Small and Medium Scale Enterprise (SMEs) Financing and Poverty Reduction in Abeokuta Ogun State Nigeria

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Abstract

Access to credit by SMEs has not been straightforward in Nigeria, and this has been attributed to inadequate financial markets, the attitude of most of the deposit money banks, plus improper documentations by SMEs to access credit .This situation limits the opportunity of SMEs to obtain loans for their development, sustainable growth and poverty reduction. Therefore, the study examined at the relationship between Nigerian small- and medium-sized enterprise (SMEs) financing and reducing poverty. The study used a structured questionnaire and a survey research design. The population for the study are selected small and medium scale enterprise in Abeokuta Ogun state with the total population of 2,862.Acording to SMEDAN as at May (2023).The study adopted a Krejcie and Morgan Model (1970) sample determination formula to select the sample of (343) respondents. The findings of the study revealed that there is positive relationship between the dimensions of SMEs financing(i.e. SMEs Bank Lending, Credit Guarantee Schemes, Venture Capital and Private Equity Investments, and Government Support Programs) and poverty reduction with regression and correlation values of (0.765,0 .787, 0.76, and 0.771) respectively. The study conclude that small and medium enterprises financing has a significant relationship with poverty reduction in Nigeria, while unemployment has a strong negative relationship with poverty in Nigeria thus adequate SMEs financing will create and sustained SME sand this will later create more sustainable jobs and drastically reduced poverty. The study therefore, recommends that the government should as a matter of urgency diversify the economy and creates more jobs for the increasing population to reduce the unemployment rate in the country. This would go a long way to reduce poverty, and reduce crime rate in Nigeria.

Keywords: Small and medium enterprises financing, poverty reduction, and Job creation.

Introduction

The last thirty years have seen an increase in the popularity of small and medium-sized businesses. A wide range of stakeholders, including governments, academics, practitioners, and international organisations, have continuously backed them Ajose (2019). The reason for this is due to their potential to satisfy ostensibly employment, the emerging economy, by promoting innovation, the revenue challenges of developing and emerging economies that can be annexe by promoting innovations, as well as the creation of jobs for the teeming youths and women that will result in the achievement of sustainable development goals.

The need for marketing resources and capabilities to sell goods and services cannot be underemphasized. Men and women who are supposed to have been empowered through the establishment of various poverty alleviation programs have remained poor after setting up businesses that would help in repositioning them economically and socially. The supportive business environment for SMEs is still weak in Nigeria. The SME support programmes are poorly coordinated and lack the necessary coverage to reach all sectors of the small business community. Almost all Microfinance Institutions (MFIs) are supposed to cater for those enterprises with credit. This makes Project lending and risk capital for SMEs virtually unavailable. The private equity and venture capital funds established in Nigeria are few and cater primarily for the needs of expansion of established business and privatized companies, (Addaney, Akudugu&Asare, 2021)

Many researchers like Ibrahim, and Yusheng, (2020) have often criticized the ineffectiveness and inefficiency of programs such as financing through Nigeria Industrial Development Bank (NIDB) and the Nigerian Banks for Commerce and Industry (NBCI), establishment of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Small and Medium Enterprises Equity Investment Scheme (SMEEIS), and now micro credit schemes (CBN, 2008). The performance and efficacy of small and medium-sized businesses as a tool for economic development and progress in Nigeria has long been under investigation. This close examination has occurred in the context of the poor performance and inefficiency that characterized small and medium-sized businesses, particularly when measuring their contribution to economic growth and development.

Nevertheless, several studies have identified inadequate and poor support services, limited access to credit as well as unfair market competition as some of the significant challenges that impede their contributions to socio-economic development, especially in developing countries (Adeoye & Lawanson (2012)). Most notably, in Nigeria, access to credit by SMEs has not been straightforward, and this has been attributed to inadequate financial markets, the attitude of most of the deposit money banks, plus improper documentations by SMEs to access credit (Meijerink&Roza, 2007, Tsai, 2015). This situation limits the opportunity of rural industries to obtain loans for their development and sustainable growth. Importantly, without an appropriate support system in place to promote SMEs, it is unlikely for poverty and unemployment to be eradicated or brought down to the barest minimum In other proffer solution to this great challenge, there has been an advocate for the growth of SME's in terms of channeling of funds from the available financial institutions, government interventions, and availability of technical knowhow that would enhance and motivate people to embrace skill acquisition which would translate to the growth of small and medium scale enterprises and consequently, proffer solution to poverty and unemployment rate in Nigeria.

