



Analysis of Factors Affecting Small and Medium-sized Enterprises (SMEs) Access to Finance in Edo State, Nigeria.

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ABSTRACT

The study analyzes the challenges faced by Small and Medium-sized Enterprises (SMEs) in accessing finance in Edo State, Nigeria. SMEs are crucial for economic development, yet they encounter obstacles in obtaining financial resources necessary for growth. The research employs a mixed-method approach, combining quantitative data from structured questionnaires with qualitative insights from financial reports and policy documents. Through a stratified random sampling technique, data were collected from SME stakeholders across various sectors in Edo State. The study reveals that SMEs primarily rely on personal savings for financing, facing limited access to formal financial institutions such as microfinance institutions and commercial banks. Notably, collateral requirements, stringent risk assessment practices, and high interest rates pose significant barriers to SMEs' access to finance. Furthermore, there is a lack of awareness among SME stakeholders regarding existing initiatives aimed at promoting access to finance. Based on the findings, several recommendations were proposed to address these challenges. These include enhancing financial literacy programs tailored to SMEs, reviewing collateral requirements, improving access to formal financing channels, strengthening government initiatives, and fostering public-private partnerships. These recommendations aim to create an enabling environment for SMEs to access finance, thereby promoting their growth and competitiveness in Edo State's economy.

Keywords: SMEs, Access to Finance, Edo State, Financial Barriers

I. INTRODUCTION

The emergence and growth of Small and Medium-sized Enterprises (SMEs) have long been recognized as pivotal components of economic development and job creation in both developed and developing nations. In Africa, the SMEs sector accounts for almost ninety percent of all the

enterprises or firms, located in both the rural and urban areas, where they provide more equitable distributions of income in all spheres of the countries (Abdullahi et al., 2015). SMEs contribute to economic diversification, innovation, and the distribution of wealth, making them essential drivers of sustainable growth. They are labour intensive, capital saving and capable of helping create most of the one billion new jobs the world will need by the end of the century (Lalkaka, 1997; Agwu and Emeti, 2014). In the Nigerian context, SMEs account for a significant portion of economic activity, providing employment opportunities, fostering entrepreneurship, and contributing to the overall GDP.

Edo State, situated in the southern region of Nigeria, possesses a diverse economic landscape that spans agriculture, manufacturing, services and technology. The state's economic potential is underscored by its historical significance and access to vital transportation routes. Despite this potential, SMEs in Edo State face substantial challenges, particularly in accessing the necessary financial resources to fuel their expansion and development endeavours. Kumar and Rao (2015); Chilembo (2021) posited that lack of access to finance posed as an obstacle to the success of SMEs. The capacity for SMEs to explore their potential depends mainly on access to finance (Pandula, 2015; Chilembo, 2021). The issue of limited access to finance for SMEs is not unique to Edo State; it is a widespread challenge across the nation. The reasons for this challenge are multifaceted and complex, ranging from inadequate collateral to lack of financial literacy, cumbersome regulatory procedures and risk aversion on the part of financial institutions. For SMEs in Edo State, these obstacles have hindered their ability to grow, innovate, and compete effectively in both local and global markets.

Also, the Nigerian financial sector has witnessed reforms aimed at enhancing SMEs' access to finance. Initiatives such as the Central



Bank of Nigeria's Micro, Small, and Medium Enterprises Development Fund (MSMEDF) and the establishment of microfinance institutions have been introduced to address the financial needs of SMEs. Most government and business circles have come to realize the importance of financing SMEs and have consequently agreed that their growth constitutes one of the corner stones of economic development (OECD, 2005; Taiwo and Temitope, 2016). However, these efforts have not fully resolved the challenges faced by SMEs in Edo State. In light of these circumstances, there is a pressing need to conduct a thorough analysis of the factors affecting SMEs' access to finance specifically within the context of Edo State. This study seeks to uncover the underlying reasons behind the limited access to finance for SMEs in Edo State, offering a comprehensive understanding of the local economic landscape, regulatory environment, and financial infrastructure.

II. REVIEW OF LITERATURE

Chilembo (2021) studied the factors affecting small and medium enterprises (SMEs) access to finance; a case of Lusaka based SMEs. The study examined the extent to which collateral and interest rates affect access to finance and other factors SMEs consider as affecting their access to finance. In the study, a mixed research method (Qualitative and Quantitative research methods) were used which led to the study findings. The finding shows a positive correlation between lack of collateral assets and rejection of credit ($r = 0.727$) and interest rates ($r = 0.202$) variables. The study recommends that SMEs should make use of practical and unconventional means as alternative sources of finance, because of the challenges faced with traditional sources of finance. One of the practical and unconventional means as alternative sources of finance recommended by the study is crowd funding as it comes in many forms.

