the study.

4. Results

Table 1: Personal Data of the Respondents

	Frequency	Percentage
Sex		
Male	135	60.8
Female	87	39.2
Age Bracket		
15-25yrs	6	2.7
26-35yrs	129	58.1
36-45yrs	66	29.7
46-55yrs	18	8.1
Above 55yrs	3	1.4
Educational Qualification		
No formal education	6	2.7
SSCE	6	2.7
B.Sc/BA	180	81.1
MA/MSc and above	30	13.5
Line of Business		
Trading (Buying and Selling)	69	31.1
Manufacturing	21	9.5
Construction	3	1.4
Artisan	27	12.2
Others	102	45.9
Money Invested		
N5,000-N20,000	24	10.8
N21,000-N50,000	27	12.2
N51,000-N100,000	45	20.3
N101,000-N500,000	54	24.3
N501,000 and above	72	32.4
Number of Staff Employed		
None	60	27.0
1-5	84	37.8
6-10	30	13.5
11-15	18	8.1
16 and above	30	13.5
Number of years in Business		
1-4 years	45	21.6
5-8 years	87	39.2
9-12 years	54	24.3
13 and above years	33	14.9
Source of funds for establishing		

Personal Savings	132	59.5
Loan from friends	45	20.3
Contribution from friends	18	8.1
Loan from microfinance	21	9.5
Loan from Government Agency	6	2.7
Received loan applied for		
True	66	29.7
False	156	70.3
Did not receive loan applied for		
True	78	35.1
False	144	64.9
Have not applied for loan at all		
True	107	48.2
False	115	51.8
Used loan got to improve business		
True	60	27.0
False	162	73.0
Used loan for personal improvement		
True	39	17.6
False	183	82.4

Source: Field Survey, 2014

Table 1 show that 60.8% of the respondents are males while age bracket 26 to 45 years representing about 87.8% constituted the bulk of the respondents. Majority of the students had first degree or its equivalent. Most respondents were engaged in trading and other lines of business as represented by 77%; Most of the respondents as represented by 56.7% had invested between N101,000 and above N501,000. About 64.8% of the respondents either did not have a staff or employed less than 6 people. Respondents representing about 63.5% had spent between 5 to 12 years in business. The most uncommon source of funds for the respondents was loans from the microfinance and government agency represented by 12.2%, while most of the respondents sourced their funds from personal savings, and loans from friends as shown by 79.8% of the responses. The table further revealed that minority (20.7%) of the respondents have applied for bank's loans in the past and got it. This confirms the result that personal savings is the source of financing for the SMEs. Only 35.1% of the respondents claimed that they have applied for loan in a bank in the past and were not granted, while almost half of the respondents (48.2) claimed that they have not applied for a loan from any bank in the past. The table showed further that of the 66 respondents that were granted loan, only 60 of them used the loan to improve their business by buying machine, materials and other things that brought improvement to their SMEs; while 39 claimed they used the money for their personal improvement and family use. This suggests they may have shared the money between improving their business and family survival.

Table 2 Sources of Funds available for SMEs

	Mean	Std. Deviation
Personal savings	4.4189	.90259
Loan from friends and family members	3.5541	.90462
Funds from partners and shareholders	3.3099	1.04509
Daily contribution (esusu, ajo, utu)	3.4444	1.04176
Lending institutions (commercial banks, bank of industry, micro finance banks)	2.9863	1.13121
Small business administration and financial assistance (SBAFA programme e.g. NDE, SMEEIS, Donor agencies	3.0137	1.05569
Thrift and Credit cooperative societies	3.4521	1.03659
Money Lenders	2.7123	1.10644

Source: Field survey, 2014

With the highest mean of 4.4189, table 2 shows that the most available source of funds open to SMEs is personal savings, followed by loan from friends and family members as well as from the thrift and credit societies and finally from daily contribution.

Table 3: Sources of funds benefitted from

	Frequency	Percent
Personal savings	24	10.8
Loan from friends	12	5.4
Funds from partners	9	4.1
Lending institutions	3	1.4
More than one formal source	6	2.7
More than one informal source	89	40.1
Both formal and informal sources	79	35.6
Total	222	100.0

Source: Field survey, 2014

The above table indicates that about 60.4% have benefitted from more than one informal sources of finance categorized as personal savings, loan from friends, funds from partners and money lenders.

Table 4: General Financial Challenges

	Mean	Std. Deviation
Awareness of the existence of institutions set up to grant credits to SMEs	4.0811	.98528
Process of accessing affected the amount able to raise	3.7297	1.07161
Stringent measures associated with such funds	3.9054	.87451
Difficulty in satisfying the requirements for accessing such funds	3.8108	1.13770
The funds are usually inadequate in solving SMEs financial problems	3.2568	1.18887

Source: Field Survey, 2014

From table 4, findings show that most respondents are aware of the existence of formal institutions that should grant credits to SMEs with a mean of 4.0811. That is to say, awareness is not a challenge. However, the general challenge lies in the stringent measures associated with such funds and difficulty in satisfying the requirements for accessing such funds represented by 3.9054 and 3.8108 means respectively.