It is on the basis of these bottlenecks in financing SMEs that this study undertaken to analyzed the impact of SMEs financing on poverty reduction in Nigeria.

The main objective of this study is to examine the impact of small and medium enterprises financing on poverty reduction in Nigeria. Specifically, the study aims;

1. To examine the effect of Bank Lending on SMEs and poverty reduction in Nigeria.
2. To investigate the effect of Credit Guarantee Schemes on SMEs and poverty reduction in Nigeria.
3. To determine the effect Venture Capital and Private Equity Investments on SMEs and poverty in reduction in Nigeria.
4. To examine the effect of Government Support Programs on SMEs and poverty reduction in Nigeria.

The definition of small enterprise varies from the economic situation of one country to another. Even from state to state and institution to institution. Ajose (2010) has defined small and medium enterprises as an enterprise that has an asset base (excluding land) of between 5 million naira and 500 million naira and labour force of between 11and 300 in its employ. The National Economic Reconstruction Fund (NERFUND) puts the amount as not exceeding 10 million naira while the section 376 (2) of the companies and Allied Matters Act of 1990 defines it as one with; (a) an annual turnover of not more than 2 million naira. (b) A net asset of not more than 1 million naira,

The National Association of small and medium scale enterprises defines small and medium enterprises as a business that employ less than fifty (50) people and with an annual turnover of one hundred million naira. The association further defines a medium scale enterprise as a business with less than 100 employees and with an annual turnover of five hundred million.

Countries use different definition for classifying their small and medium enterprises sector. More so, the parameters used by most countries in defining SME, singly or in combination are: capital investment on plant and machinery; number of workers employed; and volume of production or turnover of business. On the quantitative side are their internal management structures, decision-making process, financial practice, trading styles, attendance risk factor, etc. It has been observed that most small and medium enterprises are one man shows or are run by two or three individuals, usually relatives, friend or business partners, who take most of the decisions. There is no serious distinction between private and business assets, subjective and personal factors play a large role in decision-making

The discussions on poverty and the priority given to the concept by individuals, government whether in developed or developing nations as well as international agencies has made it a critical concept that has remained constant despite the fact that every successive government, especially in the developing countries, have put in place several programmes to either lessen, attenuate or banish its scourge in the annals of the human race (Garba, 2019). The complexity surrounding the meaning of the word 'poverty' has made it difficult to have a generally accepted definition of the concept as different schools of thought have come up with several definitions of the word poverty

(Phillip & Miguel 2014). According to Ludi & Bird (2007), poverty can be expressed in several dimensions. Though classically, the word poverty is used in relation to income and such believe still subsist even till date. The inability of a person to possess the fund to meet the basic needs of life was seen as poverty. The notion can be traced to the 19th century in which the mentality then was having a means of livelihood. However, Phillip and Miguel (2014) opined that there is a change in orientation regarding viewing poverty from the monetary perspective to include expanded variables such as political participation and social inclusion.

Small and medium scale industries facilitate the creation and use of non-existing or unused products and materials. It is also the main stream of economic activities in a nation and provides the stages for industrial revolution and economic growth (Okenwa C. 2008). In a contribution of Ekpeyoung (2009) on the place of small scale enterprises in the economy, he states that "the role of small & medium scale enterprises in the development of the country has been summarized in the Nigeria Third National Development Plan of 1975-80 which dwells on generating employment opportunities, stimulating indigenous entrepreneurs, improvement in per capita income, balanced regional development, education, empowerment of citizens, Stimulation of indigenous companies and providing self sufficiency.