Osamwonyi and Tafamel (2010) investigated the Options for Sustaining Small and Medium Scale Enterprises in Nigeria: Emphasis on Edo State. The study critically examined the problems confronting SMEs in Nigeria and identify the option strategies utilised by these SMEs as demonstration alternatives. The study focuses on three SMEs in the area of manufacturing; poultry farming, Garri processing and bakery industries in Edo State of Nigeria. According to the study, the challenges faced by the vast majority of the SMEs include lack of management skill, poor record keeping, weak access to financing, multiple

taxation and inconsistent policies. Hence, the study recommended seminars and workshops in order to improve SMEs' management capabilities, as well as the institutional co-ordination of the efforts of relevant agencies and institutions, and the streamlining of the myriad of taxes stifling SMEs.

Owenvbiugie and Igbinedion (2015) investigated the role of finance on the growth of small and medium scale enterprises in Edo State, Nigeria. They adopted a survey research design in the study and 122 respondents were used as their samples for the study. The study used Cronbach Alpha to compute the reliability of the instrument and which yielded 0.89. The findings from the study revealed that SMEs growth was hindered as a result of inability to access funds from financial institutions which is due to stringent policies required by banks and other financial institutions. They recommended that necessary financial assistance should be given to the sector by government and other stakeholders so as to accelerate the growth of SMEs in the rural communities, which will reduce the current unemployment as well as reduce rural-urban migration.

III. MATERIALS AND METHODS

A. Research Design

This study employed a mixed-method approach to comprehensively investigate the factors influencing small and medium-sized enterprises (SMEs) access to finance in Edo State, Nigeria. Quantitative data were gathered through structured questionnaires administered to SME stakeholders, including owners, managers, and financial officers. Additionally, qualitative insights were obtained through financial reports, policy documents and reports from regulatory bodies.

B. Study Area

The study was conducted in Edo State, Nigeria, a region characterized by a diverse economic environment encompassing sectors such as agriculture, manufacturing, services, and technology. Situated in the southern part of Nigeria, Edo State serves as a hub for entrepreneurship and SME activities. With a population known for its entrepreneurial spirit, the state offers a fertile ground for investigating the challenges and opportunities surrounding SME finance. Additionally, Edo State's strategic location and proximity to major transportation routes contribute to its significance as a center for economic activity. By focusing on Edo State, the study aimed to provide insights relevant not only to



the local SME ecosystem but also to similar contexts across Nigeria and beyond, contributing to a broader understanding of SME finance access in developing regions.

C. Population of the Study

The population for this study comprised small and medium-sized enterprises (SMEs) operating across various sectors within Edo State, Nigeria. This encompassed SME owners, managers, and financial officers involved in SME financing.

D. Instruments for Data Collection

The instrument for data collection in this study was a structured questionnaire designed to gather quantitative insights from SME stakeholders, including owners, managers, and financial officers. The questionnaire consisted of both closed-ended and Likert scale questions, covering various aspects such as experiences with accessing finance, financial literacy levels, challenges faced, and perspectives on existing policies and initiatives. The questionnaire was carefully crafted to ensure clarity, relevance, and reliability of responses. Additionally, qualitative data were collected through financial reports, policy documents and reports from regulatory bodies to provide deeper insights into the contextual intricacies and underlying reasons behind the quantitative findings.

E. Sample Size and Sampling Technique

For this study, a sample size of 253 respondents was determined, and a stratified random sampling approach was adopted to ensure representation across key sectors within Edo State, Nigeria. The sample size was divided based on the proportional representation of SMEs within each sector, with 30% allocated to agriculture, 30% to manufacturing, 20% to services, and 20% to technology. Within each sector, respondents were randomly selected to participate in the study. This sampling technique allowed for the inclusion of a diverse range of SMEs across different sectors, ensuring that the findings are representative and

reflective of the broader SME landscape in Edo State.

