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Impact of Financial Institutions on Small Scale Enterprises in Nigeria: A Study of Selected Small Scale Enterprises in Enugu, Nigeria.

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ABSTRACT

This research exercise is on "Impact of Financial Institutions on Small Scale Enterprises in Nigeria (A Study of Selected Small Scale Enterprises in Enugu Metropolis). The research objectives include: to ascertain the extent to which activities of financial institutions impact on the growth of SMEs in Enugu metropolis; to highlight the level of constraints militating against SME's in Enugu metropolis in the procurement of loans. The researcher adopted both primary and secondary means of data collection. The Chi-square was adopted in testing the hypotheses. The research population is 136 while the sample size of 102 was determined using Taro Yamane's Formula. The research work made the following findings: that the activities of financial institutions have significant impact on the growth of SMEs in Enugu metropolis; that there are major constraints militating against SME's in Enugu metropolis in the procurement of bank loans; that bank interest rate has significant impact on the performances of SMEs in Enugu metropolis and the study also shows that bank charges have significant effect on the level of investment in Enugu metropolis. It was recommended among others, that SMEs need to put more emphasis on informal form of finance (self help group finance, family and friends finance and trade credit finance) since the informal finance relies on relationships and reputation implying that information asymmetries between informal lenders and their borrowers are less acute, the loan application procedure lighter, and the collateral requirement easier to fulfill. Further, there is the need for the government to utilize Informal Financial Institutions in its poverty reduction programmes, since they have been found to be popular among the people in-terms of poverty reduction. The study therefore concludes that Nigerian formal and informal financial sector contributes immensely to financial intermediation considering its critical role in provision of funds to the small scale enterprise in Nigeria.
Keywords: Financial, Institutions, Small Scale, Enterprises

INTRODUCTION

Small and Medium enterprises have been noted to play significant roles in employment and economic growth of many countries. Indeed, in many developing countries as well as developed countries, small and medium enterprises are the focal point of growth and self-employment. In low-income countries, it is estimated that small and medium enterprises account for more than 60 per cent of the GDP and provide over 70 per cent of employment opportunities [1]. Access to finance is prerequisite for survival and performance of any enterprise and has become an increasingly important development metric, as one of the factors which can drive widespread economic development [2]. Financial markets in developing countries are composed of formal, semiformal and informal financial institution with formal institutions being unable to meet the needs of firms and individuals in informal settlements [3].

Formal financial services refer to financial services provided by registered financial institutions that are licensed to offer financial services by the country's bank regulator largely urban-based in terms of distribution of branches and the concentration of deposit and lending activities [4]. According to [5], these groups which function through direct governmental control are known as Formal Financial Institutions such as Commercial Banks, Insurance Companies and Mortgage Banks, while the financial institutions which are not directly controlled by government are called Informal Financial Institutions such as money lenders, cooperative societies, thrift and loan societies and local bankers etc. The introduction of the informal financial institutions by individuals and groups are to cushion the effects of the Formal financial institutions on the socio-economic wellbeing of the people. The institutions are creations of the indigenous people with the aim of making credit/loan facilities more accessible to the people so as to help solve their socio-economic problems [6]. Although not directly under the control of government and its authorities, Informal Financial Institutions have pierced through government institutions and organizations, and the variety of formal and informal organizations. In almost all organizations, there seems to be the existence of Informal Financial institutions established for specific or general purposes which allow people to contribute funds periodically which are given to members as loans or credit. People prefer to operate with these institutions as their conditions for credit are soft, coupled with faster administration of loans with low interest rate compared to Formal Financial Institutions [7]; [8]. It is worthy to note that a small scale enterprises as a business on its own cannot thrive effectively without the pumping of funds. According to Network Consulting Inc (2013), a small-scale industry is an enterprise with total cost (including working capital but excluding cost of land) above ₦1.5 million but not exceeding ₦50 million, with a labour size of between 11 and 100 workers, while the medium-scale industry has a total cost (including working capital but excluding cost of land) above ₦50 million but not exceeding ₦200 million, with a labour size of between 101 and 300 workers. [9] noted that in order to achieve a reasonable growth and development of small scale industries, capital must be available from time to time to the small and medium scale enterprises and to the entrepreneurs for start-ups. The informal capital markets are the leading sources of this kind of capital. They are virtually the only practical sources of risk or venture type capitals for most entrepreneurs once their capital needs surpass family resources. The market covers a wide range of investors which include founders, family and friends etc.

Statement of the Problem

Business exploitation, expansion and modernization depend on capital investment, given good management. Most business people in developing nations are poor and so require credit. Providing credit to poor borrowers has remained a challenge; as credit markets in these regions are faced with the problems of enforcement and imperfect information among others. Government intervention in the form of ownership of banks, regulation and subsidization of credit has equally failed to allocate credit to poor borrowers. Institutional problems such as the lending conditions which limit access of investors to credit facilities have not been adequately addressed. The fragmented structure of financial institutions where formal and informal sectors operate almost independent of each other is inimical to the growth of business industries in Nigeria. In Nigeria, one of the greatest obstacles that Small and Medium Scale Enterprises (SMEs) have to grapple with is access to funds. This is further compounded by the fact that even where credit facilities are available, there exists little awareness as well as getting the required collateral security to access the loan.

