**ADEQUACY OF FUNDING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA**

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## IGBINEDION UNIVERSITY, OKADA, EDO STATE

**SEPTEMBER, 2021**

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**BEING A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, MALLAM SANUSI LAMIDO SANUSI COLLEGE OF BUSINESS AND MANAGEMENT STUDIES, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF SCIENCE (M.Sc) DEGREE IN ACCOUNTING OF IGBINEDION UNIVERSITY, OKADA, EDO STATE, NIGERIA.**

## SEPTEMBER, 2021

**DECLARATION**

I declare that this dissertation was based on a study undertaken by me in the Department of Accounting under the supervision of Dr. (Mrs.) Josiah Mary. This work has not previously been submitted for the award of a degree elsewhere. All ideas and views were the product of my personal research, and where the views of others were used and expressed, they were duly acknowledged.

## -------------------------------------------- OVEDJE OGHENEOVO HELEN PG/19/022141/BMS

**DEDICATION**

This work is dedicated to God Almighty, the Supreme God Who gave me the wisdom, strength and understanding to overcome all the odds, and made it possible for this work to be a success.

## CERTIFICATION

This is to certify that this dissertation was carried out by OVEDJE, Ogheneovo Helen with matriculations number PG/19/022141/BMS of the Department of Accounting. It is adequate in scope and content for the award of Master of Science (M.Sc) degree in Accounting.

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## ABSTRACT

The study examined the adequacy of funding and growth of small and medium enterprises (SMEs) in Nigeria. The cross-sectional research was adopted and primary data (questionnaire) formed the major instrument of data collection. Three hundred and thirty-one (331) questionnaires were administered, out of which 309 were fully completed and retrieved. The data obtained in the fieldwork were analysed using both descriptive (mean, standard deviation, simple percentages) and the inferential (simple regression) statistical tools. Findings indicated that, while venture capital and business angels significantly affected SMEs growth, bank overdraft and trade credit had insignificant effect on the growth of SMEs. Given the findings, it was recommended among others that SMEs should discourage the use of trade credits and bank overdraft in funding SMEs. Also, there should be good policies by the government aimed at encouraging venture capital and business angels to promote SMEs growth.

**Key Words**: Small and Medium Enterprises (SMEs), Development Agency, Funding Position, Venture Capital, Business Angel, Bank Overdraft, Trade Credit.

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## CHAPTER ONE INTRODUCTION

### Background to the Study

Prior to the early 1960s, many economists viewed the continued existence of small-scale industries in less developed countries as justified by scarcity of capital and administrative experience. It was often argued that with economic growth, the small traditional type of enterprise would, in one sector after another, be superseded by modern forms of large-scale production. In order to ensure an orderly transition, small industries were seen to deserve support, but mainly in sectors where modern methods could not be immediately applied (Ekpeyong & Nyong, 1992). In the mid-1960s, a new approach to small and medium- scale enterprise (SME) development began to emerge due to a number of factors. First, there was growing concern over low employment elasticity of modern, large-scale production. It was claimed that even with more optimal policies, that form of industrial organization was unable to absorb a significant proportion of the rapidly expanding labour force (Chenery, Ahluwalia, Bell, Duloy & Jolly (1974) in Ekpeyong & Nyong, 1992; International Labour Organisation {ILO} 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large-scale capital-intensive techniques was partly to blame. Third, empirical diagnosis showed that the causes of poverty were not confined to unemployment, and that most of the poor were employed in a large variety of small-scale, low-productivity activities. Thus, it was thought that one way to alleviate poverty could be to increase the productivity of those engaged in small-scale production (Aftab & Rahim, 1989).

It suggested a new role for small industries or what has come to be labelled "the urban informal sector". Small, labour-intensive industries were seen not only to increase employment but also to increase the living standard of the poor. They were also thought to be capable of providing a new dynamic of economic growth. The new objective was not just to stop the retreat of but to promote the small-scale sector (Schmitz, 1982; Aftab & Rahim, 1989). The change in approach was accompanied by a shift of focus on a "Rurally Orientated Small Holder" (ROSH) industrialization strategy well-articulated by Oshima (1962), United Nations Development Programme (UNDP) (1974), Kilby (1975), Acharya (1981) and Abdulahi, Abubaka, Umar & Sabiu (2015).

In today’s contemporary economies across nations, particularly developing economies, small and medium enterprises (SMEs) constitute a fundamental base for moving the economy forward. SMEs have continued to be a common phrase in the business world, and they serve as a catalyst for generating employment, national growth, poverty reduction and economic development (Ismaila, 2012). SMEs encourage entrepreneurship and provide suitable livelihood (Rogers, 2002). Generally, SMEs are regarded as the motion-hub for economic growth in developing economies (Agwu & Emeti, 2013) and in developed nations (Alese, 2017). The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Furthermore, a small-scale business has been recognised as a feeder service to large-scale industries (Fabayo, 2009). It has been largely acknowledged as the oil required for lubricating the engine of socio- economic transformation of any nation (Odah, 2005).

Specifically, Alese (2017) posited that almost all countries that focused on SMEs sector had a significant reduction in poverty level and its attendant enhancement in the quality and standard of living, a reduction in crime rate, an increase in per capita income as well as rapid growth in national output, among other salutary effects.

In a related development, Peterise (2003) cited in Daniela (2012) opined that SMEs employed over 60% of the labour force in Nigeria, in both the formal and informal sectors. More so, 70% to 80% of daily necessities in the country are not high-tech products but basic materials produced with little or no automation and the majority of those products come from the SMEs. According to Nnanna (2001), SMEs help in improvement in rural infrastructure and improved living standard of the rural dwellers thereby creating employment, the utilization of indigenous technology, the production of intermediate technology and an increase in revenue base of private individuals and the government (Wahab & Ijaiya, 2006).

