

Winners and Losers: Between Bank Loan and Small Medium Enterprises Equity Investment Scheme (SMEEIS) as Funding Sources for Northern Nigerian SMEs

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LIST OF ACRONYMS

ACSS	Agricultural Credit Support Scheme
AGSMEIS	Agribusiness and Small and Medium Enterprises Investment Scheme
ANOVA	Analysis of Variance
ATM	Automated Teller Machines
BOI	Bank of Industry
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAMA	Company and Allied Matters Act
CBN	Central Bank of Nigeria
DMO	Debt Management Office
EU	European Union
GDP	Gross Domestic Product
GVC	Global Value Chain
IPO	Initial Public Offer
KPI	Key Performance Indicator
LBO	Leverage Buyout
LDCs	Less Developed Countries
LEs	Large Enterprises
MSMEs	Micro, Small, and Medium Enterprises
NAB	Nigerian Agricultural Bank
NACB	Nigerian Agricultural and Co-operative Bank
NIMC	National Identification Management Commission
PAT	Profit after Tax
ROCAS	Rotary Credit and Savings Societies
SDG	Sustainable Development Goals
SEC	Security Exchange Commission
SMECGS	Small Medium Equity Credit Guarantee Schemes
SMEDAN	Small Medium Enterprise Development Agency of Nigeria
SMEEIS	Small Medium Enterprise Equity Investment Scheme
SMEs	Small and Medium Enterprises
VC	Venture Capital

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Dedication

In loving memory of my late parents Alhaji Adamu Garkuwa and Hadiza Adamu Garkuwa.

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Abstract

The performance of the Small and Medium Enterprises in Northern Nigeria have been characterized as suboptimal, due to the myriad of challenges bedevilling the sector, notable among which is the financial constraint. The creation of Small Medium Enterprise Equity Investment Scheme (SMEEIS) was necessitated by the desire of the private sector to complement government's effort of supporting the Small and Medium Enterprises subsector. What is more, it was also intended to ease the burdensome regulatory restrictions and conditionality for SMEs' access to formal credit from the conventional Banks in Nigeria, and, furthermore, venturing into the potentially untapped revenue base of the sub-sector, which promises opportunities for the conventional banks. This study assesses the comparative financial and non-financial performance between SMEEIS-intervened SMEs, and SMEs financed by the conventional bank loans, and also determines the factors responsible. From a sample of 362 SMEs using sample t-tests and multiple linear regression analysis the result obtained revealed that the SMEs financed by conventional banks significantly outperformed their SMEEIS beneficiary counterparts in both financial as well as non-financial performance. The study established and revealed a significant positive relationship between capital structures, years of operation, knowledge of the program, financial literacy, and ownership structure preference with financial and non-financial performance. Therefore, the study concluded that capital structure, ownership structure, financial literacy, applicable interest rate, and years of operation are key determinants of the SMEs performance of the Northern Nigerian SMEs. Hence the need for the conventional banks and policy makers to assist the SMEs to build capacity in the identified areas, towards the sustainability of the existing and future intervention initiatives with similar objectives.

CHAPTER 1

Introduction

1.1. Background to the Study

Small-scale and medium enterprises are instrumental to the economic growth of any country because they provide the required support and assistance towards the overall sustainability of business growth and development. As established in the literature, as well as empirical evidence from many studies, Small Scale Enterprises (SMEs) are influential in creating a substantial amount of employment and, therefore, serve as a vehicle for addressing poverty in most of the underdeveloped economies of the world, including Nigeria (Okpara, 2011). According to the Small Medium Enterprise Development Agency of Nigeria's (SMEDAN) classification (see Table 1.1), SMEs comprise more than 90% of Nigerian businesses, resulting in the creation of a substantial number of jobs (Gbandi & Amissah, 2014). Hence, most nations of the world regard SMEs to be the impetus for sustainable economic growth and development through their capacity for employment generation, poverty reduction, increased opportunities for technological advancement, and an overall increase in the level of production, which leads to a higher Gross Domestic Product (GDP).

According to Gbandi and Amissah (2014), the 10% contribution of this sector to the overall Nigerian GDP is quite dismal when compared with an average of 40% from its Asian counterparts. This attests to the neglect of this important economic segment (Ketley, Lightfoot, Jakubec, & Little, 2012). It also suggests that the sector has been experiencing many challenges incapacitating its growth to the desired potential. Issues such as, among others, unfriendly business environment, poor access to finance, the high cost of capital, stringent conditions for credit access, a lack of skilled management, a lack of access to essential technology, stiff competition from foreign counterparts, and inadequate protection from unfavourable trade policies limit the SMEs growth in Nigeria (Ketley et al., 2012).

As further confirmed in the literature, one of the important elements behind the business success of SMEs is accessibility to finance. Therefore, this issue has occupied the thoughts of governments and policymakers in developing countries for a long time, as evidenced by the significant attention the topic receives academically, which has led to many empirical studies and research on the issue at country, regional, and continental levels.

1.2. Table 1.1: Classification of the SMEs Category in Nigeria

SME	Employees	Turnover (annual N 'million)	Turnover (annual USD)	Asset Value (N 'million)	Asset Value (USD)
Micro	0-10	0-10,000,000.00	0-65000	5million	32,000
Small	11-49	10m-10,000,000.00	65,000-650,000	5-50million	32,000-320,000
Medium	50-199	100m-500,000,000.00	650,000-3.2million	50-199million	320,000-1.2million

Source: (CBN, 2012)

Broadly, the SMEs majorly draw their funding through formal and informal sources (as discussed in Chapter 2). However, in Nigeria, where, due to poor capacity to fulfil the requirement for formal financing, the majority of SMEs depend on informal sources of finance for their businesses. Therefore, it becomes imperative to improve the SMEs' access to finance from both sources in order to unlock the sector's full potential for the benefit of the economy as a whole while, at the same time, boosting the SMEs' opportunities to fully participate in new productive endeavours, which helps to build the required capacity to grow and compete favourably with domestic and international counterparts within the global value chain (GVC). A number of studies have reported that SMEs are significant accelerators of employment, innovation, and economic growth. According to Oyefuga, Siyanbola, Afolabi, Dada, and Abiodun (2009), SMEs are crucial to the economic growth of any country for many reasons. Firstly, they assist in the provision of requisite skills and training for both skilled as well as semi-skilled labour for production and wealth creation purposes. Secondly, compared to their larger counterparts, SMEs are less capital-intensive, so jobs are easily created by them.

As confirmed by Adeyemo (2018), Nigeria is the most populous black nation in the world, with about 198 million people, which, of that number, about 61% fall within the active age range. Therefore, having a vibrant SMEs sector will help to address the surging unemployment, reduce poverty levels, increase disposable income, and enhance the general living standards in the country, which ranks 152nd out 188 surveyed countries in the world (UNDP, 2016). Because of the importance of SMEs and their potentials, Nigerian governments have, over time, initiated various support/intervention programs as well as SME inclined policies towards promoting and enabling an operating environment for SMEs. Such policies are aimed at increasing SMEs' contribution to the overall national economic output, the actualisation of Nigeria's developmental vision as well as the realisation of the Sustainable Development Goals (SDG) for the creation of jobs, poverty alleviation, and the overall improvement of living standards (Osano & Languitone, 2016).

In the last three decades, Successive Nigerian Governments have demonstrated interest in the financial sustainability of SMEs through the creation of various sector-specific programs,

dedicating financial vehicles that were used to deliver the needed funding for the sub-sector. This saw the advent of several national initiatives such as, amongst others: the Nigerian Agricultural Cooperative Bank (1978); Nigerian Economic Restructuring Fund (1989); Citizens Bank (1990); Small and Medium Enterprise Development Agency of Nigeria act (SMEDAN) (1990); Nigerian Export-Import Bank act (Nexim) (1991); as well as the Micro, Small, and Medium Enterprises Development Fund (MSMEDF) (2013). However, accessibility to these funds by most SMEs remains extremely difficult, which has led to an underutilisation of such opportunities and, consequently, resulted in the poor SME performance. What is more, other alternative sources of funds are either too inadequate to significantly impact upon the SMEs (informal sources), or they are too difficult/exorbitant to obtain in order to support the SMEs during critical stages of development (Zecchini & Ventura, 2009).

As many studies have demonstrated such as those of Eze et al. (2016), Siyanbola (2015), as well as Dandago and Terungwa (2011), of the many challenges impeding the growth of SMEs, inadequate access to formal credit is one of the key bottlenecks for small businesses in Nigeria. In spite of many attempts to extend favourable credit policies, many small enterprises in Nigeria remain credit constrained. Loan defaults among SMEs have been one of the major reasons why commercial banks are reluctant to finance SMEs. Consequently, the commercial banks charge a high-interest premium to compensate for the inherently high risk of lending to SMEs, which, on the one hand, is largely attributable to inefficient financial management and inadequate collateral coverage by the SMEs. On the other hand, however, the SMEs consider conventional bank loans to be exorbitantly priced as well as disruptive towards maintaining a healthy cash flow required for working capital and loan repayment. According to Ketley et al. (2012), the major reasons that are responsible for Conventional Bank's scepticism towards lending to SMEs are highlighted below:

- SMEs lack the requisite collateral (and most banks continue to require collateral for lending purposes).
- SMEs lack a formally recorded as well as audited financial history to be used in assessing the cash flow viability and profitability of their business (for pre-credit risk assessment/evaluation).
- SMEs are mostly unregistered and lack traceable addresses for their business.
- The absence of comprehensive institutional repository for SME businesses and their promoters in a form of directory where vital information such as current credit status, address, for both the promoters as well as companies are kept.

In 1999, the creation of Small Medium Enterprises Equity Investment Scheme (SMEEIS) by the Bankers Committee under the auspices of the Central Bank of Nigeria, which fully came into effect in 2000 was widely applauded as the pilot private sector intervention initiative towards the development of SMEs. It was driven by the desire to complement the government's effort in supporting the sub-sector. This was seen as an opportunity for the conventional banks to penetrate into the potentially untapped revenue base of the SME sub-sector, through easing the regulatory red tapes, which constitutes a major bottleneck to SMEs' access to formal credit. The program intended to achieve the following objectives, amongst others:

1. Complement the Nigerian Government's effort in the provision of sustainable financing towards the realisation of the overall development goals of the sector.
2. Promote SMEs forward integration into the economy, and thereby ensure economic diversification away from over-dependence on oil and gas.
3. Ease the regulatory barriers impeding SMEs' access to formal financing in order to unlock the sector's full potentials.
4. Encourage private sector participation in the development of the sector through mutually beneficial investment collaborations.

The funds required for investment under the scheme were collectively provided by participating commercial banks. This was achieved by setting aside 10% of their Profit after Tax for the issuance of single-digit loans, and by direct equity investments in the form of venture capital to all eligible SMEs across the six geo-political zones of the country. The program was envisaged to be the much needed institutional support required to address the commercial banks' risk concerns regarding SME ventures. This is done via their direct involvement in the business as well as by facilitating the SMEs' access to affordable financing, which, both on the one hand and on the other hand, eliminates the hurdles of financial access by the SMEs. Furthermore, the program would be mutually beneficial for the parties involved and the economy as a whole. However, the implementation of the program was burdened by many irregularities, which restricted its effectiveness to make a contribution towards the desired SMEs growth in Nigeria, thus resulting in its untimely failure.

1.3. Statement of the Problem

As established by Ketley et al. (2012), SMEs' inaccessibility to financing has restricted the growth of the sector in many developing countries, especially Nigeria. As a result, the government has explored various options that involve the use of policy instruments to

encourage growth and development of SMEs, which has led to many intervention programs, including SMEEIS. Several empirical studies have been conducted to assess and establish the impact of the SMEEIS program on the growth and sustainability of the SMEs in Nigeria. Many conflicting views have resulted regarding the failure or success of the program in addressing the financing problems of the SMEs (see Chapter 2). For instance, Dandago and Terungwa (2011) concluded that the program had little or no impact, which was based on the observed trend of loans and credit advanced to the SMEs by the CBs (pre-SMEEIS), and during the SMEEIS period. While Uzoma and Kalu (2015) attributed the underutilisation of the SMEEIS funds to the stringent eligibility requirements, they did note, however, that the program is capable of bridging the funding gap for SMEs in Nigeria.

Generally, the SMEs' support policy measures in Nigeria such as loan guarantee schemes and direct lending, have had a minimal impact on the provision of new financing to SMEs (discussed in Chapter 2). This was largely attributed to a lack of viable projects with a moderate risk acceptance level to attract both public as well as private sector investors, and stringent regulatory pre-conditions for accessing such financing. This resulted in the gross underutilisation of the funds earmarked for SME intervention programs.

While conventional banks continue to issue loans at prohibitive interest rates to promising and viable SME ventures, amortised loan repayments from their operating cash flow overburdens these SMEs, which eventually leads to default and failure. This problem has contributed to the closure of many SME businesses in Nigeria. Therefore, the creation of SMEEIS was aimed at simultaneously bridging the gaps of long-term financing for the SMEs as well as easing other difficulties that limit the growth of the sub-sector (CBN, 2013).

The SMEEIS represents a key policy tool for addressing the SME financing gap whilst lessening the burden on public finances. Given the severity of credit shortages faced by SMEs prior to establishment of SMEEIS, such a scheme remains an instrument of choice for policymakers in Nigeria to improve SMEs' access to finance (CBN, 2013). Despite its failure, it is not surprising that, in recent years, the scheme has been subjected to a comprehensive assessment in the form of academic research and debates in a bid to identify structural defects that impeded its sustainability that is, in order to guide against such pitfalls in the conceptualisation of future intervention programs.

Therefore, it has become imperative to further re-evaluate the impact or contribution of the program. This is done through the use of both financial and non-financial performance parameters/indicators in order to ascertain its viability and identify its inherent challenges,

which is carried out with the aim of providing constructive recommendations towards resolving these problems within the scheme as well as for the benefit of the future programs.

1.4. Objectives of the Study

This study sets out to measure the impact of the SMEEIS program from its inception in order to evaluate its effectiveness as an alternative source of financing for SMEs in Nigeria. The specific objectives include:

- i. To compare the difference between SMEEIS loans and loans granted to SMEs under the conventional banking scheme as well as their effect on the respondents' financial and non-financial performance.
- ii. To examine the determinants of the financial performance and non-financial performance.

1.5. Study Area of Focus

The Small Medium Enterprise Equity Investment Scheme in Nigeria is a nationwide program, but most of the impact assessment studies carried out on the subject were concentrated in the southern part of Nigeria (mostly Lagos), which where SMEs' activities and utilisation of SMEEIS funds is considerably higher. The choice of the north-western part of the country for this study is due to its strategic position as the most populous region as well as its concentration of SMEs. It is also regarded as a suitable sample for this study because it has the highest number of projects under the SMEEIS program in the northern part of the country.

1.6. Significance of the Study

The study set out to establish the extent to which the SMEEIS has satisfied the financial needs of SMEs in the area of study, in comparison with their conventional bank funded counterparts, by measuring the performance of the beneficiary SMEs. Further, the study sought to identify factors responsible for the success or otherwise of the program, and, also, to provide recommendations that will guide the Central Bank of Nigeria (CBN) and other policymakers towards policy formulation on the SMEEIS as well as future programs for the overall benefit of SMEs in Nigeria.

The majority of the research work done on the SMEEIS has been concentrated to the southern part of Nigeria, leaving out the SMEs in the northern part of the country. Therefore, this omission significantly misrepresents the whole picture and indicated in the dominant

literature. Therefore, this study is intended to bridge the existing gap in the literature by incorporating the outcome of this study into the body of knowledge for policy implications and recommendations.

The study also contributes towards enhancing access to credit for SMEs, which unlocks their growth potential. There is also a greater likelihood that SMEs with enough capital resources will make use of labour-intensive technologies, which generates instant employment. This enables the SMEs to bridge the labour gap created by the larger enterprises' demand for a highly skilled workforce, hence complementing governmental efforts to achieve key socio-economic activities that include job creation, increased purchasing power, and the stimulation of demand-driven growth.

Organisation of the Study

1.7. The study is structured into five chapters:

Chapter 1 provides the abstract of the study. Here, a synopsis of the entire paper is provided, and then a background of the study. Following that is a statement of the research problem, objectives of the study, area of focus, the significance of the study, and the organisation of the study.

Chapter 2 begins with the introduction, which is followed by sources of SME financing in Nigeria as well as a description of the seven best practice financial intervention processes applicable to Nigeria. As an intervention program in Nigeria, SMEEIS is introduced, and then the theoretical framework explaining the big push theory, which is the underpinning theory the study has mentioned. The literature review section follows, where relevant views from various scholars are articulated in support or otherwise of the research's arguments regarding the benefits or otherwise of SMEEIS as an intervention program.

Chapter 3 provides the introduction of the research methodology to be adopted for the study, which includes the sampling, the choice of the statistical tools of analysis, and the description of the chosen study area within Nigeria. All of that is then followed by Sampling Technique, Method of Collection, and descriptive statistical analysis. Sample t-test and Linear Regression analysis were used as the data analysis tools for the processing of the collected data. Descriptive tables were also used, wherever applicable, for further illustrations. Definition of Dependent and independent variables are also provided.

Chapter 4 focuses on the interpretation of the result as well as discussions of the findings from the study in line with the overall objective of the study. The chapter has been divided into two main sections. The first section provides the descriptive statistics of generic details for the respondent SMEs, and the second section consists of inferential statistics for comparative analysis of the SMEEIS beneficiary as well as Bank Loans financed SMEs in the Northern Nigeria. The chapter further provides a detailed interpretation of results concerning the relationships between the dependent and independent variables in driving both financial and non-financial performance of SMEs in the study area.