F. Validity and Reliability of the Instrument

The instrument for data collection underwent rigorous validation and reliability testing, including a pilot test, to ensure the credibility and accuracy of the data collected. Through thorough review of literature and expert consultation, the questionnaire was designed to accurately measure constructs such as financial literacy, access to finance barriers, and perspectives on existing policies. Pilot testing with a small sample of SME stakeholders in Edo State allowed for identification and refinement of any ambiguities or inconsistencies in the questions. This comprehensive validation and reliability process ensure that the data collected in this study are robust and trustworthy, enabling meaningful insights into factors influencing SME access to finance in the region.

G. Methods of Data Analysis

The collected data were analyzed using a mixed-method approach to provide comprehensive insights into the factors affecting small and medium-sized enterprises (SMEs) access to finance in Edo State, Nigeria. Quantitative data analysis involved descriptive statistics such as frequency distribution and percentages, which summarized the occurrence and distribution of responses, related to financial barriers, literacy levels, collateral requirements, and risk assessment practices. Additionally, bar charts were utilized to visually represent the distribution of key variables, offering a clear and concise overview of the findings. Qualitative data, on the other hand, were subjected to thematic analysis to extract key themes and insights. The integration of both quantitative and qualitative analyses enabled a detailed understanding of the financial challenges and opportunities faced by SMEs in Edo State, ultimately facilitating evidence-based policy recommendations and strategies for enhancing SME access to finance and fostering growth and competitiveness in the region.



IV. RESULTS AND DISCUSSION

Demographic Information of the Respondents

Table 1: General Information of the Respondents

Variable		Frequency	Percentage (%)
Sector of Operation of SME	Agriculture	76	30
	Manufacturing	76	30
	Services	51	20
	Technology	50	20
	Total	253	100
Position in the SME	Owner	132	52
	Manager	76	30
	Financial Officer	45	18
	Total	253	100
Years of Operation	5 years and below	83	33
	6 years to 10 years	73	29
	11 years to 15 years	76	30
	15 years to 20 years	21	8
	Total	253	100
Annual Turnover (Approximate)	₦1m and below	64	25
	₦2m to ₦5m	71	28
	₦6m to ₦10m	59	23
	₦11m to ₦15m	42	17
	₦16m and above	17	7
	Total	253	100

Source: Field Data, 2024.

Table 1 reveals a balanced distribution of respondents across various sectors, with 30% of SMEs operating in agriculture and manufacturing each, followed by 20% in services and technology sectors, respectively. This distribution ensures representation across key sectors within Edo State, facilitating a comprehensive understanding of the challenges and opportunities surrounding SME finance in the region. It was equally observed that owners constitute the majority, accounting for 132 (52%) of respondents, followed by managers 76 (30%) and financial officers 45 (18%). This distribution reflects the diverse perspectives represented in the study, ranging from top-level decision-makers to financial specialists, providing a holistic view of the financing background for SMEs in Edo State. Also, the table reveals a distribution with a significant portion of SMEs

having operated for 5 years or less 83 (33%). The operational histories of other SMEs include 73 (29%) operating between 6 to 10 years, 76 (30%) between 11 to 15 years, and 21 (8%) between 15 to 20 years. This diversity in operational experience allows for a divergent examination of financing needs and challenges across different stages of SME development. Additionally, the annual turnovers of the SMEs include 64 (25%), 71 (28%), 59 (23%), 42 (17%) and 17 (7%) generating turnovers ranging from ₦1 million or below, ₦2 million to ₦5 million, ₦6 million to ₦10 million, ₦11 million to ₦15 million, and ₦16 million and above, respectively. This distribution highlights the diverse economic profiles of SMEs in the region, which is essential for tailoring financing solutions to meet the specific needs of businesses across different scales.



Issues Related to the Specific Research Questions

Table 2: Responses on Financial Literacy and Awareness

Items	Excellent	Good	Fair	Poor
How would you rate your understanding of financial concepts and products?	21 (8%)	68 (27%)	139 (55%)	25 (10%)
	Yes	No		
Have you participated in any financial literacy programs or workshops in the past years?	71 (28%)	182 (72%)		

Source: Field Data, 2024.