Objectives of the Study

The main objective of this project is to examine the impact of activities of financial institutions on small scale enterprises in Nigeria, using selected small scale enterprises in Enugu metropolis. Other specific objectives include:

1. To ascertain the extent to which activities of financial institutions impact on the growth of SMEs in Enugu metropolis.
2. To highlight the level of constraints militating against SME's in Enugu metropolis in procurement of loans.

Research Questions

The research questions of this project are derived from the above objectives as:

1. To what extent do activities of financial institutions impact on the growth of SMEs in Enugu metropolis?
2. What are the major constraints militating against SME's in Enugu metropolis in procurement of bank loans?

Research Hypotheses

Hypothesis One

H_i: The activities of financial institutions have significant impact on the growth of SMEs in Enugu metropolis.

Hypothesis Two

H_{ii}: There are major significant constraints militating against SME's in Enugu metropolis in procurement of bank loans.

Conceptual Framework

The Concept of Formal financial Institutions

The formal financial sector (FFS) in Nigeria consists of commercial banks, developmental banks, mortgage banks, hire purchase finance companies, investment trust, money transfer firms etc. Banks dominate the sector. The formal sector institutions have access to broader resource-base and high leverage through deposit mobilization [10]. The structure of these institutions and their outreach suffer from the problem of screening, risk management, monitoring and transaction costs. Other problems of this sector include inadequate supervision and regulatory provisions which are compounded by poor legal mechanism for contract enforcement, inappropriate and incentive environments, as well as and restricted flows of information; the combination of which increase the riskiness of lending. For example, the cost of acquiring reliable information on potential borrowers is prohibitively high for formal institutions [11] Hence the type of information sought by and available to banks about small borrowers during screening process is less reliable, qualitatively different from that collected by informal lenders. So banks are forced to devote relatively more resources to monitoring and contract enforcement than informal lender. Despite these efforts and resources expended, bank loan repayment rates continue to be poor [12]. The high transaction cost, poor loan recovery have reduced the ability of this sector to extend credit to rural borrowers [13]. In addition, the situation has created gaps for rural financial services that the informal sector must continue to fill. It provides a challenge for public policy reforms.

The concept of Informal Financial Institutions

The concept of informal financial institutions has been defined variously by researchers and thinkers. According to [14] Informal Financial Institutions (IFI's) could be conceptualised as those institutions that embrace all financial transactions that takes place beyond the functional scope of various countries and other financial sector regulation. These institutions are not controlled directly through major monetary and financial policy instruments, but are created by individuals and groups with no legal status. [15] refers IFI's to institutions that are not directly amendable to control by key monetary and financial policy instruments. In the contention of [16] Informal Financial Institutions' are institutions that carry out contract or agreement conducted without reference or recourse to the legal system to exchange cash at present for promise of cash in future. To him, these institutions emanate from the grassroots, bottom up demand of the poor for an appropriate financial service. In this study Informal Financial Institutions could be defined as those associations that substitute formal financial institutions, facilitating savings and ensuring easy access to credit to members and operating without direct control of the governmental financial authorities. Informal capital market can be defined in Africa to embrace all financial transactions that take place beyond the functional scope of various countries' banking and other financial sector regulations. This definition permits the inclusion of a wide range of financial activities whose operational scope may differ across countries. Indeed, various studies suggest wide varieties of such informal saving and lending units in the region [17]; [18] and [19].

They define the informal sector as one which consists of economic activities which are not recorded in the gross domestic product (GDP) and or the national income accounts. The behavioural which is times referred to as the legalistic definition is based on whether or not an activity complies with the established judicial, regulatory, and institutional framework. [20] opines that the informal sector does not appear to have a meaning independent of the formal sector, as it only derives its meaning when contrasted with the formal sector. [20] also defines the formal sector as comprising those employment generating activities of some urban residents, undertaken for survival in the absence of formal employment. These activities are characterized by the lack of regulations by institutions of society in a social and legal environment in which similar activities are regulated. Common features of operators in the informal sector include:

- Easier access to production factors which are derivable from social organization of family and friends.
- Involves entrepreneurs in virtually all branches of the economy ranging from productive activities general services and specialized services.
- Technology is determined more by the constraints of the social relations.
- Motivation for production by the operators in the informal sector is becoming more profit oriented. [20].

[21] attempts a classification of the informal financial markets along the following category:

i. Those operating in one side of the market e.g. lending side or saving side;
ii. Relationship – based and
iii. Those who serve as intermediaries

