

## Chapter 71

# Small and Medium Enterprises' Challenges of Accessing Microfinance in Nigeria

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### ABSTRACT

*Despite the fact that small and medium enterprises have been viewed as a major promoter of technological development and employment generation in Nigeria, the sector has been neglected by successive governments (Gideon, 2015). This has resulted in unpalatable consequences on the economy (Gideon, 2015). The major challenge of the sector is poor funding (Afolabi & Ehinomen, 2015). Consequently, policies and efforts should be geared towards accelerating the growth and development of the sector (Afolabi & Ehinomen, 2015). According to Onwumere, (2000) a lack of funding has been a specific obstacle to investment and growth in the sector. The need to contribute to the current debate, update knowledge on the subject matter and make informed recommendations when implemented will lead to a change in fortune for the small and medium enterprise sector in the Nigerian economy which has informed this study. The chapter sets out to explore the qualitative relationship between small and medium enterprises and banks. Despite the fact that small and medium enterprises have been viewed as a major promoter of technological development and employment generation in Nigeria, the sector has been neglected by successive governments. This has resulted in unpalatable consequences on the economy. The major challenge of the sector is poor funding. Consequently, policies and efforts should be geared towards accelerating the growth and development of the sector. A lack of funding has been a specific obstacle to investment and growth in the sector. The need to contribute to the current debate, update knowledge on the subject matter and make informed recommendations when implemented will lead to a change in fortune for the small and medium enterprise sector in the Nigerian economy which has informed this study. The chapter sets out to explore the qualitative relationship between small and medium enterprises and banks.*

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## INTRODUCTION

Small and medium enterprises' role in the growth of a nation's economy cannot be over emphasized (Gbandi & Amissah, 2014). They are drivers of competition and innovation in different economies (Gbandi & Amissah, 2014). Small and medium enterprises in India account for approximately 39% output in the manufacturing sector and 33% of overall exports (Gbandi & Amissah, 2014).

They are capable of generating employment, advancing domestic technology, output diversification, indigenous development of entrepreneurship and vertical integration with large scale industries (CBN, 2011). However, empirical studies have shown that small and medium enterprises in Nigeria have not contributed significantly to economic growth and development of the nation.

The basic issues confronting small and medium enterprises in the country are an unfavourable business environment, lack of funding, lack of managerial capability and up to date technology (FSS, 2020; SME sector Report, 2007). Furthermore, the financing of small and medium enterprises in Nigeria is important if they must play their role in the development of the economy of the nation. Furthermore, the proper financing of small and medium enterprises is a vital means of promoting growth and expansion of the economy (Gbandi & Amissah, 2014).

Nigeria lags behind in terms of small and medium enterprises' contribution to gross domestic product compared to other nations at the same stage of development. Some 96% of the nation's businesses are small and medium enterprises compared to 53%, 65% for the United States and Europe respectively. Small and medium enterprises contribute approximately 1% of Nigeria's gross domestic product compared to 40%, 50% for Asian nations and the United States respectively (Banji, 2013).

The central bank of Nigeria puts the level of employment of small scale companies at less than 50 and medium scale companies as less than 100. In terms of the level of assets, a small enterprise has less than N1 million while a medium enterprise has less than N150 million (IFC, 2002). Classification in Britain, USA and Canada is distinct for small and medium enterprises in terms of annual turnover and the number of employees in its payroll whereas it is conceptualized in Japan as an industry with paid up capital and the numbers of employees.

The Federal Ministry of Industries classified a medium-scale enterprise as any business with operating assets of less than N200 million and has less than 300 persons in its employment. However, a small-scale enterprise, is a company which has total assets of less than N50 million with not up to 100 employees (Eniola, Entebang & Sakariyau, 2015). Furthermore, ₦200,000,000 represents \$1, 015228.426 at ₦197 per dollar and ₦ 50,000,000 represents \$253,807.107 at 197 per dollar (CBN, 2015). However micro enterprises can be seen as businesses employing between 1 to 9 individuals (NBS & SMEDAN, 2010).

Shayo-Temu (2003) stated that an enterprise is an alternative name for a business. However, it is synonymous with being adventurous, bold and risks taking. An individual who starts an enterprise and is not scared to attempt something new, is often seen as an entrepreneur (Shayo-Temu, 2003, p. 38). Furthermore, an entrepreneur is an individual who creates jobs and generates employment (Woldie, Mwita & Saidimu, 2012).

Nigeria's population is approximately 178 million (CIA, 2014) coupled with the level of industrial, agricultural and infrastructural development indices, is worrisome. These are some factors that have negatively affected small and medium enterprises' performance and contribution to the nation's gross domestic product (Afolabi & Ehinomen, 2015). Consequently, 70 percent of the population are below the poverty level with an unemployment rate at 23.9 percent as at 2011 (CIA, 2014).

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