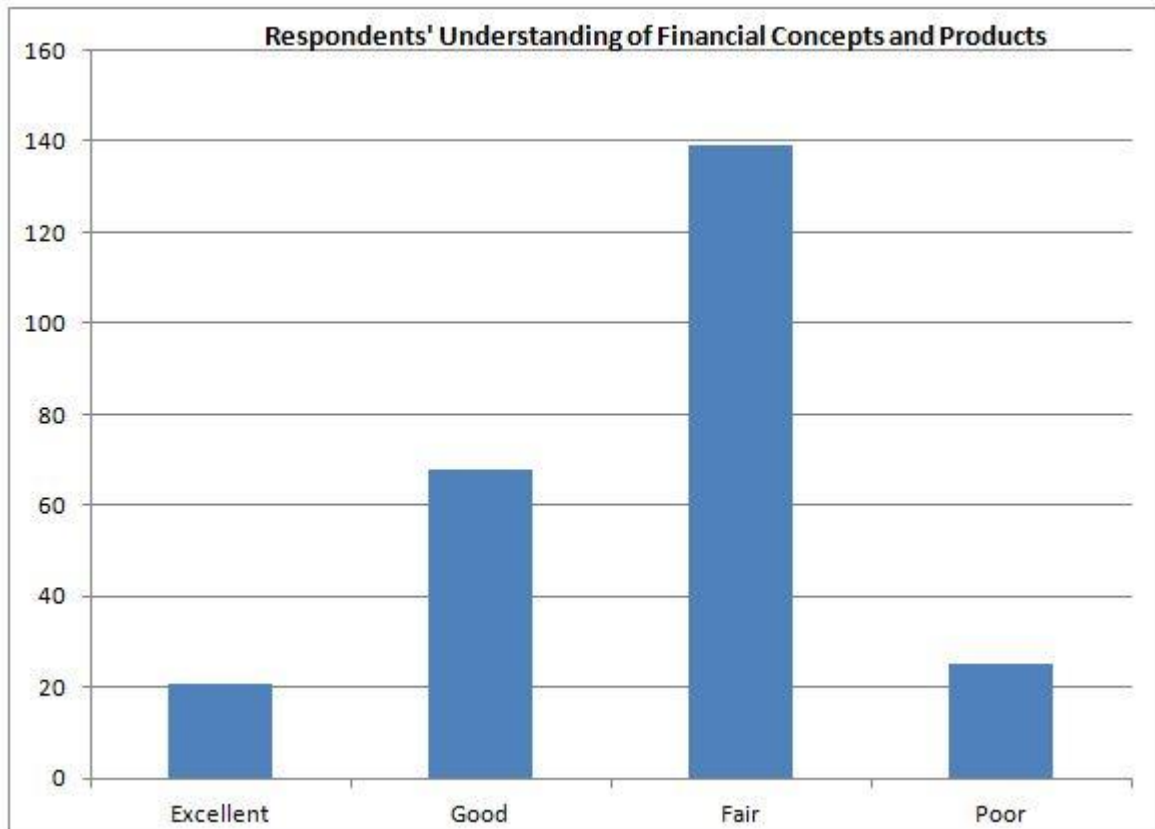


Figure 1: Respondents' Understanding of Financial Concepts and Products

From Table 2, 21 (8%) respondents rated their understanding of financial concepts and products as excellent, 68 (27%) as good, 139 (55%) as fair and 25 (10%) as poor. This reinforces the need for targeted financial education programs to bridge knowledge gaps and equip SME stakeholders with the necessary skills to navigate the financial concepts effectively. In addition, Table 2 revealed that 72% of respondents did not participate in any financial literacy programs or workshops in the past years, while only 28% reported their participation. This data indicates a significant majority of SME stakeholders in Edo

State did not engage in efforts to enhance their financial knowledge and skills through formal programs or workshops. This high percentage of non-participation underscores potential gaps in financial education initiatives or limited accessibility to such programs for SMEs in the region. Addressing this disparity in participation rates and improving access to financial literacy programs could play a vital role in empowering SMEs to make informed financial decisions and improve their financial management practices, ultimately contributing to their growth and sustainability within the local economy.



Table 3: Responses on Access to Finance

Items	Personal Savings	Microfinance Institutions	Commercial Banks	Microfinance Institutions/Personal Savings	Commercial Banks/Personal Savings
What sources of financing have you utilized for your SME?	139 (55%)	22 (9%)	19 (7%)	48 (19%)	25 (10%)
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
It is easy to access finance from financial institutions	Nil	Nil	61 (24%)	115 (46%)	77 (30%)
	No Collateral	High Interest Rate	No Surety		
What are the main challenges you face in assessing finance for your SME?	113 (45%)	96 (38%)	44 (17%)		

Source: Field Data, 2024.