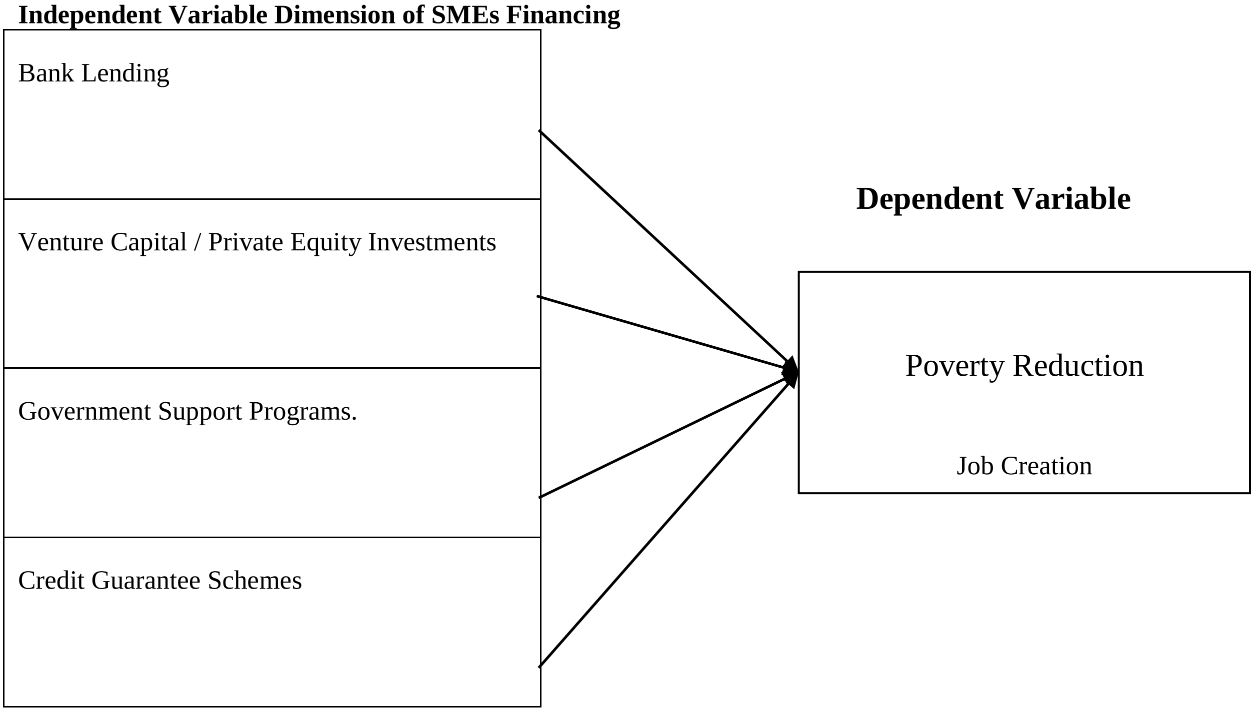
To provide a proper theoretical foundation for this study, poverty reduction theory is adopted. One of the poverty reduction theories was postulated by Karl Marxian which explains that poverty comes about as a result of the situation a poor person finds himself or herself, which resulted from so many factors that lead to making the poor a victim of circumstances that is critical of the production system (Alfandega, 2017). Karl Marx revealed that the entrepreneurial practices of the who owns means of production (capitalists) need to move away from labor to capital intensive ways of production to boost production hitch will result to increase profitability can also lead to massive unemployment, and this causes poverty. Capital intensive production will pressurize the capitalist to retrench workers to make way for increased profitability; as a result, it will lead to massive unemployment. In any case, retrenched workers will either migrate to resurface in urban areas or change professions. This continued retrenchment by capitalists will increase the number of poor in the economy, and the long-run effect is increasing in poverty levels. A series of structural failures give rise to an increase in the number of poor. Gordon (1982) also observed these structural defects to be racial and gender discrimination and nepotism, resulting in deprivation of a particular section of the populace's opportunities for jobs, education, and social assistance. Albrecht and Milford (2001), in their contribution to this theory, opined that massive restructuring of economic systems would lead to increased economic and social marginalization of an entire group of people. Such groups end up poorer due to the lack of access to opportunities. The Marxist theory, in his recommendation, put poverty alleviation through better structures of production and increased education and training to those rendered extraneously by technological improvement to adapt through a change of environment to change of profession. Hence, to achieve this, as advised, small and medium scale enterprises can be adopted by the poor to solve their poverty problem with the help of government intervention. In the long run, the issue of poverty can be minimized.