No doubt, SMEs speed up the rate of social economic development of many countries of the world, particularly developing countries. They serve as a means of achieving national objectives with regard to employment generation at a low cost of investment as well as developing entrepreneurial capabilities and indigenous technology (Kazeem, Mohammed, Nzelibe, Mohammed, Munirat, Mohammed & Ibrahim, 2015). They also reduce the exodus of people from rural communities to urban centres. The entrepreneurship that is part of SMEs is very relevant to the empowerment of the citizens for sustainable development. It gives substantial opportunities for the assumption and use of local raw materials for vertical and horizontal linkages. Therefore, it has been estimated that the growth and development of

SMEs would improve the economy and welfare of Nigerians. Also, new businesses bring new and improved products and services thereby increasing competition and challenging existing businesses to improve their performance (Carpenter, 2001). According to Kazeem, et al, (2015), SMEs contribute tremendously to the Gross Domestic Product (GDP) and export earnings and development opportunities of a nation. Evidence from extant literature revealed that several countries across the globe in Asia, Europe and America, embraced the concept of SMEs and had been positively affected.

Upon the attainment of independence, and in an attempt to foster the development of the national economy in Nigeria, much emphasis was placed on developing the SMEs as a means of reducing the over dependency on government as well as the incidence of poverty and unemployment. Consequently, for Nigeria to reach its full potential in terms of economic and social development, it became apparent that SMEs should not be neglected or ignored because they contribute simultaneously to the economy of the country. Therefore, the policies of trade liberalization and the encouragement of foreign direct investment have to be pursued in conjunction with a systematic and resolute effort to boost the development and growth of SMEs in the country (Dabo, 2006) including the financing through collateral (Hong & Zhou 2013).

Today, the realization of the role of SMEs in economic development cannot be over emphasized especially at such a time as this when the economy is plagued with inflation, corruption, infrastructural deficiencies, among other indices plaguing the nation. However, it is worth mentioning that the development of SMEs requires funding. Therefore, the necessary institutions for the funding of SMEs in Nigeria should critically evaluate the small and medium enterprises and provide necessary assistance to enhance their growth and development in Nigeria. It should be noted however, that SMEs in Nigeria are classified according to the capital involved, revenue and the number of workers. The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) in Nigeria adopted this definition (Gbandi & Amissah, 2014).

This research effort therefore, took a look at the adequacy of funding and growth of small and medium enterprises in Nigeria, with particular reference to some selected SMEs within the Benin Metropolis in Edo State. It considered some of the conceptual and theoretical framework relating to the problem. The opinions of necessary stakeholders were sought and relevant data were collected and analysed accordingly. Conclusions were drawn from the findings, and necessary recommendations made.

### Statement of the Problem

Across the geo-political regions, cities and towns in Nigeria, there are hundreds/thousands of SMEs scattered everywhere. Most of them have great potential for turning into full blown production/manufacturing or service enterprises that would greatly affect the macroeconomic environment if properly funded and skilfully managed. But what you see in Nigeria today is that most of these SMEs are managed and funded solely by the owners or family and in some cases assisted by friends. This approach does not give these SMEs the required fund size to drive them to the next level. The sector seems constrained with the dearth of adequate funding, and this adversely affects the growth and advancement of the sector in Nigeria.

The inadequacy of finance and the lack of access to sustainable financing have dwarfed most of the nation’s SMEs. The result is either a complete collapse or that they remain at a puppet stage for decades. Sufficient capital needed to stay in business is often unavailable to SMEs in Nigeria, so, they are often forced to close shops because they are not able to access the necessary funds (Adebisi & Olayinka, 2013; Gbandi & Amissah, 2014). Banks find it challenging to cover the high costs of credit associated with lending to SMEs because of the weak capital base, poor financial records of SMEs, performance and market competition (Adebisi & Olayinka, 2013; Vasilescu, 2014, Adebisi, Banjo & Regin, 2017).

This is not healthy for national economic development as the growth and development of SMEs contribute positively to the overall GDP of a nation.

The Nigerian experience is worth giving attention. Studies show that approximately 96% of the nation’s businesses are SMEs compared to 53% in the United States of America and 65% in Europe. The Nigeria SMEs only contribute 1% to the GDP compared to 40% in Asian countries and 50% in Europe or America (Oyelaran-Oyeyinka, 2007). The SME sector continues to fall short of expectation in contributing to Nigeria’s economic development (Gbandi & Amissah, 2014).

Nevertheless, series of literatures revealed that several studies were carried out on the subject of SMEs in sub-saharan Africa and Nigeria in particular. For instance, Kadiri (2012) took a look at SMEs and employment generation in Nigeria: the role of finance Dije (2017) explored the sources of financing SMEs in Nigeria, with particular reference to three SMEs in the oil and gas industry. Kazeem, Mohammed, Nzellibe, Mohammed, Munirat, Muhammed & Ibrahim (2015) examined the evaluation of performance of SMEs development in Nigeria, with particular reference to Nasarawa State. Adebiyi, Banjo & Regin (2017) took a look at the performance of SMEs in Lagos State. Jayeola, Ihinmoyan & Kazeem (2018) x-

rayed the environmental factors and the performance of micro and small-scale enterprises (MSEs) in Nigeria: lessons from some selected MSEs in Ondo State, Nigeria. Agwu and Emeti (2014), Ebitu, Basil and Ufot (2016), Iorun (2014) and Terungwa (2011) looked at the subject of SMEs in different states of Nigeria, but none of these researchers considered a study in Edo State. Smit and Watkins (2012) embarked on a literature review of SMEs risk management practices in South Africa, while Dabor (2017) and Gbam (2017) looked at the subject of SMEs in Abuja and Plateau State. Amidst these literatures, to the best of the researcher’s knowledge, none looked into the variables that we adopted in the funding of SMEs: the venture capital, trade credit, business angel and bank overdraft. Hence, there is a gap in the knowledge. Besides, not much has been done in relation to SMEs in Edo State and, in particular, the Benin Metropolis. Based on those indices, this study, therefore, sought to fill the gap by looking at the adequacy of funds and its relationship with the growth and development of SMEs in Nigeria, with particular reference to some selected SMEs within the Benin Minneapolis in Edo State, Nigeria.