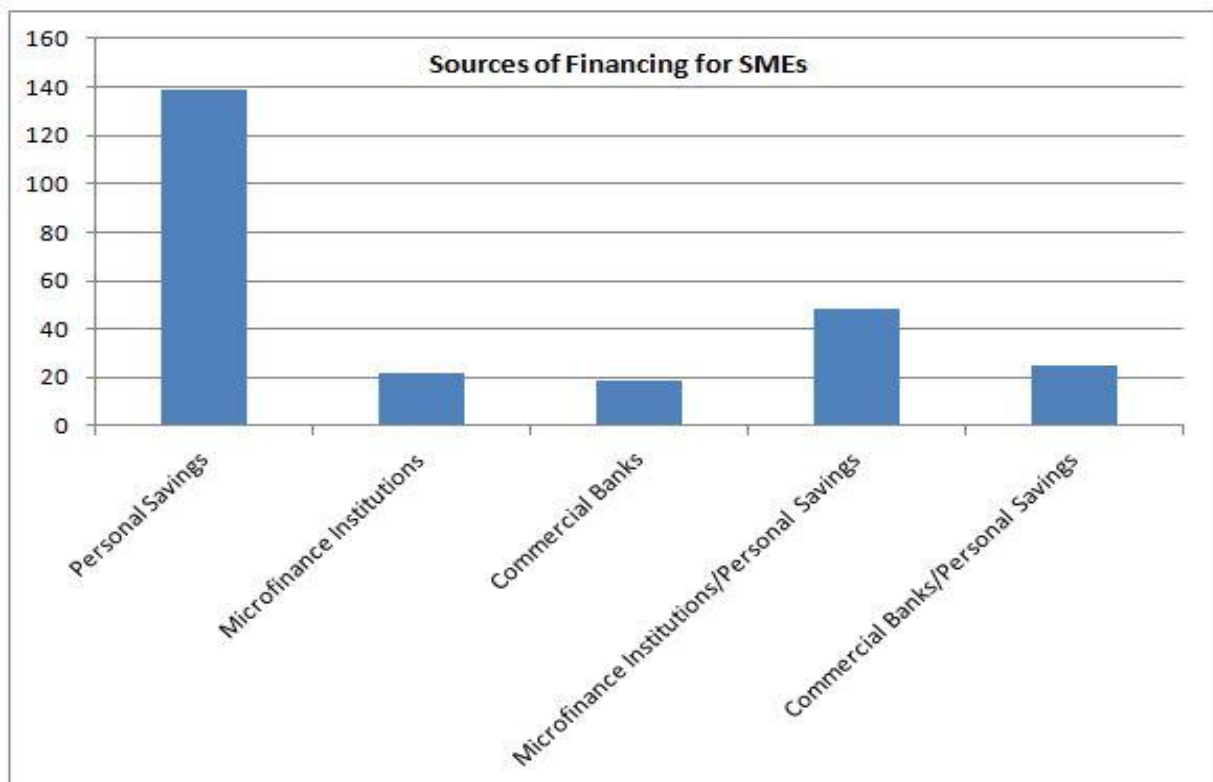


Figure 2: Sources of Financing for SMEs

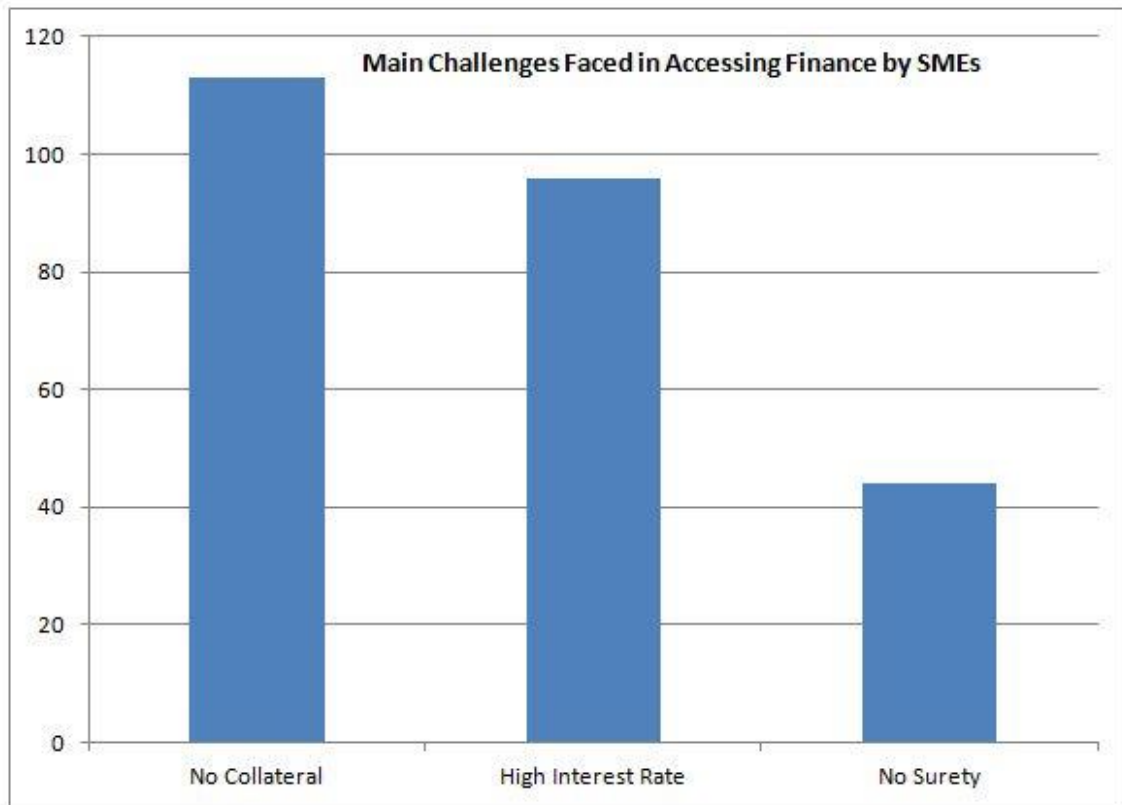


Figure 3: Main Challenges Faced in Accessing Finance by SMEs

Table 3 presents respondents' utilization of different sources of financing for their SMEs, as well as their perceptions of the ease of accessing finance from financial institutions and the main challenges encountered in accessing finance. The data indicates that personal savings are the most commonly utilized source of financing, with 55% of respondents relying on this option. Microfinance institutions and commercial banks are less frequently utilized, with only 9% and 7% of respondents utilizing them, respectively. Additionally, a considerable portion of respondents (19%) utilize a combination of microfinance institutions and personal savings, while 10% utilize a combination of commercial banks and personal savings. In terms of ease of access to finance, the majority of respondents (46%) disagree and (30%)

strongly disagree that it is easy to access finance from financial institutions, highlighting significant barriers in this regard. Aremu and Adeyemi (2011) opined that most SMEs particularly in Nigeria die within their first five years of existence as a result of insufficient capital. The main challenges faced in accessing finance for SMEs include the requirement of collateral (45%), high interest rates (38%), and uncertainty regarding loan approval (17%). These findings underscore the limited access to formal financing options for SMEs in Edo State, as well as the significant barriers and challenges they encounter in securing financing, which necessitate targeted interventions and policy reforms to improve SME access to finance and support their growth and development within the local economy.