Tersoo (2020) focused on the national poverty eradication program on wealth creation in Benue State by examining the current strategies adopted by the Federal Government of Nigeria through the National Poverty Eradication Programme (NAPEP) and the effect on the beneficiaries in Benue State. The explanatory survey method was utilized for the collection of data through a questionnaire administered on one hundred and nine (109) respondents selected from beneficiaries and key officials of NAPEP in six (6) local government areas of Benue State. The study suggested that the strategies employed by NAPEP had not made a significant impact in improving the lives of beneficiaries in implementation strategies adopted by NAPEP. More so, poor funding, corruption, as well as the untimely release of funds, inability to effectively monitor and impact assessment plans, with bad governance, were seen as the most important major constraints in the successful implementation of poverty reduction programs in Nigeria.

Hussain, Bhuiyan, and Said (2020) accessed the role of micro, small and medium enterprises in eradicating poverty in Malaysia. The study used a content approach by reviewing extensively on the existing studies on the subject matter, and it was found that the development of micro, small, & medium enterprises depends on individuals or a group of peoples that have certain factors such as innovativeness, family background, government support programs, and training or education. As a result, individual entrepreneurial characteristics, like an increase in youth empowerment and women's participation in entrepreneurship. A significant role played in the development of entrepreneurship is the robust collaboration between government-university-industry resulted in stimulating employment and creating job opportunities which will lead to alleviating poverty. Ayodeji and Ajala (2020) examined micro-financing and poverty reduction in Nigeria, covering a time scope from 2000 to 2016. The study sourced secondary data on microfinance credit, a number of microfinance banks registered, and interest rate whole autoregressive distributed lag was used as the estimation technique. It was found, that there exists a long-run relationship between micro-financing and rural-poverty reduction. Also, microfinance credit was found to be significantly negatively related to the rural poverty index, such that the higher the microfinance credits available to the rural dwellers, the lower the rural poverty index, though the numbers of microfinance banks are insignificantly positively related to rural poverty index in Nigeria.

Conceptual Framework

Independent Variable Dimension of SMEs Financing



Source: Adapted from Adeyemi& Kasali (2021)

METHODOLOGY

The study adopted cross- sectional survey research design method with the aid of a structured questionnaire. The reason for using survey research design is because survey research design is the most effective when using the questionnaire to obtain information from the respondents.

The target population is all the total registered small businesses with above 15 members of staff and above at in Abeokuta Ogun state with total population of 2,862.i.e Abeokuta south LG (1265),Abeokuta Noth LG (965) and Odeda LG (631) according to Ogun state SMEDAN chapter and Corporate Affairs Commission (CAC) as at May, 2023.

A Simple random sampling technique was adopted with aid of sample determination formular the study adopted Krejcie and Morgan Model (1970) to select the sample size for the study. **). The interpolation of the sample size determination formula will be written as follows:**

Sample size formula for arriving at a finite population is;

$$\mathbf{S} = \frac{\mathbf{x^2NP(1-P)}}{\mathbf{e^2(N-1) + x^2P(1-P)}}$$

Where;

S = required sample size

X = z value (e.g. 1.96 for 95% confidence level)

N = population size

P = population proportion (expressed in decimal) (assumed to be 0.5) 50%

e = degree of accuracy (5%) expressed as a portion (0.5); it is margin of error.