# Objectives of the Study

The broad objective of this research was to examine the adequacy of funding and growth of small and medium enterprises (SMEs) in Nigeria while the specific objective was to:

1. Evaluate how venture capital had an effect on the growth and development of SMEs in Nigeria.
2. Determine how trade credit has effect on the growth and development of SMEs in Nigeria.
3. Find out how business angels had an effect on the growth and development SMEs in Nigeria
4. Examine how bank overdraft had an effect on the growth and development of SMEs in Nigeria.

# Research Questions

Considering the nature of SMEs in Nigeria today, one would ask the following:

* + 1. How does venture capital have an effect on the growth and development of SMEs in Nigeria?
    2. veTo what extent does trade credit had an effect on the growth and development of SMEs in Nigeria?
    3. How do business angels have an effect on the growth and development of SMEs in Nigeria?
    4. How does bank overdraft have an effect on the growth and development of SMEs in Nigeria?

# Research Hypotheses

In this study, the following null hypotheses (HO1-4) were tested:

**HO1.** Venture capital has no significant effect on the growth and development of SMEs in Nigeria.

**HO2.** Trade credit has no significant effect on the growth and development of SMEs in Nigeria. **HO3.** Business angels have no significant effect on the growth and development of SMEs in Nigeria. **HO4.** Bank overdraft has no significant effect on the growth and development of SMEs in Nigeria.

# Significance of the Study

This study had both theoretical and practical import. In particular, the results of the study would be useful to policymakers (government), potential/existing SMEs and researchers. First, the study would help clarify what is known about the funding and growth of SMEs and shed light on important issues that could help SMEs and policymakers develop a more comprehensive understanding of why some countries, regions, among others, tend to have more viable SMEs than others and how they can use SMEs drive economic progress. Besides, the findings of the study would aid policymakers in formulating policies aimed at promoting SMEs to create new ventures in the country.

Second, for potential/existing SMEs, the outcome of this study would spur the spirit and interest in establishing SMEs to promote economic growth. Moreover, for active SMEs, this study would help shape their perceptions of the fundamental role adequate funding plays in SMEs growth and development and thus get them equipped with viable tools/adequate funding needed to drive their business ventures.

Finally, it is hoped that evidence from this study would serve as vital quantitative and qualitative information as well as add to the existing body of empirical literature from a developing economy perspective. In addition, this study would serve as a reference point to future researchers who would want to carry out a study on this subject-related area.

# Scope of the Study

The study examined the effect of funding on the growth of SMEs in Nigeria. However, the study was determined in scope to employees of the selected SMEs in Benin City, Edo State. Four (4) variables or measures of SMEs funding were developed such as business angels, venture capital, trade credit and bank overdraft. In view of this, the unit of analysis comprised employees of the selected SMEs within the Benin Metropolis, Edo State, in collaboration with the University of Benin Micro Finance Bank, Benin City, Edo State.

# Limitations of the Study

Management policy was a limiting factor to this research work. Such policy decisions included non- disclosure of secrete, especially as it related to the policy objectives of the firm. Moreover, management policy restrained research work of this nature to be done in the organization by one who is not a member of staff of the organization. Again, rationing of staff due to the outbreak of Covid-19 pandemic was also a limiting factor as information was not disseminated due to the non-availability of staff as the government’s regulation was to maintain social distancing.

# Operational Definition of Key Terms

1. **SMEs**: Businesses with a total investment (excluding costs of land but including capital) of up 750,000 Naira and paid employment of up to 50 employees.
2. **Venture Capital:** This refers to the provision of investment finance in the form of equity or quasi- equity traded instruments.
3. **Business Angels**: These are individuals with high net-worth willing to invest in new SMEs without having any personal affiliation in the SMEs.
4. **Bank Overdraft**: This refers to applying and receiving approval by bank management to get three times of what the small and medium enterprises have in their bank account.
5. **Funds**: These refers to available and/or accessible finance to the small and medium enterprises for their growth and development.
6. **Growth**: This is the steady increase in the level of small and medium enterprises performance, particularly in relation to their profit, assets, human resource among others.

## CHAPTER TWO LITERATURE REVIEW

### Introduction

This study examined the adequacy of funding of small and medium enterprises (SMEs) in Nigeria. However, this chapter focuses on the review of related literature which comprises: conceptual issues, theoretical framework, empirical studies, synthesis of empirical studies and conceptual model of the study.

### Conceptual Issues

A concept is viewed as symbolizing a phenomenon which helps to communicate its findings. The process of conceptualization arises out of the abstraction and generalization of sense impression. (Oyedokun, 2020).

### Small and Medium Enterprises (SMEs)

In literature, there is no universally accepted definition of a small entity since the grouping of an enterprise into large-scale or small-scale is an idiosyncratic and qualitative judgement. In most leading nations such as the United States of America (USA), the United Kingdom(UK), China, Japan, Italy, among others, a small-scale enterprise is described in terms of annual turnover and the number of paid personnel. For instance, in the UK, small-scale enterprise is seen as that industry with an annual turnover of 2 million pounds or less and with fewer than two hundred (200) paid personnel. In Japan, a small-scale enterprise is defined based on the type of industry, paid-up capital and number of paid personnel

In developing nations like Nigeria, there is no precise definition that characterizes a wholly small-scale enterprise from a medium-scale enterprise. In the Central Bank of Nigeria(CBN) Monetary Policy Circular No.22, small-scale enterprises are viewed as entities with an annual turnover not exceeding 500,000 naira. More so, the Federal Government of Nigeria in its fiscal policy guidelines defined small-scale enterprises

for purposes of deposit money bank (DMBs) loans as enterprises with an annual turnover not above

500,000 naira, and for merchant bank loans as enterprises with capital investments exceeding 2 million naira (excluding costs of land) or a maximum of 5 million naira. Similarly, the National Economic Reconstruction Fund (NERFUND) fixed the ceiling for small-scale enterprises at 10 million naira.