Chapter 5 draws conclusion from the findings of the study in relation to the key players of the SMEEIS program, namely SMEs, Conventional Banks, and Regulatory institutions. The chapter further provides the theoretical implication of the study by comparing the Lucas Paradox and the Big Push Theory, which assists in understanding the behaviour of conventional banks' lending in Nigeria. Lastly, the chapter ends with recommendations regarding the implementation of the study's findings towards improving the financial status and credit worthiness of the SMEs in Nigeria to the various stakeholders.

CHAPTER 2

Literature Review

2.1. Introduction

This section provides the background to the financial challenges for the SMEs as well as the evolution of SMEEIS as an alternative source of financing for the SMEs in Nigeria. It also discusses the formal and informal sources of SME Finance in Nigeria. This is followed by an analysis of the seven SME intervention global best practice processes that are applicable to the Nigerian context. The SMEEIS section provides a detailed discussion of the concept, evolution, goals, and objectives of the program. It further explains the structural organisation of the program, defines the eligibility criteria for qualifying SMEs, and notes the various stakeholders as well as the critical roles they play within the scheme. Lastly, a synthesis of various related empirical studies and literature are reviewed, and the various arguments regarding the performance of the scheme are analysed.

2.2. SMEs in Nigeria

The development of a vibrant Small and Medium Enterprise sub-sector is critical in ensuring sustainable economic growth and development in every economy. This is due to its strategic importance in addressing the Sustainable Development Goals (SDGs) in many developing countries, including Nigeria. Goals such as employment have multiple effects on improving general living conditions as well as the standard of living of the citizens. However, in achieving this, numerous challenges affecting the sector must be addressed in a timeous manner. Among the concerns identified with the sector, access to finance remains a top priority that requires urgent attention. This has prompted the aggressive intervention of the Nigerian government via the Central Bank of Nigeria (CBN) to implement various programs aimed at improving the supply of credit to the SMEs. However, the SMEs' inability to meet the set conditions for these opportunities has largely resulted in the failure of such programs to deliver the intended impact.

SMEs are characterised as a high-risk sector by Nigerian public and private lenders. This is due to tendency of SMEs, among other things, to default on loans as a result of inadequate collateral security, low-level education, poor financial record keeping, and high information asymmetry. This makes the sector extremely unattractive for lending, despite its potentials (Okpara, 2011). Amongst many other issues, this necessitated policy makers to contemplate solutions capable of unlocking the available sources of financing for the SMEs.

This can be done through designing a collaborative SME financing program comprising both public and private sectors that is capable of addressing the risk concerns of the supply side (creditors) and improving the SMEs' access to financing (demand side).

2.3. Sources of Finance for SMEs in Nigeria

The ability of SMEs to raise the required financing in order to support various stages of business development (start-ups, development, and growth), expansion, and capacity for higher profit and returns, is critical to the success of their businesses. In Nigeria, there are many sources of such financing that have been broadly categorised into personal/informal and formal sources. This distinction is determined based on the sources of the finance, size of the enterprise, required amount, and the enterprise stage of development (Amos, 2014).

2.4. Personal and Informal Sources

Personal sources of finance are often generated through disposable income or savings from personal income, and they form the larger part of the SMEs' start-up funds. The majority of Nigerian SMEs trace their financing to personal sources. According to Ekpenyong (1992), about 94.7% of the required start-up funds for SMEs in Nigeria come from personal savings. However, this source is inadequate for supporting the evolution of SMEs as they grow in size and become more complex.

Informal sources of finance are informal financial institutions that offer credit services in order to assist persons or businesses to meet their immediate financial needs. Such institutions complement the role of formal institutions by providing financial services to the lower end of the market as well as the majority of the unbanked Nigerian rural population. They include local money lenders, relatives, friends, microfinance institutions, rotary credit and savings societies (ROCAS), community-based cooperative societies, voluntary contributions, and "esusu" (also known as "Ayo" to Yorubas, "Adashi" among Hausas, and "Isusu" among Igbo tribes of Nigeria).

Conditions for accessing credit through informal processes are less stringent because loans are granted based on personal relationship and trust therefore, the need for collaterals or guarantees in order to secure such loans are not emphasised. Informal sources are usually structured to provide an alternative to formal, so they involve financing tailored to suit the

peculiarity of its operating environment. Today, more than 85% of the financial services provided to SMEs especially those in the rural and lower end of the market are dominated by informal sources (CBN, 2012).

2.5. Formal Sources of Finance

This is made up of structured financial institutions that are either partially or fully regulated by the extant financial regulatory laws and institutions. Amongst others, they consist of deposit money banks, commercial banks, merchant banks, export banks, development banks, foreign exchanges, capital markets, and insurance companies, commodities, and derivatives markets. Their primary business is to provide mediation services between borrowers and lenders and, therefore, they offer a wide array of other services to achieve this. SMEs access their financing from these institutions through short, medium, and long-term loans that are advanced to them on the strength of their ability to repay as well as the availability of strong collateral. The loans are amortised in line with the agreed tenure and interest rate, which is, on average, MPR+5 in Nigeria.

Commercial banks dominate the Nigerian financial industry. They account for more than 93% of the market share, and, ultimately, are best suited for direct credit services to the SMEs (World Bank, 2013). But the commercial banks remain reluctant to provide credit to SMEs because of the inherent risks and the inadequacy of collateral security in the event of loan default, often associated with the SME businesses.

According to Louper (2010 cited in Gbandi & Amisah, 2014), the decrease in the percentage of SME credit at commercial banks dropping from 48.79% in 1992 to 0.15% in 2010 is a clear manifestation of the commercial banks' lack of interest in promoting SME financing in Nigeria. Furthermore, the stringent conditions attached to these loans often prohibits SMEs from accessing them, which forces the SMEs to resort to informal sources that are inadequate in supporting business growth. This may explain the sluggish development the sector witnessed in the midst of a developed financial system such as Nigeria's.

2.6. Review of the Financing Intervention for SMEs in Nigeria

Governments in both developed and developing countries have, over time, developed various SME financing strategies with the aim of providing a lasting solution to the identified funding gaps by, in essence, ensuring the sustainability of credit supply to the sector. According to Ketley et al. (2012), there are seven categories of International Best Practice supply-side

intervention strategies that governments (including Nigeria) and other public institutions use, either directly or through financial institutions, to encourage lending to SMEs:

i. General Regulatory Environment

These are deliberate government policies and regulations issued specifically to guide particular or general socio-economic aspects of a country. In Nigeria, such policies are mostly implemented and monitored through the related ministries, departments, or agencies of the government. The financial inclusion policy, vigorously pursued by the Central Bank of Nigeria, is aimed at reducing the financial exclusion rate, improving financial literacy, encouraging saving, and promoting lending by the financial institutions. According to Demirgüç-Kunt et'al (2017), the level of financial exclusion among Nigerian adults stood at 60% in 2008, with most of it representing the rural and uneducated population. This has greatly undermined SMEs' finances because the majority of the SMEs fall within this category. Therefore, the CBN intends a 20% reduction of this figure by 2020 through the increasing number of deposit bank branches, payment channels (such as Automated Teller Machines [ATMs] and Point of Sale Terminals [POS]), and SME lending schemes to enhance SME financing in Nigeria. This will encourage migration of the unbanked population to the formal financial institutions, which shall improve their access to financial services, encourage savings activities, enable more lending, and increase credit supply by the commercial banks.

ii. Enabling Environment

The unfriendly business environment in Nigeria is characterised, among other things, by the high infrastructural deficit, poor regulation, and information asymmetry. Risk concerns, arising from a high level of information asymmetry, greatly hamper the financial institutions' ability to extend credit facilities to the SMEs. The inadequacy of a centralised repository for basic information on the SMEs adversely affects the process of pre credit assessment for eligible borrowers. Information regarding SMEs' financial history, residential address, and demographic details of promoters assist the banks to make informed credit decisions and, thus, avoid the pitfalls of adverse selection, which also greatly improves the banks' chances of enforcing their recovery rights in the event of default. Therefore, the Nigerian government responded to this issue through the introduction of the following initiatives:

National Identification Management Commission (NIMC), which has the responsibility to capture and centralise the demographic/biometric information of all citizens for record keeping

purposes. Unique National Identification Numbers are assigned to citizens and serve as identifiers for many purposes, including national planning and financial transactions.

Introduction of Bank Verification Number (BVN) by CBN, which is a unique biometric identification code assigned to all financial institutions customers. The BVN serves as the unique identifier for all financial activities including banking transactions and tax returns, and acts as a means of ensuring compliance with statutory financial regulations.

The establishment of the Nigerian Credit Bureau by CBN in 2008 as well as the signing into law of the Credit Reporting Act 2017, saw the emergence of sound credit agencies in Nigeria. They serve as a repository of credit profiles of corporate and private entities, which, thus, improves the ability of credit providers to make informed lending decisions (Credit Services and Registry, 2018).

Establishment of the Nigerian Industrial Court in 1976 to take care of trade disputes between employers and employees, workers and workers, trade unions and workers, and trade unions and trade unions (Adejumo, 2009).

These initiatives, if properly utilised, will greatly assist in restoring the confidence of the lending intuitions as well as addressing their risk concerns.

iii. Partial Credit Guarantees (PCGs)

These are direct government interventions that provide guarantees to the conventional banks for SME lending in the event of default, and have been characterised as being among the most market-friendly intervention tools. The indemnity provided under this scheme guarantees the payment of the capital and interest portion of the loan back to the lending institution in the event of default. This reduces the commercial banks' risk concerns, which encourages SMEs to borrow for the purposes of developing their businesses. In Nigeria, some of the most notable PCGs are:

The Agricultural Credit Guarantee Scheme Fund, which was established under Decree No. 20 of 1977 and was among the early intervention initiatives aimed at encouraging credit supply for agro-based entrepreneurs in Nigeria. It commenced operation in April 1978, with a share capital and a paid up capital of N100 million and 85 million, respectively, as well as 60% shareholding by the Federal Government and 40% for the Central Bank of Nigeria(CBN 2017). The capital base was later increased to N3 billion in 2001, and is fully managed by the Central

Bank of Nigeria. The scheme provides a guarantee of up to 75% for the Agricultural credit facilities extended by commercial banks to entrepreneurs in the event of default, net of any realisable security asset. This resulted in a significant rise in the lending portfolio of commercial banks to the agricultural sector between 1978 and 1989, before the financial sector reforms (CBN, 2017).

The establishment of the Small Medium Equity Credit Guarantee Schemes (SMECGS) by the CBN was designed to provide comfort for the commercial banks in improving credit supply to the underserved SMEs, mainly in agriculture, manufacturing, educational institutions, and other forms of business deemed eligible by CBN. The scheme sets aside 200 billion Naira to provide guaranteed coverage of up to 80% of the principal and interest of the loan amount to the issuing bank, while interest is charged at the prime lending rate (CBN 2010).

The Agricultural Credit Support Scheme (ACSS) is a Federal Government and CBN joint intervention initiative, which set aside N50 billion to provide the required financial assistance to Nigerian farmers. The program aimed at exposing farmers to the potential opportunities that exist within the agricultural value chain. This was intended to, amongst other things, drive excess production and surplus generation for export, reduce inflation through lowering the cost of agricultural production, stimulate economic diversification from an over-dependence on oil for national income, and increase food security. Under the scheme, loans are disbursed through participating commercial banks at a single digit interest rate at varied tenures depending on the nature and complexity of the projects involved (CBN, 2017).

Commercial Agriculture Credit Scheme (CACS) was established in 2009 by the Central Bank of Nigeria (CBN), in conjunction with the Federal Ministry of Agriculture and Water Resources (FMA&WR), to deliver finance for the country's agricultural enterprises. The scheme, which is an offshoot of the Nigerian Commercial Agricultural Development Program, drew its funding from N200 billion bonds raised through the Nigerian Debt Management Office (DMO). Credit facilities and loans are disbursed to large-scale farmers at an interest rate no higher than 9%, in order to support large-scale agricultural production, provision of employment, enhancement food security, and consolidation of the agricultural sector's contribution to the economy as a whole.

v. State and Donor Organisations

State-owned organisations have been widely used in both developing and developed nations in financing the development of SMEs. These institutions include commercial banks, micro finance banks, development finance institutions, and other specialised SME funding outlets. The creation of such institutions in Nigeria is to complement the credit supply, which the private financial institutions failed to adequately address.

The earliest state-owned financial institution, the Investment Corporation of Nigeria (ICON), was created in 1959 under the guidance of the World Bank and International Finance Corporation (IFC). In 1964, it became the Nigerian Investment Development Bank (NIDB) and, in 2001, it was renamed as the Bank of Industry (BOI), which was in line with the Nigerian Industrial Revolution Plan and the Economic Recovery and Growth Plan (ERGP) agenda. Its ownership comprises the Federal Ministry of Finance Incorporated (94.80%), the Central Bank of Nigeria (5.19%), and private shareholders (0.01%), and is under the supervision of the Federal Ministry of Trade. The bank provides financial assistance to small, medium, and large enterprises in various sectors of the Nigerian economy, such as agriculture, light manufacturing, engineering, technology, gas and petrochemicals, solid minerals, creative industry, youth enterprises, women-owned businesses, and renewable energy. Various laudable sector-specific projects and programs especially SME financing and youth empowerment were delivered through the bank, such as Nollyfund (development of the local film industry) and the Arts and Craft Product Fund (for artisanship development). The Bank also serves as a vehicle for the direct delivery of government agricultural interventions, such as the ₦10 billion Rice Intervention Fund, the ₦18 billion National Automotive Council (NAC) Fund, the ₦4.3 billion Cassava Bread Fund, and the ₦18 billion Rice and Cassava Fund.

The Bank of Agriculture Limited is Nigeria's leading agricultural and rural development finance institution. It was created in 1972 as Nigerian Agricultural Bank (NAB), which, in 1978, changed its name to become the Nigerian Agricultural and Co-operative Bank Limited (NACB), to reflect the inclusion of co-operative financing into its broader mandate¹. In 2010, the bank was rebranded as the Bank of Agriculture, which was in line with the agricultural promotion agenda of the government and economic diversification. The bank's main focus is in providing agricultural loans to small, medium, and large-scale farmers, as well as export financing support, agricultural cooperative financing, and other value-adding activities within the agricultural value chain.

¹ <http://www.boanig.com>

vi. Apexes and Wholesale Funding

Wholesale facilities, or apexes, are set up to lend and manage funds to financial institutions in order to improve their liquidity as well as reduce their cost of funding, so they can expand their access to finance. Apex institutions have played a critical role in developing microfinance and small enterprise finance in a number of countries (Ketley et'al 2002).

vii. Supply-side/Capacity Building Initiatives/Encouraging Innovation

Financial institutions, whose main business line is not the MSME sector (for example, those with a tradition of servicing upper retail segments and corporate banking), often have a weak institutional capacity for providing financial services to this sector. Therefore, these institutions need to proactively acquire the prerequisite knowledge and capabilities. Government interventions that reduce the cost of learning for an institution can change the business case for entering the MSME sector (Ketley et al., 2002).

The Capacity Building Initiatives/Encouraging Innovation

These are deliberate interventions made through government or donor agencies in terms of grants, waivers, or concessions that are aimed at building the SME absorption capacity of financial institutions. Since lack of appropriate competence or skills has been identified as a limiting factor for SME financing by the conventional financial institutions, activities such as market research, acquisition of technology, risk management methodologies, as well as training that can improve the supply side capacity of the financial institutions may be funded or supported either directly or indirectly by the government.

Innovative financial inclusion improves access to financial services for SMEs through the development and scaling of new approaches. The Nigerian Government, through CBN, is increasingly investing in ways to provide supportive regulations for financial institutions that are seeking to design or implement new approaches to financial inclusion that simplify financial accessibility, enhance financial literacy, and increase the financial inclusion rate in the country.

However, despite all the mentioned interventions promoted by the government, the sector still lags behind in terms of growth and overall contribution to the economy. This can be traced to the lack of support of SMEs by the commercial banks and private financiers. Because the private sector is solely motivated by profit and, also, largely averse to the unprotected risk

exposure associated with the SMEs. Therefore, the SMEs sector must ensure the safety of investors' funds and demonstrate growth potentials as well as stability in terms of prospects and profitability. Hence, the emergence of SMEEIS is regarded as the right step towards providing much needed institutional arrangements that could provide financial access for SMEs whilst safeguarding the formal sector's risk exposure.

2.7. Small Medium Enterprise Equity Investment Scheme in Nigeria

During its 264th meeting on December 21, 1999, the Committee of Bankers under the auspices of the Central Bank of Nigeria approved the establishment of the Small Medium Enterprise Equity Investment Scheme (SMEEIS) as a private sector intervention towards increasing the supply of the much needed credit to stimulate the growth of SMEs, which has remained stagnant despite various government interventions. This came at a time when strategies adopted thus far by the government yielded insignificant results for the sector. The private sector's involvement complemented the government's effort as SMEEIS was to serve as, amongst other things, a vehicle for rapid industrialisation, sustainable economic development, poverty alleviation, and employment generation.

Other objectives include the facilitation of the flow of funds/credit from banks towards the establishment of new viable SME projects, the maintenance and expansion of existing ones, and the rehabilitation of moribund businesses. It also aimed to stimulate economic growth through the development of local technology, promoting indigenous entrepreneurship, and generating employment for the unemployed youth. Furthermore, output expansion, income redistribution, and production of intermediate goods are intended to strengthen inter- and intra-industrial linkages.