The substituted values in determining the sample size for the large population are as

Follows:

$$N = \frac{3.8416\ (2862)\ (0.5)\ (1\text{-}0.5)}{0.5^2\ (1862\text{-}1) + 3.8416\ (0.5)\ (1\text{-}0.5)}$$

$$N= \frac{3.8416\ (2862)\ (0.25)}{0.0025(2861) + 3.8416(0.25)}$$

$$= \frac{3.8416\ (1862)\ (0.5)\ (0.5)}{0.5^2\ (1861) + 3.8416\ (0.25)}$$

$$= \frac{3.8416\ (2862)\ (0.25)}{0.0025\ (2861) + 0.9604}$$

$$= \frac{3.8416\ (715.5)}{7.1525 + 0.9604}$$

$$= \frac{2{,}748.6648}{8.1129}$$

$$= 343.239$$

$$= 343 \quad \text{Approximately}$$

Therefore, this brought the sample size to a total of 343 respondents.

In carrying out research work, the impact of information and data cannot be over emphasized if the objective of the research is to be met. The data and information used for this research work were obtained from the primary sources. The researcher collected the primary data through method which involved the use of structured questionnaire.

The questionnaire was validated through content validation by the supervisor and the experts in the area of study. The Cronbach Alpha was used to test for reliability of the research instrument.

The data analysis for this study involved the use of frequency distribution estimation as well as tables, charts, percentages for proper presentations of data collected.In testing the hypotheses formulated, Pearson Correlation and regression analysis was adopted using statistical package for social sciences (SPSS).

RESULT AND DISCUSSION

Table 1: Summary of the Reliability Test

Cronbach's Alpha	N of Items	Valid Number
.938	31	339

Source: Researchers' computation using SPSS version 23.0

According to Griethuijsen et al., (2015) and Taber (2018), the accepted value of Cronbach's alpha is 0.7. Table 1 above shows the reliability of the questionnaire used for the survey research. This shows the Cronbach's alpha of 0.938 which is more than 0.7. This is an indication that the questionnaire used for the research work is highly reliable. Therefore, the data used in this study are reliable.

Table 2: Descriptive Statistics

	Mean	Std. Deviation	N
SMS growth Poverty reduction	3.0956	.61717	339
Bank Lending	3.1428	.63201	339
Credit Guarantee Schemes	3.1339	.58573	339
Venture Capital and Private Equity Investments	3.2195	.65523	339
Government Support Programs	3.1782	.60344	339

Source: Researchers' computation using SPSS version 23.0

The table request brief disruption of the data used in the study. SMS growth Poverty reduction, Bank Lending, Credit Guarantee Schemes, Venture Capital and Private Equity Investments and Government Support Programs has mean score; 3.0956, 3.1428, 3.1339, 3.2195, 3.1782 with associated standard deviation .61717, .63201, .58573, .65523, .60344 respectively. It is observed that the standard deviation in each of the variable are low and that signifies that absence of outrageous value in the series and the tendency of getting a spurious result is low.

Table 3: Correlations

		SMS growth Poverty reduction	Bank Lending	Credit Guarantee Schemes	Venture Capital and Private Equity Investments	Government Support Programs
Pearson Correlation	SMS growth Poverty reduction	1.000	.765	.787	.763	.771
	Bank Lending	.765	1.000	.817	.824	.826
	Credit Guarantee Schemes	.787	.817	1.000	.810	.789

	Venture Capital and Private Equity Investments	.763	.824	.810	1.000	.827
	Government Support Programs	.771	.826	.789	.827	1.000
Sig. (1-tailed)	SMS growth Poverty reduction	.	.000	.000	.000	.000
	Bank Lending	.000	.	.000	.000	.000
	Credit Guarantee Schemes	.000	.000	.	.000	.000
	Venture Capital and Private Equity Investments	.000	.000	.000	.	.000
	Government Support Programs	.000	.000	.000	.000	.
N	SMS growth Poverty reduction	339	339	339	339	339
	Bank Lending	339	339	339	339	339
	Credit Guarantee Schemes	339	339	339	339	339
	Venture Capital and Private Equity Investments	339	339	339	339	339
	Government Support Programs	339	339	339	339	339

Source: Researchers' computation using SPSS version 23.0

All the variables are revealed to be positive correlated of one another. SMS growth Poverty reduction have a positive relationship with Bank Lending, Credit Guarantee Schemes, Venture Capital and Private Equity Investments and Government Support Programs with probability value of 0.765, 0.787, 0.763 and 0.771respectively.