In reality, small and medium scale enterprises(SMEs) remain a fundamental sub-sector in an economy given the fact that SMEs have been broadly acknowledged as critical mechanisms for the growth and development of an economy as they possess great potential for generation of employment, enhancement of local technologies, output diversification, development of local entrepreneurship and advancing integration with large scale industries (CBN, 2018). Noteworthy is the fact that the definition of SMEs varies from nation to nation and even within sectors in a nation. However, the metrics commonly used in defining SMEs include number of employees, revenues or non-current assets.

According to the Federal Ministry of Commerce and Industry (2015), SMEs refer to firms with a total investment (excluding costs of land but including capital) of up to 750,000 naira, and paid employment of up to fifty employees. Correspondingly, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2017) defined SMEs based on some vital criteria: *first,* small scale enterprises are entities with ten to forty-nine personnel, with an annual turnover of five to forty-nine million naira. On the other hand, medium scale enterprises have fifty to one hundred and ninety-nine personnel with an annual turnover of fifty to four hundred and ninety-nine million naira.

Gulani and Usman (2018) opined that SMEs were entities with a minimum of five personnel with a minimum capital of not less than 5,000,000 naira. The characterization of SMEs based on the frameworks of the Federal Ministry of Commerce (2015), SMEDAN (2017), CBN (2018) and Gulani and Usman (2018) correspond with the views of Fatai (2011), Khan and Dalu (2015), Peter, *et al* (2018) and Bakhtiari, Breunig, Magnani & Zhang (2020). Extant literature suggested that definitions of SMEs differed across

nations and were based on dynamics like the country’s level of business activities, economic growth and

development, size of SMEs and particularly, the challenges faced by SMEs. In the view of Ogechukwu (2009), SMEs can be characterized in terms of capital outlay, employee numbers, turnover, fixed capital investment, availability of plant and machinery, market share and growth rate.

In Nigeria, dynamics such as asset base (excluding costs of land), number of personnel and annual turnover are employed to characterize SMEs. For the purpose of this study, therefore, SMEs were perceived as having the characterizations of SMEDAN (2017) and CBN (2018). Interestingly, with the increasing number of SMEs in Nigeria, the need to reconcile their policies, programmes and activities became very fundamental and that led to the formation of SMEDAN in 2004 (SMEDAN was established by the government for the sole aim of regulating SMEs activities).

### Small and Medium Enterprises (SMEs) in Nigeria

In both developed and developing nations, small and medium enterprises (SMEs) are a very vital component of the economy. According to Oyelarin-Oyeyinka (2010), the International Finance Corporation (IFC) revealed that approximately 96 per cent of Nigerian businesses were SMEs. Supporting the above view, Gbandi and Amissah (2014) asserted that about 90 per cent of the manufacturing/industrial sector are SMEs in terms of number of enterprises in Nigeria. More worrisome is the fact that while SMEs constitute a significant portion of the enterprises in Nigeria, their contribution to Nigerian gross domestic product(GDP) is about 1 per cent.

SMEs are distributed by clusters within zones in Nigeria. For instance, we have clusters of SMEs as Aba leather (Abia State - East), Nnewi automobile (Anambra State - East), Otigba ICT (Lagos State, West), Abeokuta and Oshogbo tie and dye (East), Kano leather (North) among others (Oyelarin-Oyeyinka, 2010). However, the bulk of SMEs is within the East, West and North regions with poorly financed SMEs in South-Nigeria. A survey by the National Bureau of Statistics (NBS) indicated that Anambra State (East)

recorded the highest number of SMEs in Nigeria (particularly in the automobile sector) compared to other parts of the regions of Nigeria (Vanguard Newspaper, 2012).

Given the fundamental role of SMEs in the Nigerian economy, various government regimes since independence have focused on diverse programmes aimed at augmenting SMEs growth. It resulted in spending a significant amount of fund with the primary goal of developing the sector (Taiwo, Falohun & Agwu, 2016). Notwithstanding the significant resources spent on augmenting SMEs, it has not yielded any substantial boost as SMEs still contribute a low per cent to Nigerian GDP. Most Nigerian SMEs are vulnerable and only a few strive to survive due to numerous dynamics such as difficulties in accessing credits from banks and other financial institutions, severe economic conditions resulting from unsteady government policies, inadequate infrastructural facilities, exceedingly rising operating costs, lack of government support for the SMEs among others (Oboh 2002; Wale-Awe, 2000 cited in Taiwo, Falohun & Agwu, 2016).

Olutunla and Obamuyi (2008) asserted that banks and other financial institutions which were key players in the financial system of every economy had the potential to meet with the credit needs of SMEs. However, there is still a huge gap between fund supply capabilities of banks and other financial institutions and the demanding needs of SMEs. The efficiency in performing these roles by bank and other financial institutions, particularly intermediation between surplus and deficit units of the economy, depends largely on the level of the development of the financial system.

The above view was further corroborated by extant literature (Gulani & Usman, 2018; Oaya & Mambula, 2017; Okonkwo & Obidike, 2016; Eniola & Entebang, 2015; Oyedokun, 2015; Gbandi & Amissah, 2015; and Eke, 2010) which identified adequate funding as one of the fundamental dynamics of SMEs failure in Nigeria. Consequently, the need for this study to assess the effect of the adequacy of funding on the growth

of SMEs, particularly in the South Region of Nigeria.

### Role of Small and Medium Enterprises Development Agency of Nigeria

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) is the key agency that is responsible for the administration of SMEs operations and activities in Nigeria. The SMEDAN reports (2013) showed that the agency was established to augment, monitor and coordinate MSMEs development. This implies that, SMEDAN is involved in the development and promotion of both micro, small and medium enterprises and entrepreneurs in Nigeria. In the views of Peter, *et al* (2018), one of the fundamental drives of SMEDAN has been to ensure that SMEs have adequate access to economic or financial resources like capital, technology and entrepreneurial skill required for their development and sustainability.

Interestingly, SMEs can get funding by means of schemes and programmes established by the government through SMEDAN. These schemes and programmes piloted by SMEDAN are intended to enhance and foster SMEs growth which comes in the form of soft loans, grants and equity financing. Again, SMEDAN does not provide loan facilities to SMEs but facilitates access of SMEs to loans from her partnering financial institutions and other schemes. According to Peter, *et al* (2018), there are numerous functions SMEDAN carries out on behalf of SMEs and in ensuring that SMEs align with the conditions stipulated by banks and other financial institutions.

