Impact of Access to Finance on the Growth of Small Scale Businesses in Jigawa State, Nigeria

Abstract

The study examined the impact of access to finance on the growth of small scale businesses (SSBs) in Jigawa State. The study employed a survey method as its research design and the population of the study includes all small scale businesses in Jigawa State. A multistage sampling technique was employed to determine the sample size out of which the respondents were selected. Data was collected through the administration of questionnaire checklist to the sampled respondents. The findings from the study identified the financial options available for SSBs across the state which include cooperative societies, loans and micro financing organizations, personal savings and funds from friends and families. The findings further revealed how culture and traditions, lack of support services in business development, high collateral requirements for credit and difficult access to technology and market have constituted obstacles in starting and growth of an enterprise for small scale business owners. The work concludes that to ensure effective growth of small businesses in the state, some of the socio-economic, infrastructural and management challenges needs to be addressed and as such the study recommends the need to strengthen access to finance for SSBs through creating awareness on available financing options, enabling environment for small scale business owners, facilitating access to public support services and expanding sources of fund to improve businesses with little collateral.

Keywords: Access to Finance, Small Scale Business, Jigawa, Nigeria

Introduction

Small and Medium Enterprises (SMEs) are playing a major role in most economies, particularly in developing countries. SMEs accounted for the majority of businesses worldwide and are important contributors to job creation and global economic development (Ayyagari et al., 2007). They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies (Gumel & Bardai, 2021) . These numbers are significantly higher when informal SMEs are included. According to some estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments(Amiri et al., 2023) around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. (Amiri et al., 2023)

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises (Gwaison, 2021). The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending (Malami et al., 2021). East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don't have access to formal credit (Micah, 2022). The financing gap is even larger when micro and informal enterprises are taken into account.

Interest in the role of small and medium-sized enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries (Naradda Gamage et al., 2020). The advantages claimed for SMEs are various, including: the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labor intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; SME development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises (Sadiq et al., 2024). More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation.

The challenges facing SME's in many developing countries are monumental. The most worrying among these challenges is funding i.e. financing. Small and medium scale enterprises need a financial system to overcome the financial challenges that lead to the premature demise of its operation (Sadiq & Sani, 2023). Increased access to financial services that are well suited for low income earners tends to boost effective demand, which in turn induces investment, employment, income generation (Shehu, 2021). Most new and small business enterprises are not very attractive prospects for banks, as they want to minimize their risk profile, in Nigeria, the situation is not very different, until when the bankers committee intervened in 2001 with a scheme termed the Small and Medium Industrial Equity Investment Scheme (SMIEIS).

It is against this background that the study intends to examine the impact of finance on the growth of small scale business in Jigawa state. The motivation for the study stems from the fact that, access to finance has been a major obstacle in the growth of small scale business globally and Nigeria in particular. More also, Jigawa state, a predominant Hausa and Muslim dominated state which is ranked high in terms of financial exclusion is likely to face serious challenges in terms of access to finance for small scale business. Hence the need to conduct the study.

Objectives

The overall objective of the study is to examine the impact of finance on the growth of small scale businesses in Jigawa State, Nigeria. The specific objectives are thus:

1. To identify the demographic features of small scale business owners' that affect access to finance in Jigawa state;
2. Analyze financing institutions' related factors that affect access to finance by the small scale business owners in Jigawa state.
3. To determine the major determinants of accessing finance by small scale businesses owners in the sampled area.

Literature Review

Theoretically, finance literature indicates a well-documented explanation that elucidates finance issues as related to the SMEs, and to assess the aforementioned is to review its lefts to the enterprise. To the best of the researcher's knowledge, the review of strategic literature indicates that no universally accepted theory in the entrepreneurship literature has been adopted as the sole influence on SMEs' access to finance. Hence, it is essential to review an existing strategic theory, such as 'the credit rationing theory' on an enterprise's access to finance to guide the current study's analysis.

According to the strategic literature, the 'financing gap analysis' is the credit rationing theory by Stiglitz and Weiss (1981), and is one of the major theories that argues the agency problem (a conflict of interest between bank (agent) and the owners of the enterprise, and the information asymmetries, as significant reasons why Page 4 of 20 Amadasun and Mutezo Journal of Innovation and Entrepreneurship (2022) 11:56 SMEs are constrained in terms of access to finance. Stiglitz and Weiss (1981) argued that the presence of financial constraints on SME businesses is due to informational problems (that is, principal–agent issues) and transactional costs. Therefore, this paper assumed that due to the lack of collateral/income, most banks classify SMEs as 'non-bankable' enterprises and high-risk borrowers that are likely to be less interested in programs that favor them (Sadiq et al., 2024).