Table 4:Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.834[a]	.695	.691	.34284	1.694

a. Predictors: (Constant), Government Support Programs, Credit Guarantee Schemes, Venture Capital and Private Equity Investments, Bank Lending

b. Dependent Variable: SMS growth Poverty reduction

Source: Researchers' computation using SPSS version 23.0

Table 4 shows the R-value represents the correlation between the dependent and independent variable, that is *R* can be considered to be one measure of the quality of the prediction of the dependent variable; in this case, SMS growth Poverty reduction. A value greater than 0.4 is taken for further analysis. In this case, the value is .834, which indicates a good level of prediction.

The "**R Square**" represents the R^2 value (also called the coefficient of determination), which is the proportion of variance/ changes in the dependent variable (SMS growth Poverty reduction) that can be explained by the change in the independent variables (Small and Medium Scale Enterprises (SMEs) financing)**.** A value greater than 0.5 shows that the model is effective enough to determine the relationship. In this case, the value is 0.695, which indicated that the independent variable studied, explain 69.5% of variance to investigate SMS growth Poverty reduction as represented by the R Square. This consequently means that other factors not considered herein contribute 30.5% of variance in the dependent variable. While the Adjusted R-square shows the generalization of the results i.e. the variation of the sample results from the population in multiple regression. It is required to have a difference between R-square and Adjusted R-square minimum. In this case, the value is .691, which is not far off from .695, so it is good.

Therefore, the model summary table is satisfactory to proceed with the next step. However, if the values were unsatisfactory, then there is a need for adjusting the data until the desired results are obtained.

Table 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	89.486	4	22.372	190.336	.000[b]
	Residual	39.257	334	.118		
	Total	128.743	338			

a. Dependent Variable: SMS growth Poverty reduction

b. Predictors: (Constant), Government Support Programs, Credit Guarantee Schemes, Venture Capital and Private Equity Investments, Bank Lending

Source: Researchers' computation using SPSS version 23.0

Table 5 shows the P-value which is also the Sig value at which 95% confidence interval or 5% level of the significance level is chosen for the study. Thus the Sig-value should be less than 0.05. In the above table, it is .000. Therefore, the result is significant. The *F*-ratio in the table represents an improvement in the prediction of the variable by fitting the model after considering the inaccuracy present in the model. If the null hypothesis is true F-ratio will be close to 1.0 while there will be large F-ratio when the null hypothesis is wrong (Zar, 2022). In the above table, the value is 190.336, which shows that the independent variables statistically significantly predict the dependent variable, $F(4, 334) = 190.336$, $p < .05$. These results estimate that as the p-value of the above table is below the tolerable significance level, thus there is a possibility of rejecting the null hypothesis in further analysis.

Table 6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		β	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.225	.106		2.115	.035	.016	.434
	Bank Lending	.153	.062	.157	2.460	.014	.031	.276
	Credit Guarantee Schemes	.355	.062	.337	5.712	.000	.233	.477
	Venture Capital and Private Equity Investments	.150	.059	.160	2.534	.012	.034	.267
	Government Support Programs	.250	.063	.244	3.965	.000	.126	.373

Source: Researchers' computation using SPSS version 23.0

The data findings also show that for each unit of Bank Lending the SMS growth Poverty reduction increases by .153 keeping the level of other predictors in the model constant (keeping Credit Guarantee Schemes, Venture Capital and Private Equity Investments and Government Support Programs the same).