2.8. Funding Structure of the Program

The funding structure requires participating commercial banks to voluntarily set aside 10% of their annual Profit after Tax (PAT) at the end of each financial year, which will then be used for the program. These funds are to be put to use by the commercial banks under the strict supervision and guidance of the Central Bank of Nigeria. The investment under this scheme covers all forms of legally acceptable business enterprises, except trading, merchandising, and financial services. By the end of 2008, the cumulative sum set aside by the participating banks stood at N42 billion, out of which N28.2 billion representing 67.1% of the total funds was invested in 333 SME-funded projects across the country.

2.9. SMEEIS Eligibility Criteria for SMEs

The scheme redefined the eligibility of the SMEs for funding based on the size of capital requirement, level of compliance with regulatory requirements, satisfactory record keeping, and well-outlined business proposals with realistic cash flow analysis. Therefore, all qualifying SMEs must meet the following criteria:

- Any Small and Medium sized enterprise with a minimum asset base of N1.5 billion Naira (excluding land and working capital), with no upper or lower limit on the number of employees, is suitable for consideration.
- Such enterprise must have full compliance with the provisions of the Company and Allied Matters Act (CAMA) (1990). This includes the regular filling of annual returns and audited financial statements. The enterprise must have full compliance with applicable tax laws as well as submission of returns to the tax authorities.

2.10. Forms of Investment

The investment made under SMEEIS falls into two categories:

Single Digit Convertible Loans: This is cash advanced in the form of loans offered to eligible SMEs through the commercial banks participating in the SMEEIS program. The loans are issued at a single digit interest rate not higher than 9% per annum, which is 60% lower than the prime lending rate in Nigeria (MPR+5). The loan is converted to equity at the discretion of the debt holder, or as a way of enforcing their rights in the event of default. The limit of funding under SMEEIS is capped at an amount not more than N500 million per project. In addition to the preconditions, eligible SMEs must have adequate collateral coverage of the loan in the form of landed properties, fixed and floating debentures on the company assets, legal mortgages, or personal guarantees against the net worth of the business promoters or guarantors. The SME must also ensure strict utilisation of the funds in accordance with the original purpose/plan to prevent diversion of the funds.

Equity Investment: This is a direct investment into the eligible SME through the acquisition of a stake or equity shares of the business. Under this arrangement, the banks provide a short-term to medium-term investment in eligible SMEs, with a plan to harvest/divest within the agreed period of time. The banks either create a venture capital subsidiary or dedicate a unit within their operations to handle investment transaction-related matters. The banks in this investment scheme usually have representatives on the management board of the companies they invest in,

so they are directly involved in the management to ensure optimal utilisation of the funds but also, to protect their investment.

A combination of both single digit and equity investment is also permissible where the size and business complexity requirements are capital-intensive and, thus, require superior expertise beyond the SMEs' level of competence.

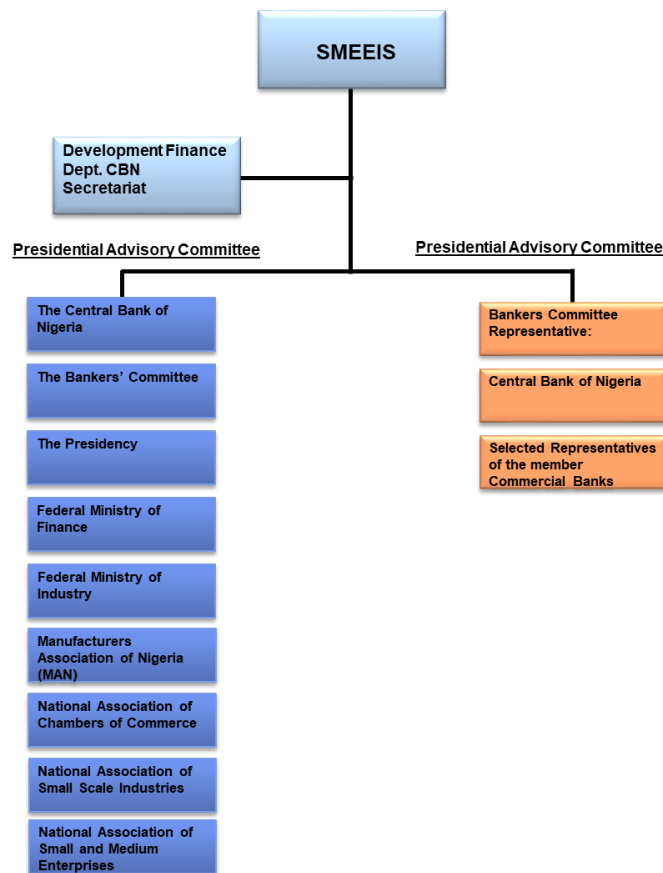
2.11. Governance Structure of SMEEIS Program

The program is a national project jointly administered by the public and private sectors that were coordinated by Standing Committees on SMEEIS, which drew its membership from the listed stakeholders of the program.

2.12. Responsibilities of the Stakeholders

Federal Government is responsible for the provision of a conducive business environment capable of supporting SMEs to thrive and grow in all respects. This includes enabling legislation with regards to enforcement of rights by the participants, tax reforms, concessions, and incentives. For example, the eligible SMEs enjoy 10% tax relief on income tax as well as a five-year tax holiday in order to aid their unhindered growth. The participating banks also enjoy exemptions from capital gains tax on all investment activities involving the funds by the Nigeria fiscal authorities.

The Standing Committees



Source: CBN (2012)

The Central Bank of Nigeria, being the lead promoter of the program and the apex regulatory body of all the financial institutions in Nigeria, functions as the oversight and coordinator of the program. The CBN is responsible for the program guidelines as well as for articulating the roles played by all the stakeholders within the scheme. This includes negotiating tax incentives for the SMEs from relevant government fiscal authorities, facilitating the registration of venture capital operators with the SEC, and providing sound financial policies and reforms to support the growth of SMEs in Nigeria. The CBN also monitors the level of compliance by the banks to ensure the efficient implementation of the program through the gathering of relevant data on the disbursement/utilisation of the funds between the banks and the SMEs, the levels of awareness of the program, its impact on the SMEs, periodic reports, and general administration of the scheme. Rewards and sanctions are also administered to both compliant as well as erring banks within the scheme by the CBN to ensure the overall success of the program.

The Secretariat: The Committee has its joint secretariat at the Development Finance Department of the Central Bank of Nigeria. The Secretariat performs all administrative functions for the program such as convening meetings, maintaining records, and periodic rendition of reports to stakeholders as well as all other support functions for the Committee towards the discharge of its mandates and responsibilities.

The Bankers' Committee coordinates the activities of the private sector participants within the scheme, which include, but are not limited to, the commercial banks and other financial institutions. The committee also collaborates with the rest of the stakeholders in order to ensure the attainment of the scheme's objectives.

Individual Banks are responsible for raising and administering the funds through the issuance of convertible loans and equity investments in the eligible SME businesses. The banks, through their intermediation services, provide the required assistance to the SMEs in terms of information pertaining to financial, technical, and managerial support for building the capacity of the eligible SMEs. The banks also ensure compliance with the scheme's regulatory guidelines and report to the CBN on a periodic basis.

Independent Fund Managers have the fiduciary responsibility of managing the unutilised funds of the scheme, in an optimal manner, through strategic investments in risk-free government securities and other responsible investment outlets that will ensure the preservation of the funds.

Promoters of Small and Medium Scale Enterprises are responsible for ensuring prudent utilisation of the accessed funds, through optimising their investment strategies within their chosen projects. They are also required to keep up-to-date records on project activities which is subject to periodic inspection by the appropriate authorities and also, to comply with the guidelines of the scheme.

The Securities and Exchange Commission (SEC), being an apex capital market regulatory body in the country, it has the responsibility of providing an enabling environment for the development of a vibrant capital market for facilitating as well as simplifying the registration of SMEs and venture capital companies. This will enable the SMEs to easily list their shares at the IPO stage, making investors able to harvest their investment in a timely manner.

2.13. Theoretical Framework: “The Big Push Theory”

The motivation behind promoting the growth of SMEs, especially in developing and emerging economies like Nigeria, is to encourage economic growth and development. This is largely due to the capacity of the sector to generate employment, increase production, and stimulate the demand for industrial and consumer commodities, which all lead to the development of the financial institutions (Abor, 2012).

The Big Push Theory, originated by Rosenstein-Rodan in 1943 as a development economics concept advocated that, a large amount of investment is required for the economies of underdeveloped countries to attain the desired growth level. This means that anything less than the minimum threshold amount of investment required in the economy for the purpose of promoting economic growth will result in a waste of resources. According to Rosenstein-Rodan (1972), developing economies require an enormous amount of investment for sustainable development.

The theory’s foundation is rooted in the existence of externalities within an industrialised rather than agrarian economic setting of Eastern Europe. According to Rosenstein-Rodan, disguised unemployment and under-employment evident in the agrarian economy results in a low level of employment, low disposable income, and low technological advancements. However, he argues that industrialisation, based on the social marginal product rather than private marginal product, benefits the economy in terms of positive externalities. This results in the trinity of indivisibilities that give rise to these externalities:

Indivisibility of Production Function: This theory suggests that high investment in social capital is required to attract investments in infrastructure, an enabling environment, a conducive regulatory environment, and a mix of other essential utilities capable of sustaining industrialisation. Accordingly, a high investment in social capital overheads can effectively transform existing and incoming industries’ productive capacity in an underdeveloped economy.

Indivisibility of Demand: Developing countries are characterised by low employment, low disposable incomes, low per capita income, and weak purchasing power due to a low level of productivity, which is attributable to under industrialisation. However, a sizable amount of investment in strategic sectors of the economy will increase employment level, disposable

income, as well as a general increase in demand. This will bring about a further rise in complementary production activities in order to respond to the increasing demand, which shall consequently result in the generation of more jobs, higher incomes, and industries for the economy. As the existence of a larger market significantly reduces the risk of matching demand and supply, attracting, encouraging, and retaining both local and international investment becomes possible.

Indivisibility of Saving: A high level of investment, especially in social capital, is a catalyst for enhancing industrialisation. A heavy reliance on foreign sources such as aid and loans cannot bring about the required level of investment needed to launch developing economies into a sustainable development path. However, increased earnings, as a result of the rise in domestic productive activities, encourages savings and provides a good source of domestic funding for investments activities. This leads to the emergence of strong financial institutions, increasing financial inclusion, and literacy rate within the economy. Therefore, this circle of indivisibilities will guarantee the sustainability of economic growth and development in the emerging countries.

2.14. Empirical Literature Review

Small and Medium Enterprises Equity Scheme has become a topical issue within the Nigerian academic environment due to the importance of SMEs as a catalyst for rapid economic growth and transformation (Gbandi & Amissah, 2014). Inadequate financing remains the biggest challenge for Nigerian SMEs, resulting in their inability to make a significant contribution towards economic growth and poverty alleviation in Nigeria (Okpara, 2011). Many empirical studies that have been carried out have divergent views regarding the effectiveness of the program in addressing the financial problems of the SMEs in Nigeria. While the “protagonists” prove the positive impact the program has on the economy, the “antagonists” prove how the program failed in assisting the SMEs in Nigeria. First, the protagonists.

Tambunan (2008) studied the impact of government financial intervention programs for LDCs towards the support of SME growth in the country, with a focus on Indonesia. The study’s aim was to measure whether or not government intervention programs play a major role in the sustainability of SMEs. He discovered that 57% of the financial, technological, and training assistance towards SMEs delivered through government-sponsored interventions affected SMEs in terms of real gross domestic product per capita. Although he cited the use of Indonesian data as a limitation, he asserts that the growth of the intervened SMEs is attributable

to the rise of a niche market within the sub-sector that serves as a last resort for the low income earners.

Oyefuga et al. (2009), in their study of selected SME beneficiaries of SMEEIS, found that the program has positively contributed towards the growth of SMEs in Nigeria by addressing the problem of finance accessibility, which was the major challenge impeding the growth of SMEs in the country. Although the poor subscription rate among the SMEs was largely attributed to low levels of awareness, poor project proposals, and stringent application requirement/conditions, he stressed the need for increased awareness from the government and the commercial banks in order to improve the subscription rate for the benefit of the SMEs.

Agundu and Dagogo (2009) examined the contribution of SMEEIS as a venture capital method of financing towards galvanising SMEs' transformation to Large Enterprises (LEs) in Nigeria. From a survey of 120 SMEs (60 VC backed against 60 Non-VC backed), using profit before interest and tax (PBIT) as a measurement parameter. Using multiple regression analysis, he established that the VC-backed SMEs outperformed the Non-VC backed based on the PBIT as a result of more efficient management, technical support, and access to requisite finance. Although he sighted enterprise control and enterprise valuation among the factors hindering the acceptability of the VC amongst SMEs, he asserted that private sector participation through VC guarantees faster industrial transformation of the Nigerian economy.

Adina-Simona (2013) measured the performance of the SMEs who accessed the state financing intervention in Romania through the use of structural funds, financial instruments, thematic funding opportunities, and support for the internationalisation of SMEs seeking access to markets outside the EU. Using employment creation, economic growth, and profitability as key performance indicators, she concluded that the government intervention for the SME positively impacted upon their development.

Gbandi and Amissah (2014), while exploring the most suitable financing options among the various financing sources in Nigeria, lauded the initiative of the SMEEIS. Considering that finance accounted for 25% of the challenges affecting the growth of SMEs in the country, they reiterated the need for renewed attention to sustainable sources of financing for SMEs. However, they noted that intervention programs in Nigeria are poorly conceptualised, poorly implemented, and abruptly terminated without due concern for remedial measures.

Salihu and Modibbo (2014) conducted an empirical investigation on the role of SMEEIS towards the development of SMEs in the Taraba State of Nigeria. The survey data, collected from 201 SMEs, revealed the strong positive relationship between SMEs' development in the state and the SMEEIS program. This was evident from the significantly increased turnover,

employment generation, and acquisition of technology witnessed by the SMEEIS investee SMEs. However, the eligibility criteria as well as the relatively short supply of such investments made the impact less significant. Furthermore, the concentration of the scheme on medium scale enterprises limits its coverage within the SMEs, which is mostly dominated by micro and small industries. Hence, they recommend the widening of the program to the lower level of the SME chain for even distribution of the inherent benefits.

Orji, Ogbuabor, and Mba (2014) studied the trend of lending to SMEs as a factor for economic growth in Nigeria, from 1992 to 2011, and observed a continuous decline in the lending to SMEs in the country. Using an ordinary Linear Least Squares Method of Time Series Analysis, the results indicated a positive relationship between lending and SME growth even though there were adverse business operating conditions in the country. They recommended the strengthening of credit schemes such as SMEEIS towards enhancing the borrowing propensity of the SMEs.

Uzoma and Kalu (2015) observed that SMEEIS, as an alternative source of funding, has the potential to address the funding challenges of SMEs in Nigeria. A private sector initiative with a profit-making motivation results in the active participation of the banks through technical, financial, and advisory services. This intervention significantly benefits the SMEs under the SMEEIS program, as empirically established in the study. However, they identified certain constraints among which enterprise valuation remains a major area of disagreement between the banks and the SMEs. This is explained by the high risk associated with the SMEs and the volatility of the Nigerian business environment.

The antagonists believed that the banks' averseness to highly risky enterprises operating within an unfriendly business environment such as Nigeria is a recipe for failure of any intervention program, especially SMEEIS.

Inegbenebor (2006) assessed the capacity, readiness, and level of awareness of entrepreneurs towards accessing the Small Medium Enterprise Equity Investment Scheme in Nigeria. From the 1262 SMEs surveyed from the six states in the South-South region of Nigeria, SMEs attitude towards enterprise control, over-reliance on informal sources of finance, poor financial literacy, lack of transparency by commercial banks, and low level of awareness of the program were identified as the factors limiting the effect of the program in the region. He therefore recommended improving financial literacy regarding venture capital programs as well as increased transparency by commercial banks dealing with SMEs.

Rahji and Apata (2008) studied the determinants of the supply of credit to the SMEs in Nigeria under the SMEEIS scheme. They noted that SMEs' credit constraints are largely due to commercial banks' averseness to the inherent risks associated with their businesses and a bigger appetite for profit rather than the social good. Using Tobit Regression Analysis, the study established higher interest rates, nature of business (mostly services related), the profitability of the enterprise, and loan tenure as the most significant factors determining the credit supply by the participating financial institutions in Nigeria. The study attributed the dismal performance of the scheme to preferential credit rationing by the commercial banks, and calls for more government intervention in terms of providing an enabling environment for the development of manufacturing SMEs.

Terungwa (2011), in his study of 700 SMEs in Benue and Nassarawa states of Nigeria, used the aggregate loans disbursed by the commercial banks to the sub-sector in order to measure the impact of the program on the SMEs in the two states. The research revealed that the commercial banks are more favourably disposed to advancing loans to medium rather than small enterprises due to their ability to repay the loans. This resulted in little impact given that the SME distribution within the states is dominated by small enterprises.