Further analysis shows that rationing discourages most SMEs, even in a competitive credit market using interest rates and bank charges as weapons that affect demand and the risk profile of the bank's customer (Shehu, 2021) Despite this, Stiglitz and Weiss' analysis focuses on the 'informational problem and transactional cost' paradigms. Both paradigms are skewed to the borrower's capabilities to repay the loan. This suggests that asymmetrical information exists when the credit officers do not have 'perfect' information of the funding proposal base.

Although Stiglitz and Weiss (1981) provided compelling explanations of why credit rationing behavior still exists with financial institutions, the theory has not addressed the pecuniary issues of access to finance, such as bank and business support services, the structure of banks and the collateral requirement that may have caused banks to ration potential customers, even in a competitive credit market (Yahaya et al., 2024).

Hence, banks insisting on high interest rates and bank charges may have affected demand and the risk profile of the bank's customers. Subsequently, the fact remains that, in many developing economies like Lesotho, most banks may not have perfect information about the creditworthiness of prospective borrowers. Thus, there is a likelihood of the supply of loans to be backward bending at rates above the bank's optimal rate (Magangxa, 2022). This implies that financial exclusion may persist even in optimal markets. Whether such an enterprise is excluded based on the price barriers, or financially excluded due to high idiosyncratic risk or poor project quality could be due to a market imperfection such as asymmetric information.

The study considers that these are peculiar to the four factors of access to finance: financial information access, bank and business support services, the structure of banks, and collateral requirement as constraints to SMEs' access to bank loans. While there have been some empirical studies, such as that of Makhetha and Sebolelo (2015), and Mokoatleng (2015), on SME access to finance, these previous studies omitted constructs, such as financial information access, structure of bank, and bank and business support services, as critical factors of access to finance that limits bank funding that negatively influences the competitive growth of SMEs (Amadasun & Mutezo, 2022) .

To bridge the gap of access to finance, this study suggests that although various studies have considered access to finance a huge challenge to SMEs in most developing economies, there is a gap in the entrepreneurship literature that has omitted the four factors related to access to finance mentioned above in Lesotho context. Thus, this study aims to determine the constructs (financial information access, bank and business support services, structure of bank and collateral requirement) as factors of access to finance that influence the competitive growth of SMEs in Jigawa stste, Nigeria.

Methodology

A multistage sampling technique was employed to select the sample respondents for the study. The first stage was the stratification of the area into three sampling unit each representing one of the three senatorial constituencies in the state. In the second stage, one local government was selected purposely from each senatorial district. The local governments selected are: Hadejia, Dutse and Kazaure in the northeast, north central and northwest senatorial districts respectively. This is because the selected L.G.As are the most advanced in each of the senatorial district with high presence of SSBs and financial institutions. The third stage of the sampling process was the selection of sixty (60) small scale business to ensure proportionate representation of the entire population. Finally, the process yielded a total sample of 180 Small Scale Businesses in the 3 selected local governments which provides the basis for analysis. Data for the study was collected through the administration of a structured questionnaire.

The questionnaire was divided into sections. The first section included demographic characteristics of the business and the business owner such as the age, educational attainment, size of the business, average income, number of employees if any, etc. The second section constituted items on access to finance, type of financing options, source of start-up capital as well as capital for the growth of the business. The third section explored on the major obstacles to access to finance.

Model Specification

To estimate the extent to which access to finance influence the growth of small scale businesses in the study area. The paper adopted a model developed by Amadasun and Mutezo (2022) as follws:

$$SBG = \partial_0 + \partial_1 FAW + \partial_2 BSS + \partial_3 NBS + \partial_4 COL + e_t$$

Where: SBG is the dependent variable which refers to small business growth and FAW financial awareness indicator, BSS banking support services available to the small businesses, NBS refers to the nature of banking services available, while COL refers to the type of collateral requirements by the financial institution.