Following this method of classification, informal financial markets in Nigeria are classifiable into: Those operating in one side of the market include the following:

a. Money Lenders: They operate on the lending side. Commercial money lenders cover a range of financial arrangements with interest rates varying from 50 – 100% a month. These include bank rate plus default charges, time value of money and profit margin. Beneficiaries are often introduced by those well known to the money lender and agreement bothering on collaterals, defaults charges, interest rates, repayment dates and other terms are clearly spelt out. None of the conditions spelt out are normally relaxed on breach. If a borrower fails to extinguish his debt voluntarily over a reasonable number of months, the extinction is involuntarily implemented by confiscating his property.
b. Traditional Mortgagers: They operate on the lending side by providing loans that are interest-free with no time bound for the repayment of the loan, but the trader is expected to mortgage either human being or his property (wife, children or farmland, etc). The provider of the fund will use freely the collateral as his own profit until the trader offsets the loan obtained fully.
c. Traders/Hire Purchase: This is operated on the lending side. Some traders who are wholesalers or producers grant credit to customers without charging interest as a way of promoting sales and good public relation, though some do this at slightly higher prices.
d. Saving Collectors (Alajo):- These collectors take regular deposits (often daily or weekly) of an amount determined by each client and return the accumulated sum at the end of a stipulated period (usually a month), minus 1 day's deposit as commission. These saving collectors form a symbiotic relationship with market traders, protecting their daily earnings from competing claims. They sometimes extend advances to

their clients. The second category are those that are relationship based, which include;

i. Departmental Society: - Each member of the Departmental Society contributes an equal sum of money at the end of every month or whenever income is earned. The pooling may therefore be regular or periodic. The contributions are given to members one at a time. No interest is charged for using the funds raised in this way. If a member fails to meet his obligation, the short fall is subtracted from the portion he is supposed to receive when it is her turn to collect.

ii. Rotating Savings and Credit Associations (ROSCAs):- This is another closed membership group where all members contribute a predetermined amount at regular intervals (monthly, weekly and daily) to a common pool, which is handed over to each member in turn randomly or by bidding.

The Concept of Small and Medium Enterprises

[22] highlights some major criteria used in the definitions of Small Scale Enterprises (SSEs) to include:

i. Number of employees.
ii. Financial strength
iii. Sales value
iv. Initial capital outlay
v. Relative size
vi. Independent ownership
vii. The type of industry

Considering other definitions given by some international financial bodies, the World Bank in 1988 classified SMEs as enterprises with fixed assets, excluding land and working capital which do not exceed N10million. The European Economic Commission in 2000, defined an SME as a small scale business with the exclusion of agriculture, forestry and fishing with employment capacity of not more than 500 workers. Not minding the various definitions and the lack of consensus in these definitions, there is the need to point out that the definitions correspond to parameters considered adequate for policy formulation and the promotion of the sub-sector in the country For the purpose of the Small and Medium Industries Equity Investment Scheme (SMIEIs), set up in 1999 by the Federal Government, a small or medium industry is defined as any enterprise with a maximum asset base of N200million, excluding land and working capital. The two main channels that have been used to increase credit for small and medium enterprises are the formal and informal sources. The formal sources include banks, other financial institutions, government loan agencies and cooperative credit societies. While the informal sources include owners' savings/retained earnings, friends and relates, clubs, "Esusu" and money-lenders, among others. The informal rather than formal capital markets provide the bulk of financing, especially in the less developed countries, for small enterprises in the rural areas [23]. The continued importance of informal markets, despite the growth of monetization and commercialization in the subsistence sectors of these countries, is due to restrictive and repressive financial policies, a lack of innovative measures and instruments to integrate informal and formal markets, and the typically lower transaction costs of certain informal market credit intermediaries. The peculiar characteristic of informal markets are that they are far more loosely monitored and regulated than formal finance markets [24]. Most importantly, loan disbursements from the informal sources are usually timely; notwithstanding, this informal source of financing to small-scale entrepreneurs has serious shortcomings. For example, the amount of capital that can be raised from the informal sources is usually very small and inadequate when compared to the needs of the small-scale entrepreneurs. In most cases, the terms and conditions attached to their funds were found to be exploitative most especially with the money lenders. [25] group the sources of funding Small and Medium Enterprises into "formal" and "informal" sources, and notes that SMEs have traditionally relied on informal sources which are usually more often than not insufficient for entrepreneurial growth and development. These are sources of funds, which are in a way personal to the entrepreneur and without recourse to the public capital markets as such. Such sources are often incapable of generating large volumes of funds for investment because of inherent limitations. The low capital generating capacity of such sources accounts to a great extent for the low growth rate of micro-enterprises, which in turn accounts for their continued lack of access to big funds. The claim that the capital shortage is the worst problem militating against the growth of Very Small Enterprise's has not gone unchallenged. It has been argued by [26] that there have been times when banks and other lending institutions had more money to lend than entrepreneurs were willing to borrow. [26] further states that while subscribing to the view that "insufficient funds stifle growth of individual firms and consequently slow industrial growth of individual firms and consequently slows industrial growth in Nigeria", a radical explanation of the idea of capital shortage is offered. In his view, the phenomenon of capital shortage does not apply to all aspects of the Nigeria economy. Rather, it is only peculiar to individual firms, and perhaps to particular sectors or industries. He argue that whereas there is always money to invest in the economy as a whole, firms which were otherwise unsuccessful in their bids to raise needed funds to finance their operations or which are ignorant of existing sources of funding, necessarily experience a capital shortage. He goes on to explain that this "necessarily" reflects adversely upon lending institutions in Nigeria.