According to Ketley et al. (2012), SMEEIS is a corrective mechanism adopted as a result of the market's failure to allocate adequate funding to SMEs due to commercial banks' risk concerns. Also, the interest rate capping distorted the true pricing of loans, which erodes commercial banks' profits, and, therefore, makes lending less attractive under the program. This led to incidences of adverse selection following banks' poor due diligence during the credit assessment of the SME firms. The study also attributed the poor performance of the equity side of the scheme to the absence of board structures and corporate governance frameworks in most SMEs in Nigeria, which made equity investment riskier and less accountable in the SME firms, thus aggravating the concerns of potential investors in the SME firms under the program.

Egbon and Donwa (2015) established that SMEEIS, as a venture capital initiative, provided the ideal funding alternative to conventional banking loans for SMEs. However, its failure was largely attributable to the deficiency of the requisite skills to manage venture capital as well as the risk averseness of the commercial banks towards the SMEs in Nigeria. On the other hand, the desire for full ownership/control of business by entrepreneurs, poor regulation and non-codification of the venture capitalist, and SME business relationships impeded the success of the scheme. They also argued that the existence of a functional capital market is a strong catalyst for the venture capitals to thrive, a condition which is hardly attainable in Nigeria.

Haruna and Sulaiman (2018) examined the role of financial institutions in ensuring the effective implementation of SMEEIS in the country. A profit making motive, being the primary driver behind the commercial banks' business, explained the underutilisation of the accumulated funds under the scheme. This resulted in a wide gap between the demand and supply side of the program, further limiting the capacity of the SMEs to make a meaningful contribution to the economic growth of Nigeria.

Peter and Inegbenebor (2009) carried out a countrywide study on the SMEs' capacity to access and utilise the accumulated funds under the scheme. The study revealed that a majority of the SMEs in Nigeria are either sole proprietors or partnerships while only 37.2% of the SMEs in Nigeria are registered as limited liability entities. Furthermore, a significant disparity in the level of awareness and education level has also been observed, with the southern part recording a higher level of awareness than the north. This resulted in a low 3.2% utilisation rate of the accumulated funds by the SMEs. They recommended the restructuring of the program, emphasising awareness, financial inclusion, and more government vigilance and assistance towards optimising the benefits of the program.

According to Zecchini and Ventura(2009), the impact of credit guarantee intervention in the SMEs in Italy has proven that government intervention initiatives can substantially influence credit and, additionally, interest cost reduction. Scepticism surrounding lending to a highly risky as well as information asymmetry laden sector resulted in the credit rationing, high interest rates, and exorbitant agency fees amongst others, which resulted in the unavailability of credit supply for the SMEs. Using extensive econometric models, the author draws from a cross sectional data of intervened and non-intervened SMEs in Italy in order to empirically establish the causality relationship between SMEs guarantee scheme and the supply of credit to the sector. The result confirmed a strong relationship between the observed high leverage ratio and low cost of debt of the intervened SMEs and the government guarantee scheme. This confirms the effectiveness of government intervention programs that is, where they are effectively implemented and properly monitored for the sustainability of the SMEs.

Adejumo and Titus (2017) studied the impact of Agricultural Credit Guarantee Schemes on the performance of the SMEs in Nigeria. Using descriptive statistical tools on the secondary data obtained from the records of the central bank of Nigeria (CBN) for all states in Nigeria from 1981 to 2016 the study confirmed a strong positive relationship between the intervention schemes and agro related SMEs. However, the impact on the overall economy was minimal, which is based on the insignificant population (21.4%) of the Small scale farmers who accessed the loans. They argued that more awareness, campaign, and sensitization will ensure increased

subscription of the program and, consequently, resulting to a major impact of the economy as a whole. They concluded that poor implementation of SMEs intervention programs often limits the ability of the programs to achieve the desired result.

Hussain (2012), in his study, observed that the Pakistan SMEs performance is hindered by financial constrain, despite their capacity in employment generation, income, and technological advancements. Using descriptive statistical tools, a survey of data from Likart scale structured questionnaires were administered and analysed on 175 SME firms in the study area. The result showed that government assistance through credit guarantee, subsidized lending, and other extension programmes are the most active support initiatives in the country's SMEs sub sector. While noting the insignificance of relationship the government and private sector intervention have on the productivity and performance of the SMEs, he concluded by recommending a Public Private Partnership (PPP) approach towards SME financing in Pakistan. Doing so, Hussain posits, will significantly address the risk exposure of the financiers, enhance technical assistance, promote risk sharing, and improve synergy and collaboration between the public and private sector.

Table 2.1: Summary of Empirical Review

S/N	Author(s)	Sample Size	Country	Analytical Framework	Main Findings
1	Tambunan (2008)	Secondary Data from Bureau for Public Statistics for the Period from 1993–2006 for Pakistani SME sub sector.	Indonesia	Descriptive Statistics & Tables.	It shows that both real gross domestic product per capita and government development expenditure (especially that used to finance SME development promotion programs) have positive impacts on SME growth. With this finding, the research argues that SMEs in LDCs can survive and even grow for three main reasons: (a) they create a niche market for themselves; (b) they act as a “last resort” for the poor; and (c) they will grow along with large enterprises (LEs) because of their increasingly important production linkages with LEs in the form of subcontracting (Tambunan, 2008).
2	Oyefuga et al. (2009)	64 SMEEIS SMEs and 57 bank officials were surveyed.	Nigeria	Use of Questionnaire and Interview methods of data collection. Analysed and presented using descriptive method.	Uncoordinated business plans and poorly packaged projects were found to be the most significant reasons why SMEs could not access funds from the scheme. Although the scheme had been helpful to some SMEs, most of them were not aware of its activities and potentials. Operators of the scheme should therefore make efforts to further create awareness and educate the entrepreneurs (Oyefuga et al., 2009).
3	Agundu & Dagogo (2009)	60 Respondents samples each from VC Backed and Non-VC Backed SMEs.	Nigeria	Multiple regression analysis (MRA) was used to determine variation in the dependent variable (PBIT) that is explained by the dynamics of the independent variables.	The study established that VC Assisted SMEs outperformed the Non-VC Backed SMEs, and has a greater and more transformational effect on SMEs than debt financing siting management support and related technical assistance as the repressors with the strongest positive relationship on the profitability of the SMEs. Furthermore, encouraging an incentive based VC financing in order to encourage and motivate performance among the SMEs.
4	ADINA-SIMONA (2013)	40 European Union Fund assisted SMEs.	Romania	Use of Questionnaire and Interview methods of data collection. Analysed and presented using descriptive method.	Majority of the Romanian SMEs who accessed European Union Funds have performed well, amongst other things, in terms employment creation, capital acquisition, working efficiency, and the introduction of newer products. Therefore, the study concluded that the government intervention (such as SMEEIS) is essential for driving SMEs growth and performance.
5	Amos (2014)	225 SMEs Firms in Ado-Ekiti.	Nigeria	Multiple Regression Analysis was used to determine the effect of personal savings, informal, and formal sources of finance (independent Variables) against Performance as a dependent variable.	The study established a strong connection between Personal Savings, Informal, and Formal sources of Finance with SMEs Performance in the State. The coefficient results show that formal source ranked best with <i>t</i> value of 5.933 and 0.00 at 5% level of significance among the rest of the sources. The study concluded that there is nexus between formal sources of finance as the most significant independent variable upon SMEs’ performance in Ado-Ekiti metropolis (Amos, 2014).

6	Saidu & Modibbo (2014)	155 registered SMEs were selected through stratification.	Nigeria	Descriptive statistics are used for primary data, and the hypotheses were tested using Chi-square test computations.	The findings revealed that Small and Medium Enterprises Equity Investment Scheme (SMEEIS) has some positive impact on the development of Small and Medium Scale Enterprises in Taraba State, but inadequacy of funding, lack of transparency, accountability, objectivity, and moral judgment has limited its capacity to affect the majority of SMES in the Taraba State of Nigeria.
7	Uzoma & Kalu (2015)	84 Registered SMEs.	Nigeria	Descriptive Statistic & Tables.	The study discovered that availability of financing options such as SMEEIS will help to improve the growth prospects of the Nigerian SMEs through the acquisition of requisite technology, improved machinery, and enhanced access to market.
8	Inegbenebor (2006)	Secondary Data of 1255 SME firms from Central Bank of Nigeria Data Base.	Nigeria	Descriptive statistics are used for primary data and the hypotheses were tested using Chi-square test computations.	The study Identified gross underutilization of the accumulated funds under SMEEIS due to high awareness gap amongst the SMEs, excessive risk aversion by the banks, and the inability of the SME firms to upgrade to their potential and harness the benefits of the program. He advised that knowledge and awareness of the program should be increased, and banks should be more accommodating to the sub-sector for the program to have the desired impact.
9	Rahji & Apata (2008)	Secondary Data from commercial banks based on demand and supply of credit during the SMEEIS period.	Nigeria	Tobit Model, using OLS to estimate the relationship between Loan Demand and Supply (DV) against other Independent determinants.	The study set out to understand credit supply decisions of the conventional banks under SMEEIS. From the results, a supply of funds was found to be positively and significantly affected by profit, enterprise type, net-worth, interest rate, education, ownership type, equity provision, and maturity period of the loans. The equity provision condition was identified as a major problem in the operation of the scheme (Rahji & Apata, 2008).
10	Terungwa & Dandago (2011)	Combined Use of Primary Data=700 SMEs. Secondary Data=Loan disbursement data by commercial banks were employed.	Nigeria	Paired sample t-test was used to test the significance of bank loans issued, while mean scores and standard deviation were used to analyse the data from the questionnaires.	The result shows that there was no significant difference between the loans disbursed by banks to SMEs before and after the introduction of SMEEIS, and the conditions for accessing SMEEIS funds was beyond the reach of the predominant SMEs in Nigeria (Terungwa, 2011).
11	Ketley et al. (2012)	Combined use of primary (interview) and secondary data from Nigerian National Bureau of Statistics.	Nigeria	Use of interview methods of data collection. Analysed and presented using descriptive method.	The study revealed that interest rate capping distorted the true pricing of loans, which erodes commercial banks' profits, hence making lending less attractive under the SMEEIS. This led to rampant incidences of adverse selection following banks' poor due diligence during the credit assessment of the SME firms. The profitability and risk concerns of the commercial banks remained the biggest impediment to the overall success of the program.
12	Egbon & Odonwa (2015)	33 Respondents from the SMEEIS Regulatory institution.	Nigeria	Rank ordered Likert Scale, and Analytical and Descriptive Tables.	This paper examines SMEEIS as VC and provides plausible causes of its failure—namely, banks' lack of requisite skills to manage venture capital and the apparent bias of banks towards SMEs and regulatory challenges (Pat Donwa&, 2015).

13	Evbuomwan, Ikpi, Okoruwa, & Akinyosoye (2012)	Combined use of primary (interview) and secondary data from Central Bank of Nigerian.	Nigeria	Central tendency and dispersion, proportional analysis, growth rate and trends, graphs and charts and frequency distribution.	The study established that 75% of the Nigerian SMEs are more comfortable with their own capital rather than debt or equity financing as a source of capital. Furthermore, the majority of the SMEs prefer debt over equity financing for the purpose of enterprise control. Also, the majority of the SMEs desire schemes such as SMEEIS for the growth of the sector.
14	Zecchini & Ventura (2009)	Cross sectional data from 120 samples of intervened and non-intervened SMEs in Italy.	Italy	Regression Model, Ordinary least square and Econometrics analysis were used.	The study established the effectiveness of government guarantee scheme in improving Credit additionally and interest cost reduction for the beneficiary firms in relation their non-beneficiary counterparts in Italy. The study further confirmed that the effective implementation of government guarantee allays risk concerns of the lending institutions and enhances performance of the SMEs.
15	Hussain (2012)	Likert scale structured questionnaires administered on 175 SME firms.	Pakistan	Using descriptive statistical tools (i.e., mean, standard deviation, and chi-square test).	The study established that the relationship between government and private sector intervention have on the productivity and performance of the SMEs is insignificant—although, government is the biggest supporter of the SMEs in the country. He concluded by recommending a Public Private Partnership (PPP) approach towards SME financing in Pakistan, as doing so will significantly address the risk exposure of the financiers, enhance technical assistance, promote risk sharing, and improve synergy as well as collaboration between public and private sector.
16	Adejumo & Titus (2017)	Secondary data obtained from the records record of the central bank of Nigeria (CBN), for all state in Nigeria from 1981 to 2016.	Nigeria	Using descriptive statistical tools.	The study confirmed a strong positive relationship between Agricultural Credit Guarantee Schemes and agro related SMEs. However, the impact on the overall economy was minimal based on the insignificant size of the population (21.4%) of the Small scale farmers who accessed the loans. They argued that more awareness campaign, and sensitization will ensure increased subscription of the program, and, consequently, resulting to major impact of the economy as a whole. They concluded that poor implementation of SMEs intervention programs often limits the ability of the programs to achieve the desired result.

2.15. Justification for the Study

Most of the research conducted on the SMEEIS has been largely concentrated on the southern part of Nigeria, leaving out the SMEs in the northern part of the country. This omission significantly renders the established findings inconclusive, which leaves an important piece of the puzzle missing in the dominant literature. Therefore, this study is intended to bridge the existing gap in the literature by incorporating the outcome of this study into the body of knowledge for policy implications and recommendations.

Significant portions of the existing literature pays more attention to the SMEs without critically analysing the contribution of conventional financial institutions in the financing of the SMEs. This study provides a combined perspective for both the SMEs and conventional banks regarding the opportunities, challenges, and prospects of SMEs financing towards achieving sustainable economic growth and development.

The choice of numerous parameters for the measurement of both financial and non-financial performance of the SMEs make this work uniquely different from the current literature, as it provides a holistic approach for performance management appraisal of the two categories of SMEs, and also compares such performance at a glance for the benefit of decision-making by policy makers, SME investment enthusiasts, government, and private sector.

CHAPTER 3

Research Methodology

3.1. Introduction

This section describes the methodology for carrying out this study. It explains the type and source of data used, sample and sampling techniques, methods by which data was collected, tools of data analysis, and model specification. The chapter also details the choice of the statistical tools of analysis as well as the description of the chosen study area within Nigeria. In order to achieve the research objectives, a survey research (cross-sectional) through the use of structured and semi-structured questionnaires was used as the instrument for the data collection.

3.2. The Study Area

This study initially targeted five hundred (500) respondents who are owners of small or medium sized enterprises (SMEs) because of the limited number of SMEs that benefited from the SMEEIS program in the north-western region of the country. Therefore, 250 SMEEIS beneficiaries were selected for the purpose of drawing comparisons against another 250 SMEs (the control group) under conventional banking loan schemes. This was executed in order to establish the extent to which SMEEIS assisted the development of SMEs in the region however, only 362 out of the 500 questionnaires were returned completed, which represented 72.5% of the total sample size (deemed adequate for the purpose of the study). The sample was drawn from the metropolis of the six states of the region: Kano, Kaduna, Katsina, Zamfara, Sokoto, and Kebbi. The choice of the region was influenced by factors such as population density, high presence of SME activities, existence of large markets, prevalence of commercial banks, and the volume of business transactions generated in the area. Stratified random sampling selection technique was adopted for the process.

The criterion for stratification was the type of business that is, small and medium scale enterprises. According to the available data on the population in the year 2012, the combined six states make the region the largest in population (North, 2016). There are various manufacturing activities within the region, which includes the production of plastic, footwear, textile, ceramics, tanning, beverages, animal feeds, cosmetics, dairy products, agric processing, and beverages amongst others. Nearly all the commercial banks operating in Nigeria have a presence in the selected states. These features made the north-western region an appropriate location for this research.

3.3. Sample Size and Sampling Techniques

This stage of the sampling process involved the random selection of 500 SME customers of the commercial banks—living within the metropolitan areas of the six states who operate small-scale trading activities. Drawn were 250 respondents from SMEEIS beneficiaries as well as due to an insufficient number of projects in the study area proxies who benefit from similar intervention programs. The other 250 were profiled from the SMEs financed by the conventional bank loans.

3.4. Method of Data Collection

The objective of this research work was to assess the impact of the SMEEIS program on SMEs' performance. As such, the primary source of data involved the use of structured questionnaires administered to respondents from all of the six states. The questionnaire was designed to include the key research questions, demographic as well as socio-economic variables of the sample respondents within the study area.

3.5. Specification of the Model

Multiple linear regression is, for the study, the econometric predictive tool of analysis chosen for explaining the relationship between the dependent variables (financial and non-financial performance) and the independent variables (capital structure, interest applicable interest rate, years of operation, knowledge of the program, financial literacy, ownership structure preference, and firm type). A multiple regression model provides a theoretical explanation for the causal relationship between one or more of the independent variables as well as a dependent variable. It also assists with the identification of the strength of the effect that the independent variables have on a dependent variable, and forecasts the effects or impacts of the attendant changes in order to predict trends and future values of the relationship.

After the assumptions related to multiple regression analysis have been met in terms of normality and multicollinearity the analysis to determine the predictors of financial performance and non-financial performance among the respondents was conducted to answer the research objective.