Table 4: Responses on Collateral Requirements and Risk Assessments

Items	Yes	No	
Have collateral requirements posed challenges in accessing finance for your SME?	189 (75%)	64 (25%)	
	Too Stringent	Adequate	Too Lenient
How do you perceive the risk assessment practices of formal financial institutions in Edo State?	209 (83%)	44 (17%)	Nil

Source: Field Data, 2024.

In Table 4, the data indicates that 75% of respondents reported collateral requirements as posing challenges in accessing finance for their SMEs, while 25% did not face such challenges. Regarding perceptions of risk assessment practices of formal financial institutions in Edo State, the majority of respondents, accounting for 83%, considered these practices to be too stringent, while 17% perceived them as adequate. These findings suggest a prevalent concern among SME

stakeholders regarding the strictness of collateral requirements and risk assessment practices, indicating potential barriers to accessing formal financing options. In support of the findings in this study Owenvbiugie and Igbinedion (2015) stressed that factors identified inhibiting funds accessibility by the SMEs are the stringent conditions set by financial institutions, the lack of adequate collateral and credit information, and the cost of accessing funds.

Table 5: Responses on Policy and Initiatives Evaluation

Items	Yes	No	
Are you aware of any government or non-government initiatives aimed at promoting SMEs' access to finance in Edo State?	19 (8%)	234 (92%)	
	Very Effective	Somewhat Effective	Ineffective
How effective do you find these initiatives in facilitating access to finance for SMEs?	8 (42%)	7 (37%)	4 (21%)

Source: Field Data, 2024.