Table 5: Specific financial challenges

	Mean	Std. Deviation
Insufficient savings	3.7973	1.22175
Unwillingness on the part of family and friends to lend	3.3243	1.38944
Difficulty in getting partners	3.4730	1.12023
Risk of the esusu collector making away with contribution	3.9054	1.06998
Difficult process of accessing funds from banks	4.1644	.86226
High collateral requirements by banks	4.3784	.89800
Assumed high risk associated with lending to SMEs by banks	3.9054	.84289
High interest rate associated with lending to SMEs by banks	4.2055	.89277
Inability to provide the required information by banks and donors	3.7671	.98875
Disbursement process of Bank of Industry (BOI) is shrouded in secrecy and ending in the pocket of few individuals	3.5676	1.01680
Need to have a link or connection in order to access Small Business Administration and Financial Assistance funds	3.6216	1.06405
Inability to save the required amount that will qualify one for a thrift and credit cooperative fund	3.5135	1.17950

Source: Field survey, 2014

On the specific financial challenges faced by SMEs, high collateral requirements by banks (4.3784), followed by High interest rate charged (4.2055) as well as difficulty in the process of accessing the fund (4.1644) ranked high respectively. In addition, the fear of the esusu collector bolting away with the funds (3.9054) and banks assumption that SMEs are high risk to lend to (3.9054) were next of the specific challenges faced as shown by respondents. Unwillingness on the part of family and friends to assist (3.3243) and difficulty in getting partners (3.4730) ranked the lowest of their challenges.

Table 6: Efficiency of the various sources of funds

	Mean	Std. Deviation
Personal savings	4.4189	.90259
Loan from friends and family members	3.5541	.90462
Funds from partners and shareholders	3.3099	1.04509
Daily contribution (esusu, ajo, utu)	3.4444	1.04176
Lending institutions (commercial banks etc.)	2.9863	1.13121
Small business administration and financial assistance (SBAFA programme e.g. NDE, SMEEIS, Donor agencies	3.0137	1.05569
Thrift and Credit cooperative societies	3.4521	1.03659
Money Lenders	2.7123	1.10644

Source: Field Survey, 2014

Respondents' ranking of the efficiency of the various sources of funds on an ordinal scale showed that for most of the respondents' personal savings is highly efficient, followed by loan from friends and family members, the thrift and credit societies, as well as the daily contribution. Efficiency is measured in terms of availability of the funds, accessibility of the funds as well as adequacy of such funds

Table 7: Factors Affecting the Performance of SMEs

	N	Frequency	Percent	Mean	Std. Dev.
Unstable power supply	222	117	52.7	1.9054	1.71368
Access to Funds	222	123	55.4	1.6757	1.06921
Inadequate provision of infrastructure	222	21	9.5	3.2568	1.72861
Incessant security issues in Nigeria	222	21	9.5	4.0946	2.07878
Poor record keeping and accounting system	222	6	2.7	6.1486	2.16523
Government regulations	222	3	1.4	5.0541	1.70354
Unstable government policies	222	15	6.8	4.8649	2.13773
Restricted Market access	222	-	-	7.2838	2.04820
Management expertise	222	3	1.4	5.8378	2.07785
Bottlenecks in business registration	222	-	-	8.6622	2.23674

Source: Field Survey, 2014

When asked to rate the factors affecting the performance of SMEs on a 1- 10 scale assigning 1 to the highest and 10 to the least factor, analysis showed that access to funds was ranked highest closely followed by unstable power supply. Inadequate provision of infrastructure and incessant security issues in Nigeria had a tie in terms of frequency count of respondents while restricted market access and bottlenecks in business registration were the least rated.

Table 8: MFBs Ability to Fill the SMEs Funding Gap

	Mean	Std. Dev.
I am aware of the existence of MFBs	4.6622	.50186
MFBs are supposed to assist in the setting up and growth of business	4.5270	.55199
I have approached an MFB for loan assistance	2.7297	1.32122
The MFBs asked for collateral before giving me a loan	3.4110	1.30457
MFBs approached me with an offer to assist in my business	2.8919	1.30333
Charges associated with getting credits from MFBs are reasonable	3.0541	1.07911
MFBs in Nigeria have not lived up to expectation	3.3784	1.17326
SMEs are better off with MFBs	3.2297	1.00965
SMEs are worse off with MFBs	2.8243	1.05964
MFBs need to do more to serve the rural poor	4.1216	1.04148

Source: Field Survey, 2014

Using a 5-point likert scale of SA, A, U, D, SD, respondents were asked to indicate their level of agreement on the statements measuring the capacity of MFBs to help solve the problem of funding for SMEs. The result showed that most of the SMEs are aware of the existence of the MFBs and their duty to assist in setting up business and its growth. The respondents are also of the opinion that SMEs are better off with MFBs even as they agree that MFBs need to do more to serve the small scale businesses.