The scale proposed by Aleksandr et al. (2016) was considered as a measure for financial information access (Alexander et al., 2020). The financial information access predictor considered inadequate financial information related to the following: available credit funding, financial programs, and agency provision items. Bank and business support services and bank structure considered selected items from the study of Zeebaree and Siron (2017). The items considered for bank and business support services relate to inadequate policy initiatives, support programs, financial schemes and funding programs. Structure of bank considered items such as low competition, system regulation, legal status and ownership patterns that were selected from Osano and Languitone (2016). The collateral requirement scale adopted selected items from Mazanai and Fatoki (2013), Kihimbo et al. (2013), and Ingabire et al. (2016). The predictor items from various authors were selected because they represent access to finance in the context of the study. This suggests that the measure of the four factors of access to finance (financial information access, bank and business support services, structure of bank and collateral requirement) considered some scale of items that measure the bank perception of SMEs, and the experience and behavior of banks to SME operators as related to the aforementioned four items.

The study adopted the Five-Likert scale response rate format, ranging from 1 = “strongly disagree” to 5 = “strongly agree”. The research tool indicated that the higher the scores, the higher the level of agreement by respondents. A regression analysis was conducted to estimate the level of influence of each of the variable on the growth of small businesses.

Presentation and Analysis of Data

Descriptive Statistics

Table 1: demographic characteristics of businesses and the business owner

Item	Frequency	Percentage
Gender		
Male	118	65.6
Female	62	34.4
Total	180	100
Age (years)		
18 – 40	68	37.8
41 – 60	82	45.6
60 and above	30	16.6
Total	180	100
Education		
Postgraduate	12	6.7
first degree/HND	32	17.7
NCE/Diploma	48	26.7
SSCE	36	20.0
Primary	28	15.6
Others	24	13.3
Total	180	100
Business Size		
Micro	92	51.1
Small	63	35.0
Medium	25	13.9
Total	180	100

Source: Researcher's Compilation, 2024

The total sample size across the three Senatorial zones is 180 respondents (n = 180). From the table, about 277 (65.6%) of the respondents were male and about 84 (34. 4%) were female. Majority of the respondents (45.6%) are between 41 – 60 years of age, while (37.8.1%) between the age of 18 – 14 and 16% are above 60 years of age. Of the 180 respondents, 48(26.7%) have either NCE or diploma as their highest educational qualification followed by those with senioe school certificate 36(20%) and the lowest with postgraduate qualifications are only 12 (6.7%) of the total. More also, majority of small business in the sampled area are in the category of small business in terms of number of employees, running capital and turn over which accounted for 92

(51.1%). While small businesses accounted for 63 (35%) and medium enterprises are only 25 (13.9%) of the total.

Table 2: Access to Finance

Item	Frequency	Percentage
Financial Options Available		
Personal savings	47	26.2
Friends and Family	59	32.8
Cooperative Societies	15	8.3
Loan from Microfinance Bank	33	18.3
Loan from Commercial Bank	26	14.4
Total	180	100

Source: Researcher’s Compilation, 2024

From table 2 above, the financial options available to each of the respondent are summarized. The table shows that a greater percentage of the businesses obtained their start up or business expansion capital from family and friends 59 (32.8%). This is followed by persona savings 47 (6.2%). This shows that there is little utilization of formal financial institutions in the study areas. Loans from microfinance 33 (18.3%) and commercial banks 26 (14.4%) represent the third largest source of finance. This may not be unconnected to the problem of interest which is contrary to the popular beliefs. The last and the lest option is the cooperative societies. This is due to the less recognition of a formal cooperative societies in the area.

Table 3: Major obstacles to accessing finance

Item	Frequency	Percentage
Major Challenges to Access to Finance		
Lack of awareness	65	36.1
Lack of collateral	45	25.0
Poor documentation	33	18.3
culture and religion	27	15.0
corruption	10	5.6
Total	180	100

Source: Researcher’s Compilation, 2024

Table 3 above shows the major challenges of accessing inance by the small businesses. The table shows that the first major challenge face by small businesses particularly in accessing finance in formal financial institution is lack of awareness 65 (36.1%). Majority of the small businesses are not aware of the available funding in microfinance banks and the commercial banks. Others indicated that they are aware of the funds availability but they ack the required collateral that will qualify them for loans 45 (25%). While 33 (18.3) of the respondent complained of not having the required documentation (relevant certificates and registrations, business accounts, registered office, official emails and e.t.c.) to access finance. From the table 3 (15%) shows that, culture and religion are their challenges in accessing finance particularly from the formal sector as it is not shari'ah compliant. Corruption is also another challenge identified by some participants 10 (5.6%) as sometime funds are not provided based on merit but rather due to other factors.