The factors contributing to financial performance and non-financial performance are capital structure, applicable interest rate, years of operation, knowledge of the program, financial literacy, ownership structure preference, and firm type (service, educational, and

agriculture). Therefore, the regression model of financial performance (\hat{Y}_1) and non-financial performance (\hat{Y}_2) consists of nine predicting variables namely, capital structure (X_1), interest applicable interest rate (X_2), years of operation (X_3), knowledge of the program (X_4), financial literacy (X_5), ownership structure preference (X_6), firm type (service) (X_7), firm type (educational) (X_8), and firm type (agriculture) (X_9). Hence, the prediction equations are as follows:

$$\hat{Y}_1 = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + e_i \dots\dots\dots (1)$$

$$\hat{Y}_2 = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + e_i \dots\dots\dots (2)$$

Where:

- \hat{Y}_1 = Financial Performance
- \hat{Y}_2 = Non-financial Performance
- X_1 = Capital Structure
- X_2 = Applicable Interest Rate
- X_3 = Years of Operation
- X_4 = Knowledge of the Program
- X_5 = Financial Literacy
- X_6 = Ownership Structure Preference
- X_7 = Firm Type (Service)
- X_8 = Firm Type (Educational)
- X_9 = Firm Type (Agriculture)
- e_i = Random Error

3.6. Measurement Instruments (Questionnaire Development)

The measurement instrument (questionnaire) developed for this study centres around, for the target SMEs' financial and non-financial performance determining variables. The first part of the questionnaire was designed to facilitate the gathering of demographic information about the respondents, which included details such as firm type, form of business, age of business, relationship with bank, educational level, major source of business financing, and ownership status of the business operation facility.

The second section of the questionnaire was designed to ask the target SMEs questions pertaining to their perceptions of how their sources of business financing (SMEEIS or Commercial Bank Loans) contributed towards the financial and non-financial performance of their businesses. This section of the questionnaire was adopted from Simona (2013), and was

later modified to suit the purpose of this study. The 42 items used to measure the perception of the respondents has a five-point Likert scale, which ranges from strongly disagree (1) to strongly agree (5).

3.6.1. Financial Performance

Constrained by unavailability of accurate financial information due to SMEs reluctance in disclosing their financial data in order to avoid institutional taxes, as cited by Bilal, Naveed, Anwar, and Bilal (2017) we employed the use of a Perception Organisational Performance (POP) measurement, which was used by Delaney and Huselid (1996). Therefore, for the determination of financial performance ($\hat{Y}_1 = \text{financial performance}$), variables such as output level, annual turnover, creation, and retention of capital assets as well as collateral adequacy were included when measuring the capacity of the SMEs to generate adequate turnover for sustainable revenue and profitability. These variables significantly contribute towards the financial performance of the SMEs in Nigeria, as established by Olutunla and Obamuyi (2008). This variable was measured using a five-point Likert scale questionnaire, as used by Delaney and Huselid (1996) as well as Bilal et al. (2017). Twelve items were assigned to it on the questionnaire for example, question 24 on the Questionnaire (see appendix 11) asks respondents if “there has been a significant increase in Annual Turnover of Sales during the SMEEIS intervention,” with response options ranging from (1) strongly disagreeing, (3) Neutral, and (5) strongly agreeing.

3.6.2. Non-financial Performance

The major objective of SMEEIS is to promote vibrant and sustainable SMEs (CBN, 2013). Therefore, we adopted and modified relevant questions, as used by Adina-Simona (2013) regarding employment generation, increased productivity, poverty alleviating, improvement in technological advancement, and engendering local content policy and targeted the same respondents in order to measure the contribution of this construct to the financial and non-financial performance of the target SMEs. The non-financial performance ($\hat{Y}_2 = \text{non-financial performance}$) responses were equally structured using a five-point Likert scale questionnaire with (1) strongly disagreeing, (3) being natural, and (5) strongly agreeing in regard to the question statement as used in Okpara (2009). Three items were assigned to it on the questionnaire for example, question 26 on the Questionnaire (see Appendix 7) asks respondents to answer by either agreeing or disagreeing to the statement that “SMEEIS/Bank loans assisted the employment of more staff in order to address associated increase in production output.”

3.6.3. Capital Structure

For the purpose of this study, in our definition of the capital structure construct, more emphasis is placed on debt because both the SMEEIS and Bank loans are debt related. Although the most dominant capital structure among the SMEs in Nigeria is personal equity which, according to Ketley et al. (2012), is evidenced by their heavy reliance on informal sources of finance, while debt and institutional equity financing are often perceived as last resort options by the SMEs after personal finances prove insufficient for growth potentials. However, capital structure also influences the cost of capital employed by the SMEs, which is a major determinant of the profitability and maintenance of a stable cash flow for the sustainability of the business. As confirmed by Akinlo (2007), the pecking order theory by Myers and Majluf (1984) provides the best description of the SMEs' situation in Nigeria. The theory justifies the mixed capital decision of firms based on preference for internal financing before debt and equity, which is due to the existence of information asymmetry in the capital market. Therefore, this construct is measured using a five-point Likert scale questionnaire, with responses ranging from (1) strongly disagreeing, (3) Neutral, and (5) strongly agreeing with the question statement. In order to measure its contribution as an independent variable in relation to the associated dependent variables, three questions were assigned to this construct—for instance, questions 5 and 6 ask respondents about the level of debt and equity mix in financing the business of the target SMEs, while question 11 asks if “the SMEEIS/Bank loans have sufficiently supported the business growth and sustainability.”

3.6.4. Applicable Interest Rates

The cost of capital is a critical factor in determining the financial performance of the SMEs in Nigeria. This is because the cost of both equity and debt deployed in financing the businesses are used in determining whether or not the return on investment matches, exceeds, or optimises the cost of investment that is, determining the profitability of the project. Modigliani and Miller's (2009) theory of capital cost identifies the market interest rate as a default cost of capital on the firm while making capital investment with a guaranteed expected stream of income as returns. While analysing the factors associated with SMEs' profitability in Ondo State, Nigeria, Olutunla and Obamuyi (2008) emphasised that prohibitive interest rates charged by banks negatively affect the SMEs profitability, which is how they concluded that interest rate is a major determinant of cost of capital and profitability of SMEs in the state. Therefore, this independent variable is measured using a five-point Likert scale questionnaire with responses ranging from (1) strongly disagreeing, (3) Neutral, and (5) strongly agreeing to the

question statement in order to measure its effect on the dependent variables. For example, question 16 asks respondents whether or not “the current interest rate charged by SMEEIS/Banks has greatly influenced my cash flow and working capital retention capacity.”

3.6.5. Years of Operation

The years of operation considered in this study refer to the relevant experience that the SMEs garner over a long period of operation. The ability of SME firms to acquire the right experience over a longer period of time often becomes a distinguishing factor between the old and the nascent ones in terms of innovations, managerial skills, and quality management. According to Calantone, Çavusgil, and Zhao (2002), the level of experience and acquisition of knowledge in the relevant areas of business operation greatly influences the performance of firms, as supported by the organisational learning theory. According to Argote (2013), the theory emphasises the ability of organisations to create, retain, and transfer knowledge acquired over a long period of time, which is usually measurable on a learning curve. Therefore, this construct is measured using a five-point Likert scale questionnaire, with responses ranging from (1) strongly disagreeing and (3) Neutral to (5) strongly agreeing with the question statement. Three questions were assigned to this (I.V) on the questionnaire that is, in order to measure the level of its significance as a variable contributing towards financial/non-financial performance of the target SMEs. For example, question 13 on the questionnaire asks, “My years of experience have improved my skills level and distinguished my products in the market thereby ensuring more patronage and increasing sales and revenue.”

3.6.6. Knowledge of the Program

According to Agundu and Dagogo (2009), a grounded knowledge of the SMEEIS program by both the beneficiaries (SMEs) and the sponsors is a critical success factor of the scheme. Considering the fact that it is a pilot initiative in Nigeria, most of its components especially the equity investment aspect are new and remain only partly understood by the SMEs in the north-western part of Nigeria. Moreover, the banks’ capacity to acquire requisite skills in the SMEEIS is equally important in managing its risk concerns and, also, in creating the right awareness amongst the SMEs in order to ensure the attainment of the scheme’s objectives. According to the knowledge-based theory of firms, “knowledge of the product resides within the individuals, and the primary role of the organisation is the knowledge application rather than knowledge creation” (Grant, 1996). This position further confirms Egbon and Donwa’s (2015) opinion that product knowledge makes the difference between the failure and success of the SMEEIS

program. Therefore, the Product knowledge construct as an independent variable is measured on a five-point Likert scale questionnaire, with responses ranging from (1) strongly disagreeing and (3) neutral position to (5) strongly agreeing to the question statement. Three questions were assigned to this independent variable (I.V) on the questionnaire in order to measure its significance as a contributory variable towards driving financial and non-financial performance pertaining to the target SMEs. For instance, question 21 asked respondents whether or not “adequate communication, support, and guidance on the program was provided by the financing banks?”

3.6.7. Financial Literacy

The increasing attention given to financial literacy by the financial authorities hinges on its importance in enhancing the entrepreneurs’ ability to, amongst other reasons, optimise the available financing options for the overall growth and sustainability of their business. As confirmed by Esiebugie (2018), financial literacy significantly influences the SMEs performance, which is largely due to the tendency of financially informed SMEs to make more sound decisions regarding the efficient allocation of financial resources, and thereby enhancing their productivity, cost efficiency, and profitability. Considered a critical factor contributing towards the performance of SMEs in the study area, this construct is measured using the five-point Likert scale questionnaire with responses ranging from (1) strongly disagreeing and (3) Neutral to (5) strongly agreeing to the question statement in order to measure its effect on the dependent variables. Twelve items were assigned to the variable on the questionnaire for example, question 9 asks whether or not respondents are “knowledgeable about selected Commercial bank and Government intervention programs available in the study area” in order to test their level of awareness regarding financial products and channels.

3.6.8. Ownership Structure Preference

The choice of ownership structure greatly influences the ability of the firms to access external financing for the purpose of financing growth and business investment (Abor & Biekpe, 2007). The corporate governance structure of the SMEs in the study area is dominated by sole proprietorship due to the existence of high information asymmetry as well as a desire for full control by the proprietors. This results in an over-dependence upon the informal sector as the dominant source of financing for business operations, which further limits SMEs in pursuing business growth opportunities. The agency theory provides a best fit description of the existing conflict of interest between principal (business owners) and agent (Managers, workers, etc.).

The agency cost involved in monitoring and aligning the partner's interest within the SMEs' setting is very high in the emerging economies, especially Africa. That factor often discourages the SMEs from entering into partnerships or selling equity to other investors. Randoy and Goel (2003) established that the choice of ownership structures largely influences the SMEs' ability to perform and finance business growth and expansion in Norway. Therefore, this independent variable is assigned five items and measured using a five-point Likert scale on the questionnaire with responses ranging from (1) strongly disagreeing and (3) neutral to (5) strongly agreeing with the question statement in order to measure the effect it has on the dependent variables. For example, question 34 asks if respondents are "comfortable with sharing ownership of my enterprise with the Bank/SMEEIS or any beneficial partner."

3.7. Reliability Test for Pre-test and Final Test

According to Glasgow and Emmons (2007), "reliability refers to the internal consistency of data in which the measurement instrument produces consistent results." Additionally, Joppe (2000) defines reliability as "the extent to which results are consistent over a period of time for an accurate representation of the entire population under study." However, According to Drost (2011), coefficient alpha is the most widely used technique of "testing for internal consistency in social science," as propagated by Cronbach (1951, cited in Drost, 2011), which improved methods to estimate reliability tests. This earned the name as Cronbach's Alpha (Drost, 2011).

3.8. Test of Normality

Assessing normality is a necessary stage in data cleaning and/or the removal of error(s) because, no matter how carefully the data were keyed in, some errors are expected to occur. Therefore, prior to running any statistical analysis for a quantitative measurement, descriptive statistics should be carried out for all the variables. Norusis (1992) suggests that a researcher could examine, in detail, a variable or a set of variables before running any specific or confirmatory statistical analysis on any data collected by using descriptive statistics. In the current study, a normality test was considered essential for the success of the data analysis therefore, the normal distribution of the data set was checked using resistant statistics and visual representations such as Skewness, Kurtosis, histogram, Q-Q Plot, and Box Plot. In this regard, normality of a data set is used to describe a symmetrical, bell-shaped curve, which has the greatest frequency of

scores in the middle, with smaller frequencies towards the extremes (Gravetter & Wallnau, 2000, p. 52).

Furthermore, the normality test refers to the shape of the data distribution for an individual metric variable and its correspondence with the normal distribution (Hair, Bush & Ortinau, 2003), so the test for normality was used to examine the skewness and kurtosis. The common rule was applied, which involves getting the skewness within +3 and -3, and the kurtosis within +2 and -2 (George & Mallery, 2003). Therefore, based on the above mentioned rule, all the variables that were subjected to a normality test were within the normal range. The skewness value of financial performance was -.153 and the kurtosis was .288, which, by comparison, the skewness of non-financial performance was -.027 and the kurtosis was -.443. The skewness of Capital Structure was -.638 and the kurtosis was 1.358, which, again, by comparison, the skewness of applicable interest rate was -.221 and kurtosis was .354. Moreover, the skewness of Years of Operation was -.234 and kurtosis was -.103, and, by comparison, the skewness of Knowledge of the program was -.044 and kurtosis was -.320. Next, the skewness of Financial Literacy was -.083 and kurtosis was -.131. Lastly, the skewness of Ownership Structure preference was .018 and kurtosis was -.264 (see Tables 1–8 in the Appendix).

3.9. Data Analysis

For the purpose of this study, quantitative analysis was used to analyse and interpret the data. Four different sets of quantitative analysis were used with SPSS 20, which were descriptive analysis, Independent Sample t-test, and Multiple Regression Analysis. The descriptive statistics used to describe the generic details across SME categories of the respondents were type of firm, years in business, form of business operated, relationship with a bank(s), major source of financing business, status of the facility of business operation, and perfectibility of property titles for mortgage/borrowing purposes. An independent-samples t-test was conducted to compare the difference between financial and non-financial performance of the SMEs under the conventional banking and SMEEIS loans among the respondents. Finally, Multiple Linear Regression analysis was used to estimate the predictive ability of independent variables on the dependent variable.

3.10. Collinearity Diagnostic Test

According to Dormann et al (2013): Collinearity refers to the non-independence of predictor variables, usually in a regression-type analysis. It is a common feature of any psychometric data set and can be a problem for parameter estimation because it inflates the variance of regression parameters and hence may potentially lead to the wrong identification of relevant predictors

in a statistical model. Therefore, Alin (2010) stresses that “collinearity describes the situation where two or more predictor variables in a statistical model are linearly related, sometimes also called multicollinearity.” Many statistical routines notably those most commonly used in psychology are sensitive to collinearity, which, according to Stewart (1987), Belsley (1991), and Chatfield (1995), causes parameter estimates to be unstable, standard errors on estimates to be inflated, and, consequently, inference statistics to be biased.

Based on the suggestion by Bagozzi, Fornell, and Larcker (1981) as well as Hair (2010) and Montgomery (2001), there was no presence of multicollinearity in the data set because Bagozzi et al. (1981) and Hair (2010) argued that a correlation coefficient (r) $>.9$ (or $.85 \approx .9$) indicates high correlation between two constructs, which thus violates the assumption of multicollinearity. In contrast, according to Montgomery (2001), multicollinearity refers to the presence of highly inter-correlated predictor variables in regression models, and their effect is to invalidate some of the basic assumptions underlying their mathematical estimation. Montgomery added that the following steps are generally recommended in diagnosing multicollinearity:

1. Inspection of the correlation matrix for high pairwise correlations. This is not sufficient, however, because multicollinearity can exist with no high pairwise correlations.
2. VIFs greater than 10 are a sign of multicollinearity. The higher the value of VIFs, the more severe the problem, and a tolerance value greater than 1 is a sign of multicollinearity.

Therefore, the Collinearity Diagnostic Test in Table 4.5 and Table 4.6 illustrates the collinearity diagnostic test of the study in which all the Tolerance and Variance Inflated Factors (VIF) of the predictor variables are, respectively, within the threshold of “ $VIF < 10$ and $Tolerance < 1$ ”. In this regard, the researcher concluded that there is no presence of Multicollinearity among the predictor variables, and, thus, the assumption of both Collinearity and Multicollinearity were satisfied.

CHAPTER 4

Results and discussion

4.1. Introduction

This chapter contains the research findings and discussion. Based on the research objectives outlined in Chapter 1, this chapter is divided into two main sections. The first section is descriptive statistics for generic details across SME categories of the respondents such as type of firm, years in business, form of business operation, relationship with a bank(s), major source of financing business, status of the facility of business operation, and perfectibility of asset title for mortgaged/borrowing purposes. The second section consists of inferential statistics, which includes Independent Sample t-test for comparing the difference in SME categories between bank loans and SMEEIS loans on financial and non-financial performance. Furthermore, discussed in detail is the correlation and regression analysis used in determining the relationship—as well as the strength of that relationship—between the dependent and independent variables.

4.2. Descriptive Statistics

The data collected for both the pilot and the final study were subjected to reliability tests in order to confirm the consistency of the data collected. Therefore, 30 questionnaires were administered for the pilot study to ensure that the SMEs chosen have similar characteristics to the main study respondents within the target population (this would detect any problems in the questionnaire design). Cronbach's Alpha, which is a reliability index used in measuring internal consistency of an instrument wherein the value of the coefficients ranges between 0 and 1, was adopted for the reliability test in this study. Therefore, Table 4.1 explains the reliability test for both the pilot study (with Cronbach's alpha coefficients for pilot study within 0.765 and 0.8932) and the final study (a similar range, within 0.722 and 0.835).