Formal Sources of Financing SMEs

The commercial banks, merchant banks, and development banks provide the formal sources of finance to SMEs. The financial system in Nigeria is not in short supply of liquidity, but banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sector. Most of the banks would rather pay the penalty imposed for not meeting the minimum exposure to preferred sectors of the economy than actually run the risk of being exposed to them. [27], the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, as well as money-lenders. The study shows that almost all the funds came from personal savings (96.4%) with about 3% from the in-formal sector and 0.21% from the formal financial institutions. This trend is further established by a 1983/84 study by the Nigerian Institute for Social and Economic Research (NISER). NISER findings show that about 73% of respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions.

Problems of Small and Medium Scale Industries in Nigeria

In spite of the relevance of the small-scale industry to Nigeria's economic and industrial development, the sector faces a lot of problems. These problems include those of management, appropriate technological skill acquisition, a harsh policy environment, gender bias and finance [28] and [29]. Of all these problems, inadequate financing is the most limiting. This is because finance is strategic to any industrial setup. Finance is the hub around which a business flourishes. Lack of it, through mismanagement or misappropriation, could hinder any business venture. Ideally, before any business is set up, there must minimally be working capital and fixed capital, based on feasibility reports [3]. In spite of the invaluable contributions of SMEs to economic development, they are beset with different types of problems in Nigeria. Thus, their contributions to the industrialization process are still generally low when compared with other countries of South East Asia. The development of the SMEs sub-sector has been constrained by a number of factors, both internal and external, despite the efforts of successive governments to promote the sub-sector. These factors include:

- Inconsistent policy measure
- Unstable macro-economic environment
- Poor infrastructural facilities i.e. roads/railway system, water supply, electricity, telecommunications, etc. This is in

line with [5] on the problems of the Nigerian industrial sector.

- Inefficiency and ineffectiveness in the institutional support systems for SMEs. In addition to the above, internal factors that handicap the SMEs in the industrialization process in Nigeria include:
- Low levels of skills: technical and managerial. To buttress the above, [21] opines that what Nigerian entrepreneurs lack most is managerial competence.
- Inability to effectively compete in the local, domestic and the international export markets because the home market is saturated with cheap imported products, poor quality of products or the unfamiliarity with the vagaries of export procedures. In line with the foregoing, [12] opines that the influx of fake and sub-standard products, under-invoicing, dumping and malpractices at our ports, placing imported goods at undue advantage over local manufacturers, are some of the most damaging issues affecting the manufacturing industry.
- Low levels of process technologies
- Lack of productive resources. With respect to resources, [7] consider inadequate funding (finance) to be paramount. So wide is the credibility gap that most banks prefer to pay the stipulated government penalty rather than carry out government directive that a percentage of their funds be set aside to finance SMEs.

It is pertinent to reiterate that Nigerian SMEs are usually of sole ownerships (very little are limited liability companies) with limited (though intensive) labour force, centralized administration and management, little access to finance (long term and medium term) and high failure rate. According to Central Bank of Nigeria Seminar on Small and medium industries equity investments Scheme (SMIEIS) 2003, the problems of SMEs in Nigeria are enormous and range from:

- Inadequate and inefficient infrastructural facilities which tend to escalate costs of operation, as SMEs are forced to resort to private provisioning of utilities such as road, water electricity, etc.
- Lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them owing, among others, to poor documentation at project proposals as well as inadequate collateral by SME operators.
- Bureaucratic bottlenecks and inefficiency in the administration of incentives which discourage rather than promote SME growth.
- Weak demand for products, arising from low and dwindling consumer purchasing power. Lack of patronage for locally produced goods by those in authority.
- Incidence of multiplicity of regulatory agencies and taxes which have always resulted in high cost of doing business and poor management practices and low entrepreneurial skill arising from inadequate educational and technical background or many SMEs promoters.

The constraints militating against SME's in Enugu metropolis in procurement of loan

[10] investigated the challenges of micro and small enterprises (MSEs) finance accessibility on participation in public procurement market in Kenya. This study was a descriptive survey designed with a population of about 519,385 MSEs in Nairobi County. The owner-managers of MSEs were the unit of analysis and were targeted for information because they are likely to be the decision makers in these businesses and are actively involved in their day to day operations. Results of the study established that the process for securing the funds was too technical and hard to understand, and the time taken to approve such loans was unnecessarily long yet government tenders comes with very strict timelines which automatically leads to disqualification if not adhered to. [16] carried out a research on issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) in Port-HarcourtCity, Nigeria. The study adopted a descriptive research design using 120 randomly selected registered operators of SMEs in Port-Harcourt City. Data collected were analyzed using

descriptive statistics while formulated hypotheses were tested using z-test. Results from the data analysis indicated that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Port-Harcourt City. [4] examined the challenges that the SMEs in Thika District face when bidding for tenders and it seeks to determine why they risk losing tenders. The research design used was descriptive and exploratory. The study established that there is a clear Legal/Regulatory framework established in the country to knob public procurement though these guidelines are not open to public scrutiny. The conditions for tendering are not the same for each tenderer and there are ethical malpractices sighted during the process. SMEs encounter financial challenges which include financial regulations and shortage of own financial resources.