Estimated model coefficients

The general form of the equation to predict SMS growth Poverty reduction increases from Bank Lending, Credit Guarantee Schemes, Venture Capital & Private Equity Investments and Government Support Programs is:

$$Y = 0.225 + 0.153BL + 0.355CGS + 0.150VC\&PEI + 0.250GSP + \varepsilon$$

The table reveals both relative effect and significance of each of the explanatory variable on the dependent variable. It shows that there is a positive relationship between Bank Lending, Credit Guarantee Schemes, Venture Capital and Private Equity Investments and Government Support Programs with statistical value $\beta = 0.153 + 0.355 + 0.150 + 0.250$; t = 2.460, 5.712, 2.534 and 3.965 on SMS growth Poverty reduction. The table further reveals the significance of the variables at 0.05 level of significance which will be used to test the hypothesis.

Test of Hypotheses

H_{01}: There is no significant relationship between Bank Lending on SMEs and poverty reduction in Nigeria.

Decision Rule: The coefficient table reveals that Bank Lending with significance value of 0.014 which is below 0.05 level of significance indicates that the null hypothesis will be rejected and concludes that there is a significant relationship between Bank Lending on SMEs and poverty reduction in Nigeria.

H_{02}: There is no significant relationship between Credit Guarantee Schemes on SMEs and poverty reduction in Nigeria.

Decision Rule: The coefficient table reveals that Credit Guarantee Schemes with significance value of 0.000 which is below 0.05 level of significance indicates that the null hypothesis will be rejected and concludes that there is a significant relationship between Credit Guarantee Schemes on SMEs and poverty reduction in Nigeria.

H_{03}: Venture Capital and Private Equity Investments has no significant effect on SMEs and poverty in reduction in Nigeria.

Decision Rule: The coefficient table reveals that Venture Capital and Private Equity Investments with significance value of 0.012 which is below 0.05 level of significance indicates that the null hypothesis will be rejected and concludes that there is a significant relationship between Venture Capital and Private Equity Investments and poverty reduction in Nigeria.

H_{04}: Government Support Programs have no significant effect on SMEs and poverty reduction in Nigeria.

Decision Rule: The coefficient table reveals that Government Support Programs with significance value of 0.000 which is below 0.05 level of significance indicates that the null hypothesis will be rejected and concludes that there is a significant relationship between Government Support Programs on SMEs and poverty reduction in Nigeria.

CONCLUSION AND RECOMMENDATIONS

The study concludes that SMEs Bank Lending was significantly assisted the growth of SMEs in Nigeria though some at doubled digit interest rate and thus as apparently created jobs and reduced poverty. Also, the study concluded that Credit Guarantee Schemes are not adequately performed better in improving the betterment and the growth of SMEs in Nigeria due to the lack of government support. Hence, the study concluded that Venture Capital and Private Equity Investments in Nigeria has contributed significantly to the growth and development of SMEs and thus metamorphosed into poverty reduction in Nigeria. Also, Government Support Programs are significantly inadequate due lack of attention and non-transparent manner of the Nigeria government with respect to supportive programme for the growth and development of SMEs in Nigeria. Finally, the study concluded that small and medium enterprises financing has a significant relationship with poverty reduction in Nigeria, while unemployment has a strong negative relationship with poverty in Nigeria thus adequate SMEs financing will create and sustained SME sand this will later create more sustainable jobs and drastically reduced poverty.

From the foregoing, it is therefore recommended as follows:

- The Nigeria government should create a sustainable legal framework for the commercial banks for effective supports for SMEs Bank Lending programs at a single interest rate in order to attract more creation of SMEs and sustaining the existing ones for job creation and poverty reduction.
- The Nigeria government should ensure Credit Guarantee Schemes that will act as a supportive pillar for the growth of SMEs in Nigeria for job creation.
- Private lenders should continue to embrace venture capital and private equity Investment for SMEs or other young businesses that show potential for long-term growth for more job creation.
- There should be Government Support Programs in a transparent manner to ensured sustainable growth of SMEs in Nigeria for poverty reduction in Nigeria for economic growth.
- The government should as a matter of urgency diversify the economy and create more jobs for the increasing population to reduce the unemployment rate in the country. This would go a long way to reduce poverty, and reduce crime rate in Nigeria.

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