Table 4.1: Reliability Coefficients for Pre-test and Final Test

Variables	Mean	SD	Pre-test (n = 30)		Final Test (n = 362)	
			No. Items	Alpha (α)	No. Items	Alpha (α)
Financial Performance	4.26	.43	12	.832	12	.835
Non-Financial Performance	4.36	.41	3	.781	3	.741
Capital Structure	4.34	.39	3	.843	3	.728
Interest Applicable Interest Rate	4.25	.47	3	.894	3	.829
Years of Operation	4.30	.43	3	.760	3	.724
Knowledge of the Program	4.29	.41	3	.765	3	.728
Financial Literacy	4.23	.40	12	.774	12	.722
Ownership Structure Preference	4.32	.39	5	.829	5	.760

Having satisfied our reliability test for the collected data, this section further describes the respondents' generic details, such as type of firm, years in business, form of business operated, relationship with a bank(s), major source of financing business, ownership status of the facility where business is operated, and the perfectibility of its ownership title for mortgaged/borrowing purposes based on SME categories. Table 4.2 shows the descriptive analysis using frequency distribution Table.

The distribution of the respondents' firm type based on their SME categories of bank loans and SMEEIS loans show that, in relation to bank loan category, agriculture constituted 21.8% (79), manufacturing was 15.7% (57), service was 8.8% (32), and the educational category was 7.2% (26). However, in relation to SMEEIS loan category, agriculture constituted 13.3% (48), Manufacturing was 14.4% (52), Service was 11.0% (40), and the educational category was 7.7% (28).

The respondents' years in business ranged between less than 5 to more than 10 years, which was across the two categories of SMEs. In essence, 3.6% (11) of SMEs under the bank loan category accounted for having spent less than five years in business, while, for the category of 5–10 years, there were 18.2% (66), and then respondents in the >10 years category were 33.1% (120). Similarly, with regards to SMEEIS loans, the result indicated that respondents' in the business category of <5 years were 3.0% (13), the years in business category of 5–10 years were 10.2% (37), and respondents in the >10 years category were 31.8% (115). Thus, there were more respondents in the category of >10 years than the other categories in this SME category. This aligns with the prequalification criteria for accessing SMEEIS loans. Because the scheme was not designed to finance startups, SMEs applying for the SMEEIS funding must have a certain number of years of operational experience within the relevant industry (CBN, 2013). Moreover, it further reinforced Rahji and Apata's (2008) assertion that the commercial banks prefer SMEs that are more established and have a track record of experience in their line of operations, as this would guarantee safety and quick returns on investments.

Table 4.2: Cross Tabulation Between Generic Details and SME Category (n = 362)

Generic Details	SME Category		Total
	Bank Loan	SMEEIS Loan	
Type of Firm			
Manufacturing	52 (14.4%)	57 (15.7%)	109 (30.1%)
Services	40 (11.0%)	32 (8.8%)	72 (19.9%)
Educational	28 (7.7%)	26 (7.2%)	54 (14.9%)
Agriculture	79 (21.8%)	48 (13.3%)	127 (35.1%)
Total	197 (54.9%)	165 (45.1%)	362 (100.0%)
Years in Business			
<5 years	11 (3.6%)	13 (3.0%)	24 (6.6%)
5–10 years	66 (18.2%)	37 (10.2%)	103 (28.5%)
>10 years	120 (33.1%)	115 (31.8%)	235 (64.9%)
Total	197 (54.9%)	165 (45.1%)	362 (100.0%)
Form of Business Operated			
Sole Proprietorship	113 (31.2%)	75 (20.7%)	188 (51.9%)
Partnership	39 (10.8%)	34 (9.4%)	73 (20.2%)
Private Limited Company	47 (13.0%)	54 (14.9%)	101 (27.9%)
Total	199 (55.0%)	163 (45.0%)	362 (100.0%)
Relationship with a Bank(s)			
Yes	199 (55.0%)	163 (45.0%)	362 (100.0%)
No	—	—	—
Total	199 (55.0%)	163 (45.0%)	362 (100%)
Major Source of Financing Business			
Formal	2 (0.6%)	5 (1.4%)	7 (2.0%)
Informal	84 (23.2%)	83 (22.9%)	167 (46.1%)
Mixture of both	113 (31.2%)	75 (20.7%)	188 (51.9%)
Total	199 (55.0%)	163 (45.0%)	362 (100.0%)
Status of the Facility of Business Operation			
Owner Occupier	130 (35.9%)	105 (20.9%)	235 (64.9%)
Rented	69 (19.1%)	58 (16.0%)	127 (35.1%)
Total	199 (55.0%)	163 (45.0%)	362 (100.0%)
Perfectibility of Title for Mortgaged/Borrowing			
Yes	167 (46.1%)	130 (35.9%)	297 (82.0%)
No	32 (8.8%)	33 (9.1%)	65 (18.0%)
Total	199 (55.0%)	163 (45.0%)	362 (100.0%)

The respondents' forms of business for sole proprietor in the bank loan category were 31.2% (113), partnerships were 10.8% (39), and respondents who owned a private limited company were 13.0% (47). For SMEEIS loan categories, respondents who are of the sole proprietor category were 20.7% (75), partnerships were 9.4% (34), and those who owned a private limited company were 14.9% (54). This further confirms Ekpenyong's (1992) findings that the most dominant forms of SME ownership in Nigeria are sole proprietorship, which is because most of the businesses are either family owned or mutual partnerships between friends, associates,

or relatives. Although the complete control of business may be seen as an advantage, they often operate in silos from the current business realities, and their scope is limited by low educational levels, poor managerial skills, and a lack of technical knowledge that is often associated with the promoters.

Regarding respondents' relationships with banks, the descriptive analysis shows that all the respondents have relationships with banks, as they responded "Yes". Out of 362 respondents, 55.0% (199) are in the bank loan category while 45.0% (163) are in the SMEEIS category. Because maintaining financial relationships with banks is one of the top eligibility criteria requirements for accessing the SMEEIS financing, all the respondents satisfied this requirement. Although the type of relationship was not specified, this shows that the evidence of Central Bank of Nigeria's drive for increased financial literacy and inclusion is targeted at the unbanked majority in Nigeria.

With regards to major sources financing their businesses, only 0.6% (2) rely on formal sources for bank loans SMEs while only 1.4% (5) for SMEEIS financed SMEs. Those who rely on informal sources of financing were 23.2% (84) for bank loan financed SMEs, and 22.9% (83) were those who have SMEEIS financed loans. By comparison, those who have a mixture of both constitute 31.2% (113) for bank loans financed SMEs and 22.9% (83) for SMEEIS financed ones.

In the course of the investigation, it was observed that many SMEs in Nigeria, as in other developing parts of the world, are averse to bank loans for financing their businesses. This may be attributed to the poor credit ratings of SMEs, fear of default, credit rationing by banks, religious beliefs, cultural inclinations, and self-esteem—however, the most important reason for this averseness is the apparent mistrust between the SMEs and financial institutions (Kung'u, 2013). This development threatens the success of the Central Bank of Nigeria's financial literacy drive, which aims at mass migration of unbanked citizens to formal financial institutions. This is why having SMEs who solely rely on formal sources of financing may be impossible in Nigeria.

Regarding the ownership status of the business facilities, 35.9% (130) operate as owner-occupier under the bank loan category, and 20.9% (105) under the SMEEIS category. By comparison, respondents who operated as a rented facility under the bank loan category constituted 19.1% (69), and under the SMEEIS loan were 16.0% (58). This impliedly signifies that the availability of collateral—which is often pledged as security for the loans accessed—is either under the SMEEIS or conventional bank loans. The lack of collateral has always remained the biggest challenge for SMEs' access to finance from commercial banks. As a

highly risky business in a very volatile economic setting, banks always rely on strong collateral in the event of default. Therefore, the majority of the respondents are assumed to have adequate collateral coverage to qualify for both SMEEIS and bank loans.

For perfectibility of ownership titles for mortgaged and borrowing purposes, a majority of the respondents—for example, 46.1% (167) for the bank loan category and 130 (35.9%) for the SMEEIS category—answered “Yes”, while the remaining 8.8% (32) for the bank loan category and 33 (9.1%) for SMEEIS category answered “No”. This indicates that a majority of the respondents have good title deeds for their properties, which makes them suitable for pledging as collateral to the lenders and, thus, easily transferable in the event of default.

4.3. SME Category and Financial and Non-Financial Performance

An independent sample t-test was conducted, among the respondents, to compare the difference between financial and non-financial performance of SMEs under the conventional banking and SMEEIS loans. As illustrated in Table 4.3, the analysis shows that there is a significant mean difference between SMEs with bank loans ($M = 4.86$, $SD = .86$) and those with SMEEIS loans ($M = 4.27$, $SD = .43$). This means that the financial performance of SMEs with bank loans is higher than those with SMEEIS loans. Therefore, respondents who have bank loans perform better, financially. These results are consistent with the conclusion reached by Ketley et al. (2012), which indicates that poor credit appraisal and due diligence conducted by the banks regarding the eligibility of SMEs for SMEEIS funding resulted in adverse selection. Furthermore, poor knowledge of the venture capital and equity financing by the Nigerian banks as indicated by Dagogo and Ollor (2009) was a crucial factor in the failure of SMEs with SMEEIS loans to compete and outperform their commercial bank counterparts. On the contrary, the commercial bank loans performance was largely driven by the effective monitoring, supervision, and specialised advisory services enjoyed from the lending institutions, which led to their success.

Table 4.3: SME Category Difference on Financial Performance (n = 362)

Variable	n	Mean	SD	df	T	P
SME Category						
Bank Loan	199	4.86	.86	360	2.632	.009
SMEEIS Loan	163	4.27	.43			

An independent sample t-test was conducted on non-financial performance to compare the SMEs with bank loans to those with SMEEIS loans. Table 4.4 revealed that there is a significant

mean difference between SMEs with bank loans ($M = 4.91$, $SD = .64$) and those with SMEEIS loans ($M = 4.37$, $SD = .42$). Similar to financial performance, the non-financial performance of SMEs with access to bank loans is also higher than those with SMEEIS loans. This also means that respondents in the SMEs with bank loans perform better in non-financial areas—that is, in the provision of employment, spin-off businesses, poverty alleviation, and improvement in the social and living conditions, for the target sample. SMEEIS achievements should have been significant however, the financials of SMEs with bank loans outperformed those with SMEEIS loans because most of the SMEEIS SMEs have become inactive and, with the collapse of the SMEEIS program, the commercial bank SMEs are more likely to make regular repayments of their loans.

Table 4.4: SME Category Difference on Non-Financial Performance (n = 362)

Variable	n	Mean	SD	df	t	p
SME Category						
Bank Loan	199	4.91	.64	360	2.074	.039
SMEEIS Loan	163	4.37	.42			

4.4. Regression Results: Capital Structure and Financial Performance

The summary of the ANOVA result in Table 9 (see Appendix) illustrates the multiple linear regression model of financial performance. The results of the multiple linear regression analysis that includes nine predicting variables is statistically significant ($F_{(9, 352)} = 68.325$, $p = .000$). This indicates that the slope of the estimated linear regression model line is not equal to zero. The Model Summary in Table 4.5 shows the coefficient of determination (R^2) value of .636, which means that about 63.6% of variance in financial performance can be explained by the independent variables that were entered into the regression model. In order to examine the individual contribution of predictor variables in relation to outcome variables, multiple linear regression analysis was used. The following interpretation is based on the standardised regression coefficients (β), which demonstrates the effect of predictor variables on the criterion variable.

The results show that there is a significant positive relationship between capital structure and financial performance ($\beta = .123$, $t = 2.375$, $p = .018$). This means that increases in capital structure improve financial performance therefore, this result is in line with findings of Ruri and Omagwa (2018), who established a significant positive relationship between capital structure and the financial performance of the SMEs in the Embu region of Kenya. Contrary to

our finding, Eimobowei, Okay, and Binaebi (2013) established a negative relationship between capital structure (short, medium-, and long-term debt) as well as the financial performance of the quoted firms in the Nigerian Stock Exchange. Addae, Nyarko-Baasi, and Hughes (2013) also made a similar, albeit, inconclusive finding regarding the contribution of short and long term debt in determining the performance of quoted companies in Ghana. However, variation in firm sizes pertaining to the study areas may be the differentiating factor between their findings and our result. Therefore, this indicates the influence of capital structure in determining the financial performance of SME firms in northern Nigeria.

Table 4.5: Multiple Linear Regression on Financial Performance

Dependent Variable: Financial Performance							Collinearity Statistics	
Model	B	S.E	B	t	p	Tolerance	VIF	
(Constant)	0.225	0.177		1.265	0.207			
Capital Structure	0.134	0.057	0.123**	2.375	0.018	0.383	2.612	
Interest Applicable Interest Rate	-0.377	0.063	-0.41***	-5.968	0.000	0.219	4.558	
Years of Operation	0.142	0.055	0.141**	2.599	0.010	0.351	2.85	
Knowledge of the Program	-0.062	0.068	-0.06	-0.905	0.366	0.239	4.19	
Financial Literacy	0.171	0.049	0.161***	3.448	0.001	0.474	2.108	
Ownership Structure Preference	0.924	0.103	0.842***	8.929	0.000	0.116	8.588	
Firm Type (Service)	-0.021	0.04	-0.02	-0.531	0.596	0.728	1.373	
Firm Type (Educational)	0.027	0.044	0.023	0.616	0.539	0.762	1.313	
Firm Type (Agriculture)	-0.028	0.034	-0.031	-0.809	0.419	0.703	1.422	
F	68.325							
Prof>F	0.000							
R ² =	0.636							
Adjusted R ²	0.627							

Note: B: - Unstandardised Coefficients; S.E. - Standard Error; β : - Standardised Coefficients; t: - t – value; p: - p – value. *** and ** denotes significance at 1% and 5% respectively.

The result indicates a significant negative relationship between applicable interest rate and financial performance ($\beta = -.410$, $t = -5.968$, $p = .000$). This finding goes further to corroborate the position of Batra and Mahmood (2003), where they established a negative relationship between the applicable interest rate and the SMEs financial performance. According to the study, firms struggle financially with high interest rates, which leads to further cash flow constraints and working capital deficiency. This is additionally confirmed by Orji (2014), who identified interest rates as being exorbitantly high and unaffordable to the SMEs in Nigeria.

The standardised regression coefficient indicated that years of operation has a significant positive relationship with and is a significant predictor of financial performance (β

= .141, $t = 2.599$, $p = .010$). This finding is in line with the findings of Eniola and Ektebang (2014), who identified that knowledge and relevant experience are among the key components that drive financial performance and competitive advantage of SMEs in Nigeria. Moreover, it is a major factor that influences commercial banks and other institutional lenders' confidence in the capacity of the SMEs to perform on their loan repayments.

The effect of knowledge on the program was compared to financial performance however, the relationship between the two variables was found to be both negative and insignificant ($\beta = -.060$, $t = -.905$, $p = .366$). This finding is contrary to Egbon and Donwa's (2015) study on the factors responsible for the failure of SMEEIS. Their study identified requisite knowledge and skill(s) gaps in administering venture capital to be the biggest challenge for the performance of the program.

A significant positive relationship is observed between financial literacy and financial performance ($\beta = .161$, $t = 3.448$, $p = .001$), which indicates that financial literacy is a significant predictor of financial performance. This finding corroborated Eniola and Ektebang's (2014) establishment of a significant positive relationship between financial literacy and financial performance for firms in southern Nigeria. Using dual process theory, they emphasised the importance of financial knowledge in the decision-making process of firms, which predicts failure or success. This suggests that, within the targeted areas of this study, firm managers with high financial literacy may outperform their counterparts with lower financial literacy.

The multiple linear regression analysis in Table 4.5 (above) indicated that there is a significant positive relationship between ownership structure preference and financial performance ($\beta = .842$, $t = 8.929$, $p = .000$). This shows that ownership structure preference is a significant predictor of financial performance. This finding is in line with the findings of Lawal, Agbi, and Mustapha (2018), who, in their performance measurement for listed insurance firms in Nigeria, established a significant positive relationship between ownership structure and performance of the firms. Ehikioya (2009) similarly established that ownership concentration has a far-reaching influence on the SMEs in Nigeria, which corroborated the findings of this research that is, a high ownership concentration is clearly manifested by the dominant ownership structure of the target SMEs (i.e., sole proprietors).

The result further revealed that all of the three categories pertaining to firm types were not significant predictors of financial performance. Hence, firm type has four *dummy* variables manufacturing, service, education, and agriculture however, manufacturing was excluded in the analysis of the reference group. As Table 4.5 (above) shows, there is a negative and insignificant relationship between *firm type service* ($\beta = -.020$, $t = -.531$, $p = .596$) and *agriculture* ($\beta = -.031$,

$t = -.809, p = .419$) regarding financial performance. While a slightly positive yet insignificant relationship between *firm type education* and *financial performance* was established. In this regard, the finding revealed that firm type is not a significant predictor of financial performance. This finding is supported by the work of Taiwo, Esther, and Daniel (2016), who established that infrastructural development is a superior factor to firm type in measuring the overall performance of SMEs in Nigeria. They stressed that a favourable market environment, technological competence, and availability of external support in terms of technology and financing—drive performance of the SMEs more than the firm type. They argue that, regardless of the firm type, any business can thrive as long as the right supporting factors are in place to assist and sustain the business. Therefore, this underscores the need for the provision of the right infrastructure by the government in promoting industrialisation and internationalisation of SMEs in Nigeria.