Fundamentally, the functions and aligned conditions among SMEs must ensure that they obtain funding from schemes and programmes, banks and other financial institutions. According to Peter, *et al* (2018), SMEs must have an active bank account with a registered bank, must have submitted an application for a loan showing how much is required and the purpose, and must submit documents like business plan feasibility studies, company information and financial data.

Similarly, SMEDAN set up Credit Information Portal aimed at facilitating quick access to funding by

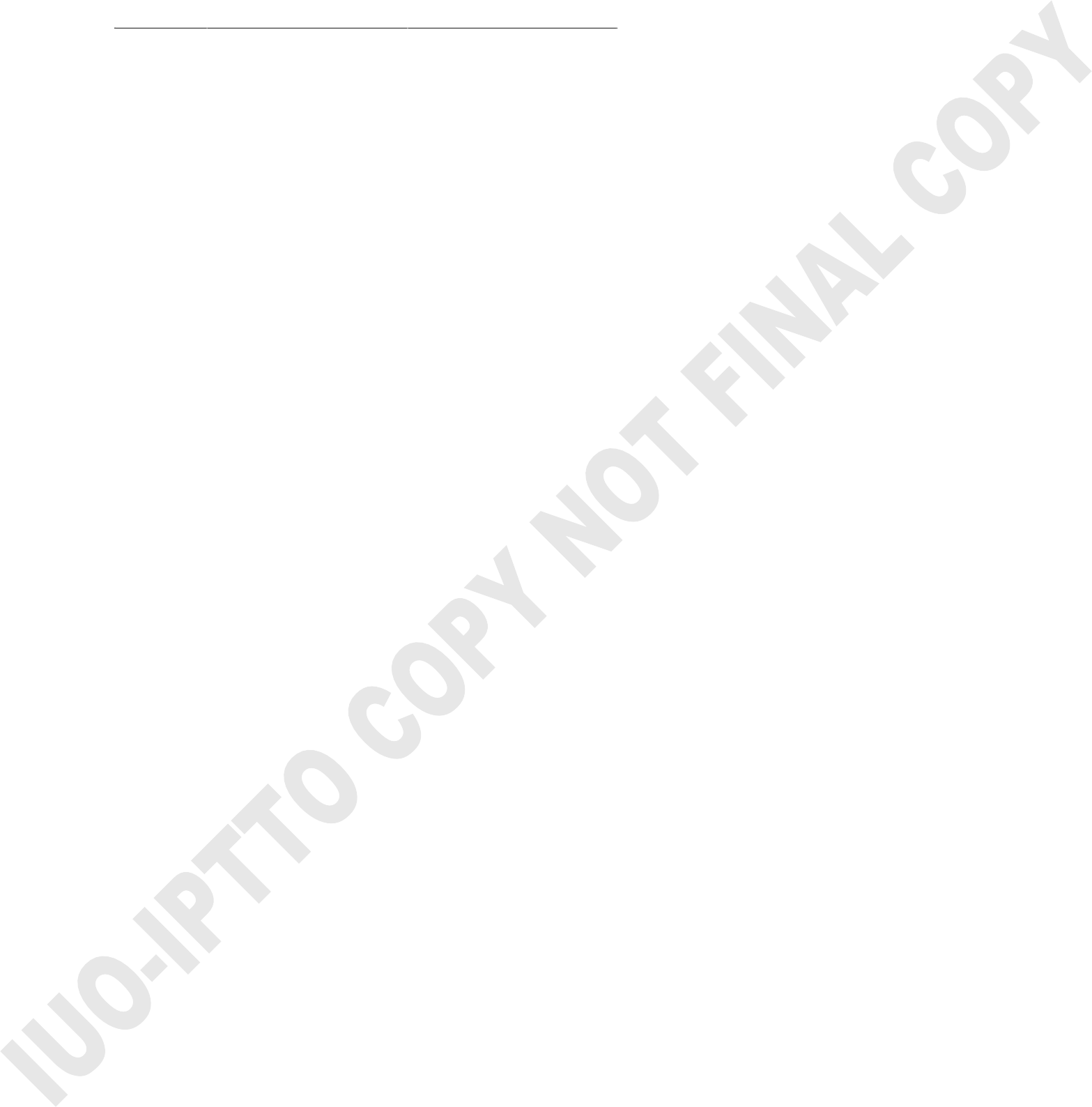
SMEs and its likes. The initiative was designed to make information sourcing regarding availability of

credit facilities easy. More so, the portal gives a valid pool of information that assists SMEs operators make informed decisions in obtaining loans and credits from banks and other financial institutions within their location of operations in Nigeria.

### Funding Position and SMEs Growth and Development in Nigeria

In Nigeria, the funding of SMEs has been a hot topic for debate as fund is a significant source of growth and development to businesses of all sorts. Nwachukwu (2012) asserted that SMEs growth, development and performance had not produced the much expected and desired results. One of the reasons was that the connection with inadequate funding which ought to augment the growth and development of SMEs was lacking. The above view was supported by Eniola and Entebang (2015) who stated that the informal sector (where SMEs are a subset of) was not disposed to adequate funding.