Table 9: Performance

	Low	Average	High	Mean	Std. Dev.
Profit performance	30 13.5%	152 68.4%	40 18.01%	2.0450	.56098
Organization's general performance	84 37.8%	137 61.7%	1 .5%	1.6261	.49417

Source: Field Survey, 2014

Using a 3-point likert scale of low, average and high, respondents were asked to rate their performance in terms of profit as well as general organizational performance. Result on table 7 showed that about 68% claimed they had average performance in terms of profit and approximately 62% claimed they recorded average general performance.

TESTING OF HYPOTHESES

Table 10: One-Sample Test on Statistical difference of sources of funds

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
SFUND	52.758	221	.000	24.57895	23.6609	25.4970

Source: Field Survey, 2014

From table 8 with a test value of 3, the result shows the computed T-value as 52.758 and P-value of 0.000 which is statistically significant. It is evident from this that the sources of funds are statistically different for SMEs in Nigeria; hence we reject the null hypotheses.

Table 11: One-Sample Test on statistical difference of efficiency of funds

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Efficiency2	71.543	221	.000	23.50000	22.8527	24.1473

Using a 95% confidence level and a test value of 3, the calculated T-value is 71.543 while the P-value is 0.000. The result indicates a statistical difference in the efficiency of the various funds to the SMEs. We therefore reject the null hypotheses.

Table 12: Correlation between awareness of MFBs existence and applying for Loan from MFBs

		I am aware of the existence of micro finance banks	I have approached an MFB for loan assistance
I am aware of the existence of micro finance banks	Pearson Correlation	1	.046
	Sig. (2-tailed)		.496
	N	222	222
I have approached an MFB for loan assistance	Pearson Correlation	.046	1
	Sig. (2-tailed)	.496	
	N	222	222

Source: Field Survey, 2014

Table 10 shows the p-value to be 0.496 which is not too significant. This suggests that we may not reject the null hypotheses. It is an indication that there is no significant relationship between awareness of the existence of the MFBs and applying for loan from same.

5. Discussion and Conclusion

Results of the data analysis show that personal savings is the most available source of fund for the studied SMEs, followed by loans from friends and family members as well as thrift and credit cooperative societies and daily contributions. These were the most sources they benefitted from and also the most efficient sources of funds for them. The formal lending institutions were the least of sources for them. The implication of this is that most SMEs still rely on their personal savings as well as the informal financial market as the major source of funds despite the various interventions by government. This finding lends credence to the 2012 national survey (This Day Newspaper, July 20, 2012), and the findings of Kauffman (2005); Leonard in Ekpeyong & Nyong (1992).

The study also revealed that most of the respondents are aware of the existence of institutions established to grant credits to SMEs, but the stringent measures associated with such institutions make it difficult to access. Assumed high risk associated with lending to SMEs by banks, high interest rate, and high collateral requirements are part of the specific challenges which ranked highest in accessing credit by SMEs. This is in line with the findings of Ekpenyong (1997) as it concerns banks unwillingness to lend to SMEs. Results also show that one major factor affecting the performance of SME is access to funds with a 55.4% affirmation, followed by unstable power supply (52.7%), while infrastructure and incessant security issues had a tie of 9.5% each, while government policies followed next with a 6.8%. This finding supports the work of Ajaero 2012; Onakoya et al., 2013. On MFBs ability to fill the SMEs funding gap, result showed that very insignificant respondents agreed that MFBs have not lived up to expectation even though it was affirmed that part of MFB's duty is to assist in setting up and seeing to the growth of businesses. Result also shows that SMEs are not worse off with the establishment of MFBs, but rather there is need for MFBs to do more to serve the SMEs. Performance measurement revealed that most respondents agreed to have made average performance in terms of profit and general performance which may be caused by inadequate funds even though other factors may have contributed.

The government therefore needs to come up with policies to improve access to credit for the SMEs given their importance in the development of the nation; its transformation agenda should target the sector which is expected to drive growth and improve the ability of Nigerian MSMEs to compete effectively in local, regional and global markets. This is because everywhere in the world, MSMEs deliver maximum benefits of employment generation, wealth creation, and poverty reduction. The financial institutions should if possible also relax some of the stringent policies in other to assist the SMEs.

This study is inexhaustive and we suggest that future research be directed at finding out why the various intervening policies of government in solving the challenge of finance have been seemingly ineffective.

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