Regression results

Table 4: Results of the Regression Analysis

Variable	Coefficient	Std. Error	t – statistic	Probability
C	7.911796	0.442749	17.86971	0.0000***
FAW	0.79907	0.16569	4.822688	0.0001***
BSS	0.365124	0.132113	2.763724	0.0253**
NBS	0.230023	0.108941	2.111451	0.1475
COL	-0.40921	2.10409	-2.06554	0.0261**
R-squared	0.888			
Adj. R-squared	0.788			

Source: Estimation output using Eviews econometric software
Note: ***, ** and * denotes statistical significance at 1%, 5% and 10% level of significance

Table 4 above, presents the results of the regression analysis which explains the extent to which regression coefficient for the four predictors (financial awareness, bank support services, nature of banking services and collateral requirement,) contribute to small businesses growth. The results indicated that collateral requirement, financial awareness, and bank support services have a statistically significant contributory influence (at $p < 0.05$ and at t-statistic > 2) on small business growth in the study area.

Accordingly, financial awareness and banking support services are positively related to the growth of small businesses, collateral requirements varies inversely with the growth of small businesses. This is to say, the higher the financial awareness of the business owner, the greater will be the growth of the business. Likewise, the higher the availability of banking support services, the higher will be the growth of the business. On the other hand, higher collateral requirements, result to slow growth of the business as it restrict access to finance.

Discussions

From the findings, the descriptive statistics shows that majority of small business owners in the sampled areas are male ranging between the ages of eighteen (18) to sixty (60) years. This is to say that most businesses are owned by male within the working population. It further shows that the highest educational qualification of the majority of the business owners are either NCE or Diploma and below. In terms of financial options available to the businesses, family and friends constitute the highest percentage followed by personal savings. While lack of financial awareness constitute major challenge to accessing finance by small businesses followed by lack of the required collaterals.

The result of the regression analysis further buttresses the descriptive analysis as it shows that small business owners are more likely to be constrained regarding finance due inadequate financial information (awareness) needed from banks (the magnitude of 79%) followed by the current collateral requirement factor (magnitude 40%). Business support services also constitute another significant factor which support small businesses' attractiveness for bank credit (level 6%).The results also suggest that for every 1% additional growth anticipated to be attain by an SME, it will require 79% awareness improvement in adequate information available to the enterprises to identify potential suppliers of credit funds. In the same vein, for every 1% additional growth an SME intends to attain it would require at least 40% harmonized bank collateral requirement to the applicant's access to a bank loan.

The analysis suggests that the nature of banking support services does not significantly influence access to bank loans by small business owners even though it is impact is positive as expected. The findings from the study elucidate some of the critical issues related to access to finance, particularly as it affects small business growth such as, financial awareness, collateral requirement, and business support services which may constrain their access to finance and ultimately retard growth. The findings are also similar to those of other studies in sub-Saharan Africa such as Rwanda Ingabire et al. (2016), Kihimbo et al. (2013), Osano and Languitone (2016) in Kenya and Mozambique respectively.

Conclusion and Recommendations

In conclusion, the findings from the study shows that the critical factors that affect access to finance by a small scale business in Jigawa State are inadequate financial information (awareness) of most of the small scale businesses, collateral requirements by banks, and bank support services which significantly constrain most SSBs from attaining competitive growth. These factors are according to the paper the factors that serve as obstacles that hindered the growth of small scale businesses by constraining their access to finance required for business growth. Nevertheless, the paper suggests that to reduce the constraints of access to finance that most small scale businesses face, there is need to promote to consider the following recommendations:

The need to reconsider and harmonize bank collateral requirements for the small scale businesses to make it as minimal as possible to make finance easy to access by these businesses. There is also the need to promote adequate access to financial information to SMEs in both rural and urban areas that will unveil the opportunities available to the small businesses to finance business start ups and growth. Bank business support services to small scale businesses also needs to be enhanced to improve the capacity of SSBs, and to enable them to stand a chance to access adequate loans from banks. This will gradually ease the problems of asymmetric information between SME loan applicants and the banks, ease access to loans, and influence enterprises' chances to attain higher growth. There is a need for a call to develop diversified sources of finance as an alternative and suitable source of finance outside the conventional banking services. Such specific programs for SMEs could include improving government incentive programs and credit guarantee schemes, venture funds, business angels investing in the business right from the start of business and at low cost, to address the specific financial needs of enterprises properly and in a timely fashion, and to support their capacity to attain competitive growth in Lesotho.

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