Noteworthy is the fact that the issue of adequate funding is not peculiar only to Nigeria, it is common even in the developed nations of the world. Interestingly, the data from the Central Bank of Nigeria (CBN) statistical bulletin provided some insightful revelations of the trends of funding, particularly by the Deposit Money Banks (DMBs) in Nigeria from 1992-2019:



### Table 2.1: Aggregate Funding for SMEs by Deposit Money Banks (DMBs) in Nigeria

|  |  |  |  |
| --- | --- | --- | --- |
| **Period** | **DMBs Loans to SMEs (N’million)** | **DMBs Total Credit (N’million)** | **DMBs Loans to SMEs as Percentage of Total Credit (%)** |
| 1992 | 20,400.00 | 75,456.30 | 27.04 |
| 1993 | 15,462.90 | 88,821.00 | 17.41 |
| 1994 | 20,552.50 | 143,516.80 | 14.32 |
| 1995 | 32,374.50 | 204,090.60 | 15.86 |
| 1996 | 42,302.10 | 254,853.10 | 16.60 |
| 1997 | 40,844.30 | 311,358.40 | 13.12 |
| 1998 | 42,260.70 | 366,544.10 | 11.53 |
| 1999 | 46,824.00 | 449,054.30 | 10.43 |
| 2000 | 44,542.30 | 587,999.90 | 7.58 |
| 2001 | 52,428.40 | 844,486.20 | 6.21 |
| 2002 | 82,368.40 | 948,464.10 | 8.68 |
| 2003 | 90,176.50 | 1,203,199.00 | 7.49 |
| 2004 | 54,981.20 | 1,519,242.70 | 3.62 |
| 2005 | 50,672.60 | 1,991,146.42 | 2.54 |
| 2006 | 25,713.70 | 2,609,289.40 | 0.99 |
| 2007 | 41,100.40 | 4,820,695.70 | 0.85 |
| 2008 | 13,512.20 | 7,799,400.11 | 0.17 |
| 2009 | 16,366.49 | 9,667,876.68 | 0.17 |
| 2010 | 12,550.30 | 9,198,173.06 | 0.14 |
| 2011 | 15,611.70 | 9,614,445.80 | 0.16 |
| 2012 | 13,863.46 | 10,440,956.33 | 0.13 |
| 2013 | 15,353.04 | 11,543,649.93 | 0.13 |
| 2014 | 16,069.27 | 13,179,598.11 | 0.12 |
| 2015 | 12,949.48 | 13,568,543.70 | 0.10 |
| 2016 | 10,747.89 | 16,500,150.26 | 0.07 |
| 2017 | 10,747.89 | 16,193,858.35 | 0.07 |
| 2018 | 44,822.84 | 15,438,603.87 | 0.29 |
| 2019 | 123,932.10 | 17,436,986.42 | 0.71 |

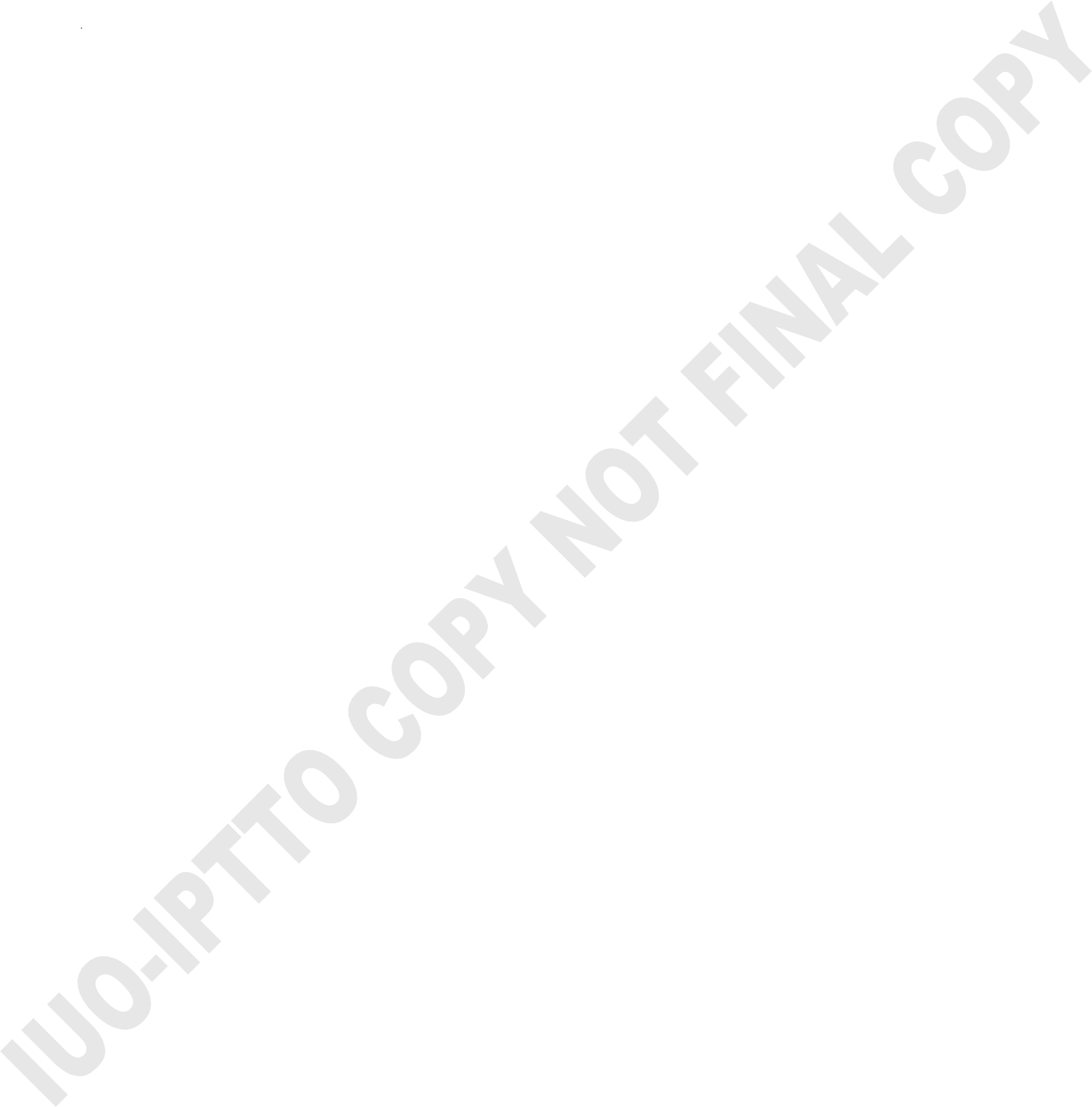
Source: Central Bank of Nigeria Statistical Bulletin, 1992-2019.