4.5 Regression Results: Non-Financial Performance

Based on the prediction equation for “ \hat{Y}_2 ” stated in Chapter 3, the summary of ANOVAs in Table 10 (see Appendix) shows the multiple regression models of non-financial performance. The results of the multiple regression analysis, which includes nine predicting variables, was statistically significant ($F_{(9, 352)} = 53.088, p = .000$). Therefore, this shows that the slope of the estimated linear regression model line for non-financial performance is not equal to zero. Additionally, the model summary shows a coefficient of determination (R^2) value of .576, which means that about 57.6% of variance in non-financial performance was explained by nine predicting variables entered into the regression model. Thus, the result of the multiple linear regression model of non-financial performance depicted in Table 4.6 showed the standardised regression coefficients of the significant relationship (or otherwise) between predictor variables and the outcome variable.

The result of multiple linear regression analysis presented in Table 4.6 revealed that there is a significant positive relationship between capital structure and non-financial performance ($\beta = .133, t = 2.367, p = .018$). This also means that capital structure is a significant predictor of non-financial performance. As a result, this finding further supports the position of Onyinye, Idenyi, and Ifeyinwa (2017), which establishes a strong and positive long-run relationship between capital structure as well as the growth and development of the Nigerian economy. Similarly, a positive relationship for capital structure on the performance of SMEs in Mexico was also established by Palacios, Carrillo, and Guzman (2016). Therefore, the capital structure has a significant impact on the attainment of macroeconomic objectives that the

SMEEIS program intended to achieve, such as poverty alleviation, jobs, and employment creation, amongst other achievements (CBN, 2010).

The regression analysis shows that the applicable interest rate is not a significant predictor of non-financial performance. The analysis, presented in Table 4.6 (below), shows a negative and insignificant relationship between applicable interest rate and non-financial performance ($\beta = -.018$, $t = -.244$, $p = .807$). This finding further corroborated the findings of Ibrahim and Ibrahim (2015) as well as Mwangi and Birundu (2015), who established that the cost of capital was insignificantly related to SMEs' financial and non-performance in Nigeria and Kenya. Although Abor (2007) established a certain degree of positive relationship(s) in his study, environmental factors that are peculiar to the Nigerian economy in terms of gross infrastructural deficit, corruption and nepotism (Okpara, 2011) may have eroded the expected gains from the cheaper funds accessed by the SMEEIS beneficiaries.

The standardised regression coefficient, in Table 4.6 (below), revealed that years of operation has a strong positive relationship and also is a significant predictor of non-financial performance ($\beta = .171$, $t = 2.923$, $p = .004$). This finding reinforces the results of Chiliya and Roberts-Lombard (2012) as well as Okpara (2011), who indicated that years of operation influences the experience level of SME firms in the relevant areas of business operation, and that tends to provide a higher competitive edge over their counterparts with lower years of operation. Furthermore, both the SMEEIS and conventional banks consider firms' years of operational experience to be a basis for the measurement of their track record as well as their ability to perform on their loan repayment(s).

Similarly, knowledge of the program as the predicting variable was regressed against non-financial performance, which is the outcome variable. The association between the two constructs has been supported by indicating a significant positive relationship, as shown in Table 4.6 (below). The result revealed that knowledge of the program is a significant predictor of non-financial performance ($\beta = .202$, $t = 2.849$, $p = .005$). This finding is in line with the OECD (2008) report, which outlined the benefits of knowledge of the intervention program to include: exposure to external sources of capital, technology, knowledge transfer, employment generation, skills acquisition, human capital development, and enterprise development through linkages and spillover effects. Furthermore, Dagogo and Ollor (2009), Donwa and Egbon (2005), Onakoya, Fasanya, and Abdulrahman (2013) as well as Egbon and Donwa (2015) all agree that a lack of relevant knowledge and awareness of the SMEEIS program seriously hamper its effectiveness, which thereby prevents the beneficiary SMEs from fully harnessing its potentials as well as facilitating the transfer of the knowledge to other SMEs.

Furthermore, Table 4.6 (below) showed that financial literacy is a significant predictor of non-financial performance ($\beta = .261$, $t = 5.184$, $p = .000$). Financial literacy is a vital tool for the efficient management of SMEs' productivity and performance within emerging economies. In their study of the relationship between financial literacy and firm performance, Eniola and Ektebang (2017) had a contrary position from this study's finding. In essence, they established that financial literacy has an insignificant relationship to a firms' performance that is, unless it is effectively deployed in decision-making processes of the firm. This study places more emphasis on the acquisition and use of the right financial knowledge for making sound financial decisions towards enhancing SMEs' performance.

The finding of the regression analysis in Table 4.6 (below) did not indicate a significant relationship between ownership structure preference and non-financial performance. The standardised regression coefficient showed that ownership structure preference is not a significant predictor of non-financial performance ($\beta = .114$, $t = 1.119$, $p = .264$). This suggests that the corporate governance structures of the SMEs in the six northwestern states of Nigeria do not significantly influence the firms' non-financial performance in relation to jobs/employment creation and poverty alleviation, amongst other things.

The regression analysis finally revealed that only one category of firm type was found to have a significant positive relationship with non-financial performance, while the remaining two categories did not. The analysis presented in Table 4.6 (below) shows that there is a significant positive relationship between *firm type service* ($\beta = .105$, $t = 2.592$, $p = .010$) and *non-financial performance*. By comparison, *firm type education* ($\beta = -.032$, $t = -.805$, $p = .421$) is negatively and insignificantly related while *firm type agriculture* ($\beta = .018$, $t = .437$, $p = .663$) was found to be positively, albeit, insignificantly related to non-financial performance. In this regard, the finding reveals that only *firm type service* is a significant predictor of non-financial performance while the remaining two categories are not. According to PWC-Nigeria country annual report (2017), the services sector is the largest sector in the country's economy—with its share of GDP rising from 54.1% in 2010 to 56.9% in 2017—followed by manufacturing and agriculture. This position further confirms the capacity of the sector in generating considerable employment and other non-financial attributes of the SMEs performance.

Table 4.6: Multiple Linear Regression on Non-Financial Performance

Dependent Variable: Non-Financial Performance							Collinearity Statistics	
Model	B	S.E	β	t	p	Tolerance	VIF	
(Constant)	0.622	0.181		3.425	0.001			
Capital Structure	0.137	0.058	0.133**	2.367	0.018	0.383	2.612	
Interest Applicable Interest Rate	-0.016	0.065	-0.018	-0.244	0.807	0.219	4.558	
Years of Operation	0.164	0.056	0.171***	2.923	0.004	0.351	2.85	
Knowledge of the Program	0.198	0.07	0.202***	2.849	0.005	0.239	4.19	
Financial Literacy	0.262	0.051	0.261***	5.184	0.000	0.474	2.108	
Ownership Structure Preference	0.118	0.106	0.114	1.119	0.264	0.116	8.588	
Firm Type (Service)	0.107	0.041	0.105**	2.592	0.010	0.728	1.373	
Firm Type (Educational)	-0.036	0.045	-0.032	-0.805	0.421	0.762	1.313	
Firm Type (Agriculture)	0.015	0.035	0.018	0.437	0.663	0.703	1.422	
F (9, 352)	53.088							
Prof>F	0.000							
R² =	.576;							
Adjusted R²	.565;							

Note: B: - Unstandardized Coefficients; S.E:- Standard Error; β : - Standardized Coefficients; t:- t – value; p:- p – value*** and ** denotes significance at 1% and 5% respectively.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This section summarises the established findings in Chapter 4, and draws the conclusion of the study whilst relating the results to the current situation of the SMEs sub-sector within the study area. The practical, theoretical, and regulatory implication of the study—based on the findings are also presented in order to assist in making constructive recommendations. Furthermore, focus is maintained on the three most important stakeholders within the SMEEIS scheme in order to provide constructive suggestions regarding: (1) the repositioning of SMEs for better performance, (2) encouragement of the conventional banks in ensuring credit sufficiency to SMEs, and (3) implementation of SME-friendly policies towards the sustainability of both the existing and future intervention programs that are provided.

5.2. Summary of Findings

In this study, both descriptive and inferential statistics were employed for the data analysis. The descriptive analysis has shown that, out of 362 respondents, those who are in agricultural businesses are slightly higher in number than manufacturing, which is then followed by service and education. With regards to years of business, the result indicated that respondents who spent more than 10 years in the business constitute the majority, as compared to other years of business categories. Moreover, as revealed by the result, all the respondents have relationships with banks, and a majority of them also have a mixture of both formal and informal sources of financing for their businesses. For the status of the business operations, the majority of the respondents are owner occupiers, and they responded “Yes” to the question on ownership of operation facility properties, which can be mortgaged for borrowing purposes.

For inferential statistics, the independent sample t-test showed a significant mean difference in SME categories between SMEs with bank loans and those with SMEEIS loans on both financial and non-financial performance. Thus, the result indicates a higher mean score for SMEs with bank loans compared to those with SMEEIS loans. This also means that respondents in the SMEs with bank loans have demonstrated more achievements in both financial and non-financial performance.

With regards to estimating the predictive ability of predictor variables on the criteria variables, the results have shown that both regression models of financial and non-financial

performance are statistically significant. Likewise, the coefficients of determinations (R^2) indicate that about 63.6% and 57.6% of variance in financial and non-financial performance, respectively, were explained by the independent variables entered into the regression models. The regression coefficient indicates that ownership structure preference has the highest significant contribution to financial performance, which is followed by applicable interest rate, financial literacy, years of operation, and capital structure. While the remaining variables were found to be insignificant predictors of financial performance, for non-financial performance, the regression coefficient indicates that financial literacy has a high significance effect, which is followed by knowledge of the program, years of operation, and capital structure. However, the remaining predictor variables are not significant contributors of non-financial performance.

5.3. Conclusion

Small Medium Enterprise Equity Investment Scheme was undoubtedly one of the most important intervention initiatives designed to improve access to finance for SMEs in Nigeria. The program prioritised the development and sustainability of the SMEs which are regarded as the impetus for economic growth and development in the country through targeted job creation, improvements in technological advancements, entrenching local content policy, and increasing profit generation for the overall development of the economy. All of this was done with the aim of creating a vibrant SME sub sector that is capable of driving various positive externalities as well as forwarding integration with its attendant multiplier on both formal and non-formal segments of the Nigerian economy.

However, the scheme short-lived its lifespan due to endemic challenges within the sub-sector, which seemed difficult to surmount by the promoters of the program. Among these challenges, the harsh and unfriendly economic environment laden with infrastructural deficit, the loose trade policies, and the restrictive access to financing were widely blamed for limiting the growth opportunities for the SMEs. However, the key players within the scheme namely, the SMEs, the commercial banks, and the regulatory institutions have also contributed towards the failure of the program in various ways, as confirmed in this study's implication section.

5.4. The Implication of the Study on the key Players within SMEEIS

5.4.1. The SMEs

The Nigerian Small and Medium enterprises have, over the years, neglected to build capacity and appetite to attract the right financing for the growth and improvement of their businesses. As revealed by the findings of the study, this is manifested in their failure to develop and

maintain a vibrant collateral security portfolio, develop fixed capital assets, employ the right capital structures, adopt good corporate/ownership structures, and acquire the required knowledge (expertise) needed to improve their credit worthiness as well as opportunities for accessing financing from both the formal and non-formal sources of finance within Nigeria.

The SMEEIS funded SMEs fared poorly—in terms of the identified performance indicators against their commercial bank funded counterparts. Despite the potentials of the sector in driving rapid economic growth, this low performance may also, arguably, be attributed to an over reliance on informal sources of financing as well as resentment towards the formal financial institutions. The perceived high agency costs, prohibitive interest rates, and administrative charges levied upon the SMEs by the banks reduced such a relationship to a predatory and exploitative one, as argued by the entrepreneurs. However, their counterparts—who were funded by conventional bank loans performed significantly better, even though they did not enjoy concessions on interest rates as well as other regulatory taxes and charges. According to Egbon and Donwa (2015), the banks' in-depth knowledge of their lending products may have assisted the bank funded SMEs, while their inexperience with venture and equity capital financing may be the reason for the dismal performance of SMEEIS. Furthermore, the regular supervision, technical assistance, advisory, and other extension services enjoyed by the bank funded SMEs in comparison with the SMEEIS funded ones significantly contributed to their higher performance.

5.4.2. The Commercial Banks

Commercial banks have become increasingly sceptical about lending to the SMEs. This is largely attributable to inherent high risks associated with the SMEs as well as the profit-making motive that remains the guiding philosophy of their investments. As a result, this has led to the excessive demand for collateral before loans are granted, a condition which most of the SMEs grossly fail to meet. This explains why the banks are more inclined towards financing larger corporations and well-established SMEs, which is to the detriment of the nascent ones (Ketley, R., Lightfoot, R., Jakubec, M., and Little, 2012) and, thus, why the SMEEIS funds were underutilised and, therefore, lead to the poor performance of the beneficiaries of the program.

Furthermore, venture capital and equity financing for SMEs remain unattractive to the conventional banks due to the longer maturity period of the investment. This is because of the enormous amount of capital, technical assistance, and supervision required from the creditors towards the management and realisation of their investment. Initial Public Offer (IPO), Leverage Buyouts (LBO), and management takeovers are among the processes of recouping

investments from these financing arrangements. However, as established by the findings of this and many other studies, enterprise valuation is one of the major areas of disagreement between the SMEs and their creditors, which has resulted in mistrust among the involved parties.

The private sector also regards investment in the SMEs as an act of corporate and social responsibility that is owing to the high risk and volatility of the sector, which does not guarantee return on investments. This explains the little attention accorded to the sector by the banks.

5.4.3. The Regulatory Institutions

The inability of the government to provide supportive policies capable of promoting conducive market environments exposed the majority of SMEs in Nigeria to an adverse and unfriendly business environment. Loose trade policies made the SMEs operating in the region vulnerable to superior foreign competition, which put many of them out of business. The indiscriminate importation of goods and services, loss of competitive advantage to foreign producers, poor capacity for internationalisation, over dependence on the production of primary goods, and low level of industrialisation remain the common threats the studied SMEs deal with in the reality of weaker government protectionism.

The creation of SMEEIS, as a public/private collaborative initiative, was intended to correct these and other failures of previous government-only intervention initiatives. Despite the active involvement of the Central Bank of Nigeria, Nigerian Stock Exchange, the Presidency, and other major regulatory stakeholders, the program ended in a way that is similar to the fate that befell ones before it. That said, problems such as high collateral demands, risk averseness towards investing in the SMEs by the participating banks, poor accountability, perceived high eligibility qualification standards, increased competition from international competitors, unrealistic business proposals, and execution plans may be the reason for the failure on the part of the eligible SMEs. Furthermore, the government's apparent inability to proactively develop and effectively deploy dynamic strategies towards solving the identified problems—as well as easing the SMEs' access to a conducive operating environment capable of ensuring the sustainability of their businesses is also to blame.

5.5. Theoretical Implications of the Study

“The Parable of Lucas Paradox VS the ‘Big Push’ in Financing SMEs in Nigeria”

The Neoclassical economic theory assumes free capital market and diminishing returns, which suggests that, in the process of attaining development, the movement of resources or capital from developed to less developed economies is required because of the lower level of capital

per worker in the latter. Therefore, investing in developing countries will have the potential to stimulate economic growth and development within said developing countries and, consequently, yield good returns for the capital deployed by the developed nations (investor). However, Robert Lucas (1990) made a resounding observation of the opposite trend to this assumption, from the record of ODA and Foreign Direct Investment (FDI) flow to developing countries, which declined by more than half between 1990–2000. He observed that FDI revolves more within the circle of developed nations, instead of flowing to the developing countries. In essence, Lucas made two fundamental assumptions whilst explaining this deviation from the neoclassical stand point:

1. The “limited amount of capital received by poorer nations is due to differences in fundamentals that affect the production structure of the economy, such as technological differences, missing factors of production, government policies, and the institutional structure” (Thomas, 2008).
2. Due to the “international capital market imperfections, mainly sovereign risk (risk of nationalization) and asymmetric information. Although the expected return on investment might be high in many developing countries, it does not flow there because of the high level of uncertainty associated with the expected returns” (Thomas, 2008).

The Lucas paradox perfectly explains the relationship between the conventional banking institutions and the Nigerian SMEs. Risk concerns and profitability motives are the major considerations for the commercial banks in making investment decisions towards SMEs. However, as capital-trapped as the SME sector is in Nigeria, the prospect of high returns on investment are obscured by the existence of high information asymmetry and serious investment risk, which discourages the banks from the sector. This has resulted in the movement of investment towards larger domestic and multi-national enterprises, sovereign lending, and other less risky outlets with reasonable security and return on investment.

However, this defies fundamental assumptions of the Big Push Theory that underpins this study, which is where Rosenstein-Rodan (1972) advocated for enormous amounts of investment at once in order to jump start the economy for sustainable development. Unfortunately, the dominant stake holders in the SMEEIS scheme (commercial banks) are more inclined towards profit and safety of investment than the development of the SME sub-sector. Therefore, a balancing force is required in order to provide the necessary harmony between these two conflicting extremes of the SMEEIS stake holders, which would thereby promote the

development and performance of the SMEs without hurting the business interests of the conational banks.

5.6. Policy Recommendation: Regulatory Perspective

The state of the SMEs sub-sector in Nigeria calls to question the adequacy and effectiveness of the previous intervention programs in developing the sector. Therefore, the need for relevant and in-depth knowledge of the SMEs sub-sector within the Nigerian economy by the Policy makers and authorities cannot be over emphasised. This study (as well as other related research) provides vital information, data, and resources that could help in the process of policy design and formulation for subsequent programs. As laudable as the SMEEIS initiative sounds, its failure is a signal that certain vital information has either been missing or been omitted during the conceptualisation process. In order to make the existing and subsequent programs effective, the high level of information asymmetry within the sub-sector must remain a high priority agenda on the schedules of the policy makers.