Theoretical Review

Finance Theory Perspective

Some studies in entrepreneurship have shown that entrepreneurial ventures contribute to economic growth by creating new jobs. However, because of the risks of these ventures, the institutional capital market could confine the economic development of these entrepreneurial ventures. In such a situation, the availability of informal investors is inevitably needed. Ironically, informal capital markets in some countries are not well developed. Some researchers regard the market inherently imperfect [24]. Imperfections arise mainly from information inefficiencies between informal investors and entrepreneurs. Both parties, the start-ups and the informal investors, contribute significantly to these inefficiencies. Start-ups are not able to provide perfect information for the informal investors due to their characteristics such as limited operating history, low scale potential or unforeseeable prospects. As newcomers in business, entrepreneurs may not have reputable names to be used as personal collateral. This makes it hard for informal investors to access the track record of entrepreneurs. On the other hand, informal investors, who may prefer to remain anonymous, make information about them unavailable. This situation creates serious problems for entrepreneurs to get to trust the informal investors. Informal investors also face difficulties to find attractive investment proposals. Several studies have shown that many private investors are unproductive, in the sense that there exist a large number of investors that are adequately experienced in identifying prospective business. In many countries, informal investors often feel disappointed as they have a number of uncommitted funds available for investment but they hardly find suitable investment proposals [3]; [19]. Therefore, one could argue that the unfortunate situation for entrepreneurial ventures occurs not because of the absence of sufficient funds for the start-ups, but because of the difficulties faced by the investors and starts-ups to tie each other's interests.

Agency Theory Perspective

Before we analyze further the market of informal investors and entrepreneurs from the perspective of agency theory, we first describe the entrepreneurial activity. According to Knight, the entrepreneur is the organizer of uncertainty. This means that uncertainty is embedded within entrepreneurship. As an organizer of uncertainty, the entrepreneur possesses the ability to creatively reorganize the relationship between factors of production and market opportunities in such a way that create value that otherwise would not have been generated. In the classical view of entrepreneurship, it is assumed that entrepreneurs will firstly notice opportunities, and then they will act and create new hierarchies to organise transactions. If the entrepreneur, as an explorer of opportunities, becomes the firm's manager or if the management function becomes separated from the entrepreneurial function, agency problems arise. The change of the role possibly takes place when informal investors enter the firm. Let us now examine some agency problems that usually occur in the relationship between informal investors and entrepreneurs. To be parallel with the agency theory, it should be noted from the outset that we use the term principals to refer to the informal investors and the term agents to the entrepreneurs. In the investors-entrepreneurs relationships, the entrepreneurs, as the agents, work for the investors' money, while the investors, as the principals, cannot closely monitor how efficient the entrepreneurs are allocating and using their money. When entrepreneurs successfully reach the investor's goal, they receive a normal salary and they may get fired by the investors if they fail to reach the goal. Thereby entrepreneurs may conceal or manipulate the information about actual situation. Alternatively, if entrepreneurs do not manipulate information, they will take low-risk actions, which result in lower outcomes, in order to keep them secured. Certainly, this behaviour contradicts with the interest of investors, i.e. the maximization of their wealth.

Empirical Review

Impact of activities of Financial Institutions on the Growth of SMEs

[22] examine the impact of microfinance banks on the development of small and medium scale growth in Nigeria. The study employed multiple regression analysis and the result reveals that duration of loan has positive impact on SMEs growth but is statistically insignificant. The result also shows that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs growth in Nigeria. The authors recommended that MFBs should lighten the condition for borrowing and increase the duration of their customer's loan and also spread the repayment over a long period of time. [9] in their study, determine the effect of microfinance bank on small-scale poultry production in Imo State. Data collected were analysed using descriptive statistics and regression analysis. The study reveals that microfinance contributes positively to poultry production in Imo State. The study of [11] investigates the impact of micro credit on the performance of women owned micro enterprises in Oyo State. Data were sought through structured questionnaire and analysed using tables, frequencies, percentages, charts while chi square was used to test the hypothesis. The study shows that 46.67 percent of the respondents were aware of the existence of the microfinance banks but only 16.67 percent patronized them. Nevertheless, the performance of those that patronized them did not improve significantly; this was due to high interest rates and short repayment periods.

Summary of Review of Related Literature

In Summary, the literature reviewed the concept of formal financial Institutions; with different definitions from authors and the concept of Informal Financial Institutions. The Concept of Small and Medium Enterprises, Main Sources of Financing SMEs in Nigeria, Formal Sources of Financing SMEs, The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund, Problems of Small and Medium Scale Industries in Nigeria. Theoretically, the study reviewed and adopted the Finance Theory Perspective, Agency Theory Perspective, the Theory of Financing Choices and Mobilization of Savings Theory. These theories have linkage to the impact of formal and informal financial institutions on small scale enterprises in Nigeria. Empirically, related literatures on impact of Formal and Informal Financial Institutions on the Expansion of Capacity of SMEs, the constraints militating against SME's in Enugu metropolis in procurement of loan and the impact of Informal Financial Sources on the Performance of SMEs were reviewed. Despite much literature done on the impact of financial institution on Small and Medium Enterprises, there are not much literatures that combine the both formal and informal financial institutions altogether to ascertain the impact.

Research methodology

Research Design

The study used survey research design method. What informs the researcher's use of the survey method was that the study gathers both factual information and the opinion of respondents, hence the relationships among given variables were determined.