According to the CBN Statistical Bulletin on SME financing, it was observed that deposit money banks (DMBs) funding had decreased over the years. For instance, the total credit of DMBs increased from N2.5 million level in 2006, N4.8 million in 2007 and N7.8 million in 2008. Despite the increase, the funds

granted to SMEs declined drastically from N25.7 million representing 0.99 per cent in the year 2006, N41.1 million representing 0.85 per cent in 2007 and N13.5 million representing 0.17 per cent in 2008. Similarly, in 2009, up to 2012 DMBs funding for the economy continued an upward increase while total credit to SMEs continued a downward reduction, and the decrease continued till it reached 0.13 per cent and 0.07 in 2017. However, funding for SMEs as a percentage to total credits of DMBs later increased from 0.29 per cent in 2018 to 071 per cent in 2019. From the above, the contributions of DMBs in terms of credits to SMEs growth and development had been unsteady and low.

The above CBN statistics demonstrated that Nigerian financial framework was well capitalized and dynamic but her increase and improvement of SMEs was weak. Additionally, Ogbuabor, Malaolu and Elias (2013) assessed the trends in SMEs development in Nigeria and found that under the Nigerian Content Act of 2010, diverse opportunities contributing to competitive advantages were only reserved for Nigerian enterprises. Their study underscored the demand for access to adequate funding for SMEs development in terms of their capital base

Despite the dominant numbers and importance of SMEs in job creation, there has always been inadequate funding from financial institutions, governmental and non-governmental agencies. It implies that the major gap in Nigeria’s entrepreneurship development process is the lack of fund for SMEs.



### Table 2.2: Sources of Funding SMEs in Nigeria Compared to Some African Countries

|  |  |  |  |
| --- | --- | --- | --- |
| **Percentage of short term financing from: (%)** | **Nigeria** | **South Africa** | **Kenya** |
| Internal funds/retained earnings | 70 | 66 | 73 |
| Borrowed from banks and other financial institutions | 1 | 17 | 7 |
| Purchases on credit from suppliers & advances from customers | 25 | 12 | 17 |
| Borrowed from family, friends and other informal sources | 4 | 1 | 3 |
| Issued new equity/debt | - | 1 | - |

Source: National Bureau of Statistics, World Bank and International Monetary Fund

From Table 2.2, it was clear that SMEs in Nigeria relied heavily on retained earnings compared to other sources of funds. Moreso, SMEs in Nigeria had less borrowed funds from deposit money banks and other financial institutions compared to African countries like Kenya and South Africa. In the views of Idowu (2010) and Fatoki (2014), SMEs relied heavily on overdrafts to finance long-term investments and those had to be fully collateralized. Again, access to overdrafts was tremendously circumscribed. A study by USAID (2005) revealed that about 70 per cent of SMEs utilized deposit money banks’ overdrafts while 30 per cent tended to rely on owners’ funds to finance activities.

Zou and Chen (2008) stated that SMEs needed financial capital to obtain physical resources in order to take advantage of business opportunities. Owing to the above, prior studies examined the impact of adequate funding for SMEs growth and development in other parts of the country, with little or no studies in Edo State, Nigeria. Given the above, it is evident that the importance of adequate funding for SMEs growth and development cannot be over-emphasized. To assess the impact of adequate funding on SMEs growth and development in Edo State, Nigeria, five fundamental sources of funding were identified in this study. They included venture capitals, trade credits, business angels and bank overdrafts. Those sources of funding were discussed below.

### Venture Capital

Venture capital is one of those fundamental means of funding SMEs in both developed and developing nations of the world. The term, venture capital, encompasses the provision of investment finance to SMEs in the form of equity or quasi-equity instruments not traded on the Nigerian Stock Exchange (Abereijo & Fayomi, 2005). Besides, venture capital can be seen as risk capitals which focus on high growth enterprises in early stages of development. The stages of venture capital are basically in two (2) categories which, according to Gbandi and Amissah (2014), include seed capitals and start-up/early stage capitals. In reality, venture capitalists provide funds for expansion and development, buyout etc. for SMEs. An empirical study by Dagogo and Ollor (2012) indicated that venture capital significantly affected SMEs growth. Moreso, by means of venture capital, SMEs contribute more to society in the areas of taxes to government, provision of corporate social responsibility, staff welfare and job creation. Small and medium enterprises equity investment scheme (SMEEIS), which is essentially a pool for venture capital, has not done enough in terms of providing equity funds for SMEs (Gbandi & Amissah, 2014).

According to Abbasi, Wang & Abbasi (2017), venture capitalists are financial mediators and a source of non-banking financing to SMEs. A Venture capitalist is an investor who invests by providing capital and support for SMEs business expansion which may not have access to equity markets. Potter and Porto (2007) opined that venture capital are one kind of funding where funds obtained from investors were redeployed by investing in high-risk enterprises which generally were start-up enterprises. Venture capital is relatively widespread for small and young SMEs in developed financial markets (Keuschnigg, 1998). Moreover, venture capital is not just an alternative option for SMEs financing, it assists SMEs to solve many funding problems which militate against them.

Noteworthy is the fact that venture capital is linked with high uncertainty; theoretically expecting high-

return on investment portfolio. Venture capital makes investment for profit uncertain for SMEs. Thus,

venture capital may not be the most adequate form of funding SMEs (Ambrose, 2012). Prior studies (see Maduagwu, Dapper & Nlemedim, 2017; Gbandi & Amissah, 2014; Evboumwan, Ikpi, Okoruwa & Akinyosoye, 2012) used venture capital in their investigations to assess its effect on SMEs growth and development. Given this framework, venture capital was incorporated as one of the study’s objectives to assess its impact on SMEs growth and development in Edo State.

### Trade Credits

In SMEs funding, trade credit is an alternate way. Trade credit occurs when SMEs purchase goods and services by means of deferred payment (Huyghebaert, 2006). Trade credit is a short-term credit and payment which is due in thirty to ninety days. If payment is not made within the stipulated period, interest charges are imposed.