The Central Bank of Nigeria, in collaboration with the Federal government and other regulatory agencies, cannot relent on the significant effort it has been making towards raising financial literacy and awareness amongst the SMEs. As the result of the findings have shown, there is a significant positive relationship between the financial literation and financial performance of the SMEs.

The current policy regarding the consolidation of the citizen's information under the National Identity Number (NIN) is geared towards the reduction of the high level of information asymmetry regarding the identity, social status, regulatory compliance level, as well as the address of citizens in a single repository. The Number will consolidate details such birth registration, tax, financial, travel, business, and any other relevant detail(s) that could provide the needed information about a business or person within Nigeria. This could also greatly improve the credit appraisal process of the SMEs by the commercial banks, reduce risk concerns arising from information asymmetry, and lower the agency cost, which most of the SMEs find outrageous.

The regulating authorities should provide realistic incentives for both the SMEs and the commercial banks participating in the scheme, as a means to reward performance. Because interest rate fixing has proven distortionary to the credit supply within the market, the Central Bank and other regulatory agencies under the program may consider:

- i. Interest rate subsidy for the SMEs where, based on their performance, a certain percentage of their interest expense(s) becomes reimbursable while, also, encouraging banks to offer less expensive rates for the participants. Interest Draw Back as obtainable under the Agribusiness and Small and Medium Enterprises Investment Scheme (AGSMEIS), which is the recently introduced private-public intervention initiative is an excellent incentive where beneficiaries with a good loan repayment track record enjoy certain percentage rebates on their interest expenses, which has proven effective in driving performance (CBN, 2017).
- ii. Combining the SMEEIS and a form of credit guarantee by the government will also provide the commercial banks with the necessary comfort to provide adequate credit required to meaningfully impact upon the growth and development of SMEs in Nigeria. This is the result of successful credit guarantee programs that have been recorded in the past, as cited by Ketley et al. (2012). However, the private sector component of the arrangement shall provide the required rigour in monitoring as well as the technical support needed to drive the SMEs' performance.
- iii. The central in providing further incentive to the participating banks may elect to reduce the cash reserve ratio requirement by the proportion of the total contribution made towards the program's funds. This will improve the banks liquidity and propensity to create more risk assets whilst reaching out to more SMEs in that category. In addition, this will further improve the banks' ability to make more profit and incentivised in order to increase their contribution to the program.
- iv. The regulators must put in place strong regulatory institutions that have the capacity, the ability, and the motivation to deal with the SMEs' associated risks. This can be achieved by reforming the existing legal system, which is largely inefficient due to lengthy delays as well as cumbersome procedures pertaining to litigation and proper enforcement processes. These inefficiencies result in an enormous loss of value for the lenders, which further compounds their losses and, thus, aggravates the risk impact.
- v. The Scheme ignored the Micro and Small segment of the SMEs, and targeted only the medium ones, as specified in the beneficiary eligibility criteria. This omission was deliberately contemplated because of the positive externalities that medium scale industry can generate for the small ones within the value chain. However, the failure of the program deprived the Micro and Small industries of this vital opportunity, which

further worsened their already precarious situation. Therefore, in the conceptualisation of the future programs, provision must be made for the smaller segment of the SMEs in order for the benefit to be spread equally among beneficiaries.

5.6.1. Policy Recommendation: SMEs Perspective

The Ownership Structure of the Nigerian SMEs proved to be a significant factor in determining their financial performance. However, most of the SMEs are ignorant of the code of ethics for corporate governance. Compounded by their fear of loss of control, the SMEs continue to lose out on vital financing opportunities due to the limited knowledge of the owners. Therefore, the SMEs must familiarise themselves with and adopt the corporate governance code of ethics as a guiding principle in order to improve transparency, accountability, and efficiency in decision-making.

The SMEs need to imbibe Responsible Investment principles as an integral part of their business model that is, in order to attract the ever increasing segment of the market who subscribe to such investment principles.

In the wake of rapid technological advancement within the current globalised setting, the effect of geographical barriers on regional distance and time in trade transactions have been significantly reduced. Moreover, access has tremendously increased with use of enabling technology and communication devices. Therefore, SMEs must make a concerted effort towards capacity building in order to favourably compete within the global value chain, and, also, to be able to attract the required attention from prospective domestic and foreign customers as well as investors. Furthermore, it is paramount that SMEs leverage upon the enabling technology in order to acquire the needed skills, education, and build proper networks for the facilitation of trade and transactions.

5.6.2. Avenues for Future Research

The strategic choice of North West Region was motivated by the density of its population, SMEs activities, and the presence of a large number of SMEEIS Projects. However, the Northern region is comprised of three geo-political zones, each with equal distribution of six states namely, Northwest (Study area), Northeast, and North central. Therefore, because the justification for this study is to provide perspective regarding the performance of SMEs under the schemes in the Northern region—as a means of bridging the existing gap within the dominant literature on the performance of SMEEIS as a financing initiative in Nigeria—a

similar study is recommended to be carried out within the remaining two regions, in order to have a complete picture of the situation.

In the course of the study, a major observation regarding the behavior of the conventional banks that is, their lending preference for larger enterprises as opposed to small and medium ones has been established. From the Lucas paradox's stand points, such an attitude has been associated with excessive risk averseness on the part of the banks as well as their concern for the safety of their investment. This also provides a valid avenue for further research to identify solutions for allaying risk concerns inherent within the SMEs sub sector, and, ultimately, reverse this trend for the overall development of the sector.

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Appendix A

Table 1: Descriptive				
			Statistic	Std. Error
Financial Performance	Mean		4.2624	.02254
	95% Confidence Interval for Mean	Lower Bound	4.2181	
		Upper Bound	4.3068	
	5% Trimmed Mean		4.2748	
	Median		4.2000	
	Variance		.184	
	Std. Deviation		.42884	
	Minimum		2.60	
	Maximum		5.00	
	Range		2.40	
	Interquartile Range		.60	
	Skewness		-.153	.128
	Kurtosis		.288	.256

Table 2: Descriptive				
			Statistic	Std. Error
Non-Financial Performance	Mean		4.3619	.02135
	95% Confidence Interval for Mean	Lower Bound	4.3199	
		Upper Bound	4.4039	
	5% Trimmed Mean		4.3732	
	Median		4.3333	
	Variance		.165	
	Std. Deviation		.40630	
	Minimum		3.00	
	Maximum		5.00	
	Range		2.00	
	Interquartile Range		.67	
	Skewness		-.027	.128
	Kurtosis		-.443	.256

Table 3: Descriptive				
			Statistic	Std. Error
Capital Structure	Mean		4.3398	.02070
	95% Confidence Interval for Mean	Lower Bound	4.2991	
		Upper Bound	4.3805	
	5% Trimmed Mean		4.3514	
	Median		4.3333	
	Variance		.155	
	Std. Deviation		.39394	
	Minimum		1.89	
	Maximum		5.00	
	Range		3.11	
	Interquartile Range		.56	
	Skewness		-.638	.128
	Kurtosis		1.358	.256

Table 4: Descriptive				
			Statistic	Std. Error
Applicable Interest Rate	Mean		4.2486	.02448
	95% Confidence Interval for Mean	Lower Bound	4.2005	
		Upper Bound	4.2968	
	5% Trimmed Mean		4.2626	
	Median		4.2000	
	Variance		.217	
	Std. Deviation		.46585	
	Minimum		2.20	
	Maximum		5.00	
	Range		2.80	
	Interquartile Range		.60	
	Skewness		-.221	.128
	Kurtosis		.354	.256

Table 5: Descriptive				
			Statistic	Std. Error
Years of Operation	Mean		4.3066	.02235
	95% Confidence Interval for Mean	Lower Bound	4.2627	
		Upper Bound	4.3506	
	5% Trimmed Mean		4.3204	
	Median		4.2857	
	Variance		.181	
	Std. Deviation		.42514	
	Minimum		2.86	
	Maximum		5.00	
	Range		2.14	
	Interquartile Range		.71	
	Skewness		-.234	.128
	Kurtosis		-.103	.256

Table 6: Descriptive				
			Statistic	Std. Error
Knowledge of the Program	Mean		4.2932	.02181
	95% Confidence Interval for Mean	Lower Bound	4.2503	
		Upper Bound	4.3361	
	5% Trimmed Mean		4.3033	
	Median		4.2500	
	Variance		.172	
	Std. Deviation		.41493	
	Minimum		3.13	
	Maximum		5.00	
	Range		1.88	
	Interquartile Range		.63	
	Skewness		-.044	.128
	Kurtosis		-.320	.256

Table 7: Descriptive				
			Statistic	Std. Error
Financial Literacy	Mean		4.2876	.02127
	95% Confidence Interval for Mean	Lower Bound	4.2458	
		Upper Bound	4.3295	
	5% Trimmed Mean		4.2972	
	Median		4.2500	
	Variance		.164	
	Std. Deviation		.40471	
	Minimum		3.13	
	Maximum		5.00	
	Range		1.88	
	Interquartile Range		.63	
	Skewness		-.083	.128
	Kurtosis		-.131	.256

Table 8: Descriptive					
			Statistic	Std. Error	
Ownership preference	Structure	Mean		4.3177	.02054
		95% Confidence Interval for Mean	Lower Bound	4.2773	
			Upper Bound	4.3581	
		5% Trimmed Mean		4.3255	
		Median		4.2500	
		Variance		.153	
		Std. Deviation		.39076	
		Minimum		3.13	
		Maximum		5.00	
		Range		1.88	
		Interquartile Range		.63	
		Skewness		.018	.128
		Kurtosis		-.264	.256

Table 9: Summary ANOVA - Financial Performance

Model		Sum of Squares	df	Mean Square	F	<i>p</i>
1	Regression	42.221	9	4.691	68.325	.000
	Residual	24.168	352	.069		
	Total	66.389	361			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Firm Type (Agriculture), Interest Applicable Interest Rate, Firm Type (Educational), Firm Type (Service), Financial Literacy, Knowledge of the Program, Capital Structure, Years of Operation, Ownership Structure Preference

Table 10: Summary ANOVA - Non-Financial Performance

Model		Sum of Squares	df	Mean Square	F	<i>p</i>
1	Regression	34.314	9	3.813	53.088	.000
	Residual	25.280	352	.072		
	Total	59.594	361			

a. Dependent Variable: Non – Financial Performance

b. Predictors: (Constant), Firm Type (Agriculture), Interest Applicable Interest Rate, Firm Type (Educational), Firm Type (Service), Financial Literacy, Knowledge of the Program, Capital Structure, Years of Operation, Ownership Structure Preference

Questionnaire



Dear Sir/Madam,

I am Aliyu Adamu, a student of Masters of Commerce in Development Finance from Graduate School of Business, University of Cape Town South Africa, currently conducting a research on **“Winners and Losers: Between Bank Loan and Small Medium Enterprises Equity Investment Scheme (SMEEIS) as funding Sources for Northern Nigerian SMEs”** All data/information such as Names, Locations and other personal attributes of the company so collected from the respondents shall be used strictly for the purpose of the study, under condition of anonymity and confidentiality, and in strict compliance with the GSB code of ethics guiding the conduct of this research.

This study aim to measure the Performance of eligible SMEs under SMEEIS in comparison with the SMEs under the conventional banking scheme, and to determine the factors responsible for the success of the scheme or otherwise.

Thank you for your cooperation.

Section One: Generic Details

Instruction: Tick appropriately in the option box provided for answer

1. What is the type of your firm?

- Manufacturing Services Educational Agriculture Pharmaceutical
 Cyber Tech Petro-Chemicals Others

2. How many years has your firm been in business? _
<0-4 yrs. <5-10yrs. >10 yrs.

3. What form of business do you operate?

- Sole Proprietorship Partnership Private Limited Company
 Others Specify.....

4. Do you Have Relationship with a Bank(s)?

- Yes No

5. What is your Major Source of Financing for your Business operations

- Formal Informal Mixture of both

6. If mixture of both, what is the Percentage of your capital Mixture.

Debt ___% Equity ___%

7. What is the status of the Facility in which you operate your Business?

Owner Occupier Rented

8. If owned, is it perfectible and can be mortgaged for borrowing purposes?

Yes No

Section 2:

Instruction: Kindly complete this section by ticking the Answer Box provided

9. I know and understand the listed commercial Bank Products and Services listed in the Box below

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Commercial banks Loans & Overdrafts					
Micro Finance Loans					
Venture Capital					
Business Angels					
Current/Savings Account					
ATMs/POS/USSD Code Banking Transactions					
Nigerian Export-Import Bank SMEs Facilities					

10. I am aware of the Existence of the listed Government Financial intervention programs to SMEs, and fully know how it can assist my business

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Small Medium Equity Investment Scheme(SMEEIS)					
Agricultural Financial					
Refinancing and Rediscounting Scheme (RRF)					
Micro, Small and Medium Enterprises Development Fund (MSMEDF)					
Credit Guarantee Schemes					

11. What mode of subscription did you accessed SMEEIS under?

Single digit Loan Equity Financing Combination of Both

12. Loans from the SMEEIS/Banks have adequately assisted me in improving the cost of my finances

Strongly Disagree Disagree Neutral Agree Strongly Agree

13. My years of Operations have greatly improved my experience in the business

Strongly Disagree Disagree Neutral Agree Strongly Agree

14. The experience I acquired over long period have helped distinguished my products in the market thereby ensuring more patronage and increasing sales/ revenue and my general competitiveness

Strongly Disagree Disagree Neutral Agree Strongly Agree

15. The Application process for SMEEIS/Bank Loan is very easy and straight forward

Strongly Disagree Disagree Neutral Agree Strongly Agree

16. Personal Equity wouldn't have been sufficient for my business without the use of Debt from SMEEIS/Bank Loan

Strongly Disagree Disagree Neutral Agree Strongly Agree

17. The interest rate has not been disruptive to my ability to repay my loan and generate profit for my business

Strongly Disagree Disagree Neutral Agree Strongly Agree

18. My current interest rate charges has greatly influence my cash flow and working capital retention capacity

Strongly Disagree Disagree Neutral Agree Strongly Agree

19. The single interest rate offered under SMEEIS have potentials for increased profitability and increased output in relation to the one conventional Banks rates.

Strongly Disagree Disagree Neutral Agree Strongly Agree

20. Collateral Requirement under SMEEIS/Banks is reasonable and realistic for SMEs to fulfil

Strongly Disagree Disagree Neutral Agree Strongly Agree

21. Adequate enlightenment, Technical support and guidance was provided by the financing banks

Strongly Disagree Disagree Neutral Agree Strongly Agree

22. Bank officials are very knowledgeable about the product and promptly provide helpful responses to queries in order to ensure success of the program

Strongly Disagree Disagree Neutral Agree Strongly Agree

23. The SMEEIS/Conventional Bank has significantly improved my productive capacity and total output

Strongly Disagree Disagree Neutral Agree Strongly Agree

24. There have been a significant increase in Annual Turnover of Sales During SMEEIS/Bank Loan intervention

Strongly Disagree Disagree Neutral Agree Strongly Agree

25. SMEEIS/Bank Loan Funds Improved the Company's cash flow Position leading to adequate working capital

Strongly Disagree Disagree Neutral Agree Strongly Agree

26. SMEEIS/Bank Loan Funds the Employment of more Staff in order to handle increased production

Strongly Disagree Disagree Neutral Agree Strongly Agree

27. There has been significant increase in the Number of worker as a result of SMEEIS/Bank Loan in Comparison with before SMEEIS

Strongly Disagree Disagree Neutral Agree Strongly Agree

28. The Level of Capital Assets acquisition (Machinery, Raw Material Inventory, Plant, and Landed Assets) has significantly improved under the SMEEIS/Bank Loan Financing.

Strongly Disagree Disagree Neutral Agree Strongly Agree

29. The utilization of local content such as raw materials, labour, advisory services e.tc has significantly improved during the SMEEIS Funding program.

Strongly Disagree Disagree Neutral Agree Strongly Agree

30. Your company has witnessed increased efficiency in innovation, new product development and improved competitiveness in the market as a result of SMEEIS/Bank Loan

Strongly Disagree Disagree Neutral Agree Strongly Agree

31. There has been improvement in Research and Development, leading to New Products and Services the SMEEIS/Bank Loans.

Strongly Disagree Disagree Neutral Agree Strongly Agree

32. The level of Job Retention has significantly improved during SMEEIS compared with your position prior to the Program.

Strongly Disagree Disagree Neutral Agree Strongly Agree

33. My company has been fairly valued during the investment appraisal process of SMEEIS/Bank Loans

Strongly Disagree Disagree Neutral Agree Strongly Agree

34. I am comfortable with sharing ownership of my enterprise with the Bank/SMEEIS or any beneficial partner

Strongly Disagree Disagree Neutral Agree Strongly Agree

35. The contractual agreement/covenants governing the conduct of the SMEEIS arrangement adequately cover your interests and concerns.

Strongly Disagree Disagree Neutral Agree Strongly Agree

36. The Working condition for the workers in terms of increased salaries, bonuses, improved work place safety has significantly improved during the SMEEIS/Bank Loan.

Strongly Disagree Disagree Neutral Agree Strongly Agree

37. SMEEIS/Bank Loan has had significant impact on the general economic condition of Kano State (in your opinion?)

Strongly Disagree Disagree Neutral Agree Strongly Agree