Source of Data

The data for this study was gathered from two major sources- primary and secondary sources. These two sources put together helped the researcher to produce a fairly report with minimum bias or errors.

Primary Data

Primary data are data observed or collected directly from first-hand experience. This comprises; Personal interviews and adequate questionnaires approach. The primary data for this study was sourced through questionnaire. The questionnaire contained open ended and optional forms to eliminate bias in the choice of selection by the respondents.

Secondary Data

Secondary data are published data and the data collected in the past or other parties. Secondary data can be obtained through academic journals, organisational data base and published national data. The secondary sources were derived from existing but related study, which were produced by earlier researchers. Specifically the materials used for extracting secondary information for this purpose included journals, and online publications.

Population of the Study

The relevant population is described as all conceivable elements subjects, or observations relating to particular phenomenon of interest to the research". That is, it is the totality of items, objects, persons, issues, or observations who share at least a common attribute of characteristics on which research is centered. The researcher selected Small Scale Enterprises within Enugu Metropolis and they are;

Table 1:

Name of SME	Senior staff	Junior staff	Total
Eastern Shop	6	13	19
Sprech Internet Service	3	10	13
Celebrities	10	22	32
Open Sharaton Restaurant	4	18	22
Albertina Nigeria Limited	8	42	50
Total Population	30	105	136

Source: Field survey, 2021

Sampling Size Determination

In determining the sample size, the researcher used Yaro Yamane formula of sample size determination as follows:

Formula

$$n = \frac{n}{1+N(e)^2}$$

$$= \frac{136}{1+136(0.05)^2}$$

$$= \frac{136}{1+136(0.0025)}$$

$$= \frac{136}{1+0.34}$$

$$= \frac{136}{1.34} = 101.5$$

Approximately, the sample size is 102

Data Collection Instrument/Methods

The main data collection instrument employed in this study was the use of the questionnaire. The design included multiple-choice questions. The questionnaire was clearly simplified and structured in a manner the void of any ambiguity and technical details. Thus, most of the questions simply required respondents to make a tick against the appropriate responses. In gathering data for this research study the researcher designed well structured questionnaire containing multiple choice question format. The questions contained in this instrument were those derived from the statement of problem, objectives and research questions of this study. This was to make sure that the objectives/goals of this research are achieved at the end of the whole study (i.e. after the respondents must have answered the questions). The researcher also adopted the interview instrument to gather information from her respondents.

Validity and reliability of Data Collection

In other to establish the face validity of the instrument, a copy of the original draft of the questionnaire was presented to the project supervisor. The idea was to make sure that the questionnaire covered what it was supposed to cover in relation with the objective of the study. Reliability on the other hand is the ability of a particular measuring instrument to yield similar result when applied to the same situation at different time [25]. A test retest method was employed in this study.

Method of Data Analysis

The data collected were analyzed using simple percentage. The researcher also used chi-square to test the hypotheses formulated to achieve the four objectives of this study. The formula of Chi-square is given as:

$$= X^2 = \frac{(oi+ei)^2}{ei}$$

Where: X^2 = Chi-square
oi = Observed frequency
ei = Expected data

Decision Rule: The null hypothesis is rejected only when the computed value of Chi-square the test statistics is greater than the critical value of the Chi-square distribution with the appropriate number of degrees of freedom.

The formula for simple percentage is given thus;

$$\frac{\text{Number of respondents}}{\text{Total number of respondents}} \times \frac{100}{1}$$

Data analysis and Findings Discussion

Table 2: Questionnaire Distribution and Return

Questionnaire	Respondents	Percentage of Respondents
Returned	101	99.1%
Not returned	1	0.9
Total distributed	102	100%

Source: Field Survey, 2021

Table 2 above shows the distribution and returns of the questionnaire. The copies of questionnaire administered were 102 representing (100%) from which 101 (99.1%) were returned, while 1 representing (0.9%) were not returned. The 101 copies of questionnaire that were returned were considered adequate enough for making valid deductions and conclusions. Hence, the research analysis was based on the returned copies of questionnaire.

Table 3: Distribution of Respondents According to Sex

Option	Frequency	Percentage (%)
Male	48	47.5
Female	53	52.5
Total	101	100

Source: Field Survey, 2021

The above table 3 shows the gender of the respondents. In the table, 48 respondents representing 47.5% of the entire respondents are males while the remaining 53 respondents representing 52.5% are females.

Table 4: Distribution on Educational Qualification

Option	Frequency	Percentage %
SSCE	11	10.9
BSC/HND	49	48.5
MA/M.Sc.	37	36.6
PhD	4	3.9

Total	101	100

Source: Field Survey, 2021

The table 4 shows the responses of the research respondents on educational qualification. In the table, 11 respondents representing 10.9% indicated that they are in possession of SSCE qualification, 49 respondents representing 48.5% of the entire respondents stated that they have qualification of BSc/HND, 37 respondents representing 36.6% of the respondents stated that they have MA/M.Sc. qualification, while 4 respondents indicated that they are in possession of PhD qualification.