Funding SMEs via trade credit is a universal practice other than conventional bank lending. It is one of the most external significant methods of funding SMEs in most developed and developing countries (Demirgüç-Kunt & Maksimovic, 2002, cited in Gbandi & Amissah, 2014). Trade credit is an impulsive type of SMEs funding, and it arises directly from ordinary transactions of the business. Commonly, the cost of trade credit is embedded in the cost of goods sold on credit which incidentally makes it an expensive funding approach for SMEs (Wilson & Summers, 2002). However, the period of trade credit is limited. In a situation where SMEs are more open to risks, creditors may be reluctant to further elongate credit period. Although trade credit has few demerits, it is still a fundamental source of funding for start- up SMEs (Berger & Udell, 2006).

Extant literature (Ikon & Chukwu, 2018; Oaya & Mambula, 2017; Nwakoby, Kalu & Ezejiofor, 2017; Gbandi & Amissah, 2014) employed trade credits in assessing their effects on SMEs growth and development. Given this framework, trade credit was incorporated as one of the study’s objectives to

assess its impact on SMEs growth and development in Edo State.

### Business Angels

A business angel is one of the fundamental sources of funding in promoting SMEs growth and development in both developed and developing nations of the world. Business angels are those individuals who have high net-worth and are willing to invest in new SMEs without having any personal family connections in order to have some stocks in such SMEs (Mason & Harrison, 2008; Sohl, 2012). (Abbasi, Wang, & Abbasi, 2017) asserted that business angels played a dynamic role in SMEs funding by providing small amounts of loans to them, particularly in their early stages of growth and development.

Global statistics showed that business angels offered almost similar amounts of funding offered by financial institutions to finance the activities/operations of SMEs (Sohl, 2012). Hence, business angels assist SMEs to increase the flow of finance by contributing directly to their growth and development. Importantly, some few drawbacks which associate with business angels, which are SMEs taking a long time to find suitable business angels; some business angles can deceitfully result to a situation where SMEs owner have to give up some of their shares (Mondal & Shrivastava, 2016; Elitzur & Gavious, 2003). In literature, there is scanty empirical study that employed business angels’ impact on SMEs growth and development in Nigeria. A noticeable study that used business angels was the one by Abbasi, *et al* (2017) which considered whether business angels were potential sources of funding for SMEs growth and development in other parts of the country. Given this framework, business angel was built-in as one of the study’s objectives to assess if it impacted on SMEs growth and development in Edo State.

### Bank Overdraft

In literature, another method of funding SMEs is the use of a bank overdraft. A bank overdraft is a means of funding SMEs where the enterprise receives or draws more than what it has in its accounts with a financial institution but does not give up possession, title or profits, and is bound to pay back the

overdrawn amount with interest at a specified period. This kind of funding emanates with strict conditions and is secured by collateral as a guarantee that such an overdraft would be repaid.

This form of funding is not commonplace in the usual operations or activities of SMEs but it can be particularly serious on account of new SMEs that depend on intangibles in their enterprise plan. SMEs’ reliance on bank overdrafts places huge costs on SMEs which may lead to financial distress. A lot of research has been done on SMEs financing through a bank overdraft, and documented evidence shows that bank overdrafts are the main external source of funding for SMEs in both developed and growing economies (see Wu, Song, & Zeng, 2008; Ono & Uesugi, 2009; Zhou, 2009; Vera & Onji, 2010; Abbasi, *et al,* 2017).

A bank overdraft is considered to be more expensive as compared to other available sources of funding but it generates huge return for SMEs (Abbasi, *et al,* 2017). Given this framework, a bank overdraft was incorporated as one of the study’s objectives to assess its impact on SMEs growth and development in Edo State.

### Theoretical Framework

The theoretical framework of this study was anchored on two (2) theories, namely – Theory of Constraints (TOC) and the Solow Neo-Classical Growth Model. The theories were discussed below.

### Theory of Constraints (TOC)

This study was anchored on the Theory of Constraints (TOC). TOC was developed by Goldratt (1990) and it refers to a process that tries to identify the most important limiting dynamic (that is, constraint) affecting the growth and development of an entity and then systematically improves that constraint until it is no longer a limiting dynamic (Ikon & Chukwu, 2018). TOC assumes that every complex system of operations, including SMEs processes, comprises multiple linked operations, one of which acts as a constraint on the entire system.

The five steps in applying TOC include identifying, exploiting, subordinating, elevating, and reapplying. TOC is relevant to our study in that when its five steps are applied by SMEs, it enables them to identify constraints which limit their growth and development and then systematically improve those constraints until they are no longer a limiting dynamic. In the context of SMEs growth and development, the limiting dynamic is adequate funding provided by financial and other institutions. TOC was employed by prior studies (Ikon & Chukwu, 2018; Yang, Xuezheng, Jing & Hamido, 2019; Bakhtiari, Breunig, Magnani & Zhang, 2020).

### Solow Neo-Classical Growth Model

This study was anchored on the Solow’s Neo-classical growth model (NCGM). The NCGM model shows the declining returns to labour and capital independently and constant returns to both factors together. The relevance of NCGM model to the study is that there is increasing recognition that in order to experience output growth in all sectors of an economy, there must be an increase in the quantity and quality of savings and investments.

The underlying philosophy of the NCGM model is that an economy is able to experience growth if certain sectors like the SMEs invest properly. The relation of this model to the study is that in order to boost growth and development of SMSEs in Nigeria, there is the need to finance these enterprises by granting or providing adequate funding either by government or nongovernmental agencies for sustainable growth and development.

### Empirical Studies

Quite a number of studies have been conducted on the subject of SMEs in sub-Saharan Africa and Nigeria in particular. To the best of the researcher’s knowledge, there is a dearth of empirical studies as regards adequate funding, growth and development of SMEs in Benin, Edo State, in particular, using venture capital, trade credits, business angels and bank overdrafts in the attainment of SMEs growth and

development. In this section, recent empirical studies, particularly the periods 2010-2019, were reviewed. They were done in an ascending order of years.

Osemeke and Edobor (