Table 5 presents respondents' awareness of government or non-government initiatives aimed at promoting SMEs' access to finance in Edo State, as well as their evaluation of the effectiveness of these initiatives. The data reveals that a vast majority of respondents, constituting 92%, were not aware of any such initiatives, indicating a significant lack of awareness regarding existing efforts to promote SME access to finance in the region. Furthermore, among the respondents who were aware of these initiatives, a notable portion, accounting for 42%, considered them to be very effective, while 37% found them somewhat effective, and 21% deemed them ineffective. These findings highlight the need for increased awareness and visibility of initiatives aimed at supporting SMEs' access to finance in Edo State, as well as the importance of continuous evaluation and improvement of these initiatives to ensure their effectiveness in addressing the financing needs of SMEs and fostering their growth and development within the local economy.

V. CONCLUSION

In conclusion, the findings of this study underscore the multifaceted challenges faced by small and medium-sized enterprises (SMEs) in accessing finance in Edo State, Nigeria. The research revealed that SMEs predominantly rely on personal savings for financing, highlighting limited access to formal financial institutions such as microfinance institutions and commercial banks. Collateral requirements, stringent risk assessment practices, and high interest rates emerged as significant barriers hindering SMEs' access to finance. To support the findings of this study, Osamwonyi and Tafamel (2010) asserted that it seems clear that the problem with funding SMEs is not so much the sources of funds but the accessibility. Furthermore, the study highlighted a concerning lack of awareness among SME stakeholders regarding government and non-government initiatives aimed at promoting access to finance. Despite these challenges, the research identified the potential effectiveness of existing



initiatives, emphasizing the need for enhanced awareness and continuous evaluation to ensure their impact. Overall, the study underscores the urgent need for evidence-based policy recommendations and strategies to create an enabling environment for SMEs to access finance, thereby fostering their growth and competitiveness in Edo State's economy. Additionally, targeted financial literacy programs are essential to empower SME owners and managers with the necessary skills to navigate the financial landscape effectively. By addressing these challenges and leveraging existing initiatives, policymakers can drive inclusive economic growth and development, ultimately positioning SMEs as key drivers of prosperity in the region.

VI. RECOMMENDATIONS

Based on the findings of the study, the following recommendations are proposed:

- 1. Enhance Financial Literacy Programs:** Government agencies, financial institutions and non-profit organizations should develop and implement targeted financial literacy programs tailored to the needs of SME owners and managers in Edo State. These programs should focus on improving understanding of financial concepts, products, and best practices for managing finances effectively.
- 2. Review Collateral Requirements:** Regulatory bodies need to conduct a comprehensive review of collateral requirements imposed by formal financial institutions in Edo State. Regulators should work closely with industry stakeholders to assess the appropriateness and impact of existing collateral requirements. Financial institutions should actively participate in these discussions, providing insights into the practical implications of collateral requirements and proposing alternative risk mitigation approaches. SME associations should advocate for SME interests and provide input into the collateral review process, representing the concerns and challenges faced by SMEs in accessing finance.
- 3. Improve Access to Formal Financing:** Government agencies should take proactive measures to streamline loan application processes, reduce bureaucratic hurdles, and provide targeted financial support programs for SMEs in Edo State. Financial institutions must enhance their outreach efforts to SMEs, ensuring awareness of available financing options and providing tailored financial products and services to meet SME needs.
- 4. Strengthen Government Initiatives:** Government agencies should increase awareness of

existing initiatives through targeted outreach campaigns, workshops, and seminars aimed at SMEs in Edo State. Establishing feedback mechanisms is crucial to gather input from SMEs and stakeholders on the effectiveness of government programs. Chambers of Commerce should collaborate with government agencies to promote government initiatives and provide support to SMEs in accessing and leveraging available resources.

- 5. Foster Public-Private Partnerships:** Government agencies should facilitate partnerships between public and private sector stakeholders to develop and implement innovative financing solutions and support mechanisms for SMEs in Edo State. Financial institutions should engage in partnerships with government agencies and SME support organizations to co-create and deliver financing programs tailored to SME needs. Industry associations should collaborate with government and financial institutions to advocate for policies that promote SME growth and competitiveness, leveraging their expertise and influence within the business community.

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