Table 5: Age Distribution of Respondents

Option	Frequency	Percentage
24-29	28	27.7
30-39	41	40.6
40-49	23	22.7
50-59	8	7.9
60 and above	1	0.9
Total	101	100%

Source: Field Survey 2021

The table 5 shows the age distribution of respondents. In the table, 28 respondents representing 27.7% out of the entire respondents are within the age of 24-29 years, 41 respondents representing 40.6% are within the age bracket of 30-39 years, 23 respondents representing 22.7% are within the age bracket 40-49 years, 8 respondents representing 7.9% out of the entire respondents are within the age bracket of 50-59 while the remaining 1 respondent representing 0.9% indicated to be within 60 and above age bracket.

Table 6: The extent to which the Growth of SMEs in Enugu as a result of Financial Institutions activities

Option	Frequency	Percentage %
Strongly agree	41	40.6
Agree	27	26.7
Disagree	13	12.8
Strongly disagree	20	19.8
Total	101	100%

Source: Field Survey, 2021.

Table 6 shows the responses of respondents on the rate to which the Growth of SMEs in Enugu as a result of Financial Institutions activities. In the table, 41 respondents representing 40.6% of the entire respondents strongly agreed that the Growth of SMEs in Enugu is as a result of Financial Institutions activities, 27 respondents representing 26.7% agree that the Growth of SMEs in Enugu is as a result of Financial Institutions activities, 13 respondents representing 12.8% disagreed over the question while 20 respondents strongly disagree over the question. Therefore, we can conclude that the Growth of SMEs in Enugu is as a result of Financial Institutions activities.

Table 7: The extent of financial institutions activities impacts on the growth of SMEs in Enugu metropolis

Options	Frequencies	Percentage (%)
Very high extent	56	55.4
High extent	21	20.8
Undecided	5	4.9
Low extent	9	8.9
Total	101	100

Source: Field survey, 2021

The table 7 shows the responses of the research respondents on the extent of financial institutions activities impacts on the growth of SMEs in Enugu metropolis. 56 respondents representing 55.4% states that to a very high extent financial institutions activities impacts on the growth of SMEs in Enugu metropolis, 21 respondents representing 20.8% out of the entire respondents states that to a high extent financial institutions activities impacts on the growth of SMEs in Enugu metropolis, 5 respondents representing 4.9% were indifferent over the question, while the remaining 9 respondents representing 8.9% states that to a low extent financial institutions activities impacts on the growth of SMEs in Enugu metropolis. Therefore, we can conclude that to a very extent financial institutions activities impacts on the growth of SMEs in Enugu metropolis.

Test of Hypotheses

The purpose of the test for hypotheses was to enable the researcher make definite inferences based on the end result of the test. Chi-square statistical test was used to test the hypotheses as shown below.

In the investigation, the following hypothesis were formulated

Hypotheses One

H_i: The activities of financial institutions have significant impact on the growth of SMEs in Enugu metropolis.

The hypothesis one above is tested with question 4 and were used to present the respondents response and Chi-square test as regard the hypotheses I.

Table 8: Respondents response as regards hypotheses I

Options	Frequency	Percentage (%)
Very high extent	56	55.4
High extent	21	20.8
Undecided	5	4.9
Low extent	9	8.9
TOTAL	101	100

SOURCE: Field survey, 2021

The expected frequency is determined using the formula

$= \frac{\text{Total Frequency}}{\text{Number of options}}$

Therefore $\frac{101}{4} = 25.3$

Table 9: Chi-Square Calculation as regards hypotheses I

Option	Oi	Ei	oi-ei	$(oi-ei)^2$	$(oi-ei)^{2/ei}$
Very high extent	56	25.3	30.7	942.49	37.3
High extent	21	25.3	-4.3	18.49	0.8
Undecided	5	25.3	-20.3	412.09	16.3
Low extent	9	25.3	-16.3	265.69	10.5
Total	101				65.4

Source: Researcher's Computation, 2021

Note: The degree of freedom was determined using the formula (n-1) where n = number of available option, which is 4.

$\therefore$ df = 4 – 1 = 3

Level of significance = 0.05

Using the degree of freedom 3 and 0.05 level significant, the critical value is 7.815

Decision

Because the computed chi-square value is 65.4 and is greater than the critical value 7.815 (65.4>7.815), we reject the null hypothesis and accept the alternative hypothesis. Based on this, we concluded that the activities of financial institutions have significant impact on the growth of SMEs in Enugu metropolis.

Hypothesis Two

H_i: There are major significant constraints militating against SME's in Enugu metropolis in procurement of bank loans.

The hypotheses two above is tested with question 6 and table 4.3.2a and 4.3.2b were used to present the respondents response and Chi-square test as regard the hypotheses II.

Table 10: Respondents response as regards hypotheses II

Options	Frequency	Percentage
Tough conditions for small businesses	29	28.7
Process too technical	30	29.7
Too Procedural	4	3.9
Unfavourable bank policy	38	37.6
Total	101	100

Source: Field Survey, 2021

The expected frequency is determined using the formula

$$= \frac{\text{Total Frequency}}{\text{Number of options}}$$

Therefore $\frac{101}{4} = 25.3$

Table 11: Chi-Square Calculation as regards hypotheses I

Option	Oi	Ei	oi-ei	$(oi-ei)^2$	$(oi-ei)^{2/ei}$
Tough conditions for small businesses	29	25.3	3.7	13.69	0.5
Process too technical	30	25.3	4.7	22.09	0.8
Too Procedural	4	25.3	-21.3	453.69	17.9
Unfavourable bank policy	38	25.3	12.7	161.29	6.4
Total	101				25.6

Source: Researcher's Computation, 2021

Note: The degree of freedom was determined using the formula (n-1) where n = number of available option, which is 4.

$\therefore$df = 4 – 1 = 3

Level of significance = 0.05

Using the degree of freedom 3 and 0.05 level significant, the critical value is 7.815

Decision

Because the computed chi-square value is 25.6 and is greater than the critical value 7.815 (25.6>7.815), we reject the null hypothesis and accept the alternative hypothesis. Based on this, we concluded that there are major constraints militating against SME's in Enugu metropolis in procurement of bank loans.

DISCUSSION OF FINDINGS

Discussion of Findings on the Impact of Financial Institutions activities on the Growth of SMEs in Enugu Metropolis. From the findings, 56% of the respondents agreed to a very high extent there is significant impact of financial institutions on the growth of SMEs in Enugu metropolis. The findings also agree with the findings of [5] that show that microfinance services, particularly, those sponsored by government, has resulted in an increased level of credit disbursement and gains in agricultural production and other activities. Also the findings of [23] shows that The result also shows that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs growth in Nigeria. Thus, these indicates that formal and informal financial institutions on the expansion of capacity of SMEs.

Discussion of Findings on the Constraints Militating against SME's in Enugu Metropolis in Procurement of Loan. The finding of the study in table 4.1.8 revealed that 37.6% of the respondents indicated that unfavourable bank policy and 29.7% of the respondents indicated that process too technical as one of the constraints militating SME's in Enugu metropolis. In agreement to this results, [14] in investigating the challenges of micro and small enterprises (MSEs) finance accessibility on participation in public procurement market in Kenya, shows that the process for securing the funds was too technical and hard to understand, and the time taken to approve such loans was unnecessarily long yet government tenders comes with very strict timelines which automatically leads to disqualification if not adhered to. Also the study of [20] revealed that that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Port-Harcourt City. Hence, this studies shows that there are constrains militating SME's in Enugu metropolis in procurement of loan.

Summary of Findings

1. The study revealed that the activities of financial institutions have significant impact on the growth of SMEs in Enugu metropolis.
2. The study shows that there are major constraints militating SME's in Enugu metropolis in procurement of bank loans.
3. The study also revealed that bank interest rate has significant impact on the performances of SMEs in Enugu metropolis.
4. The study also shows that bank charges have significant effect on the level of investment in Enugu metropolis.

CONCLUSION

It is an accepted fact that the Nigerian financial sector contributes immensely to financial intermediation considering its critical role in provision of funds to the small scale enterprise in Nigeria. Though the extent of its contribution to the economy has remained largely unquantifiable because of the problem of measuring their performances but there is no doubt that they contribute to the GDP of the Nation. However, the study revealed that financial institutions have a significant effect on performances of SMEs. This confirms that commercial banks still remain an important source of finance for SMEs and an avenue through which SMEs can grow. Nonetheless, the difficulties SMEs often face in accessing these funds include: lack of securable assets, lack of knowledge by finance providers about the nature of respondents business, stringent eligibility criteria, lack of knowledge about lending criteria, difficulty in finding out about available finance, high interest rates on loans and bureaucracy. These really limit SMEs' ability to access funds for their operations, which can be enhance through self help group finance, family and friends finance; trade credit finance has a positive influence on the performance of SMEs while shylock finance sources have a negative influence on the performance of SMEs.

RECOMMENDATIONS

Based on the findings and the conclusions made in the course of this study, the following recommendations were made;

1. SMEs need to put more emphasis on informal form of finance (self help group finance, family and friends finance and trade credit finance)since the informal finance relies on relationships and reputation implying that information asymmetries between informal lenders and their borrowers are less acute, the loan application procedure lighter, and the collateral requirement easier to fulfill. Furthermore, informal financiers are often better positioned to efficiently monitor and enforce repayment when legal enforcement is difficult and time-consuming.
2. Government should consider coming up with Usury laws that set interest rate ceilings to protect the borrower from exploitation by shylocks. Shylock finance sources need to be avoided by SMEs if possible since they charge unscrupulous interest rates. Credit from moneylenders is often the most expensive credit available; hence the demand for it usually comes from persons without any other options.
3. SMEs in Enugu should adopt a capital structure that would allow them to expand their business activities.
4. There is the need for the government to utilise Informal Financial Institutions in its poverty reduction programmes, since they have been found to be popular

among the people in-terms of poverty reduction.

Contribution to Knowledge

The completion of this project will enabled the researcher to have a clearer understanding about the impact of financial institution on small scale enterprise in Nigeria. Secondly, the research study will enable decision makers in economy to make decisions that will encourage financial institutions to support the growth and development of small scale enterprises by providing loans and enabling finances. Finally, for beginners in the management study, this research if study by them will help to improve their knowledge in the area of impact of financial institutions on small scale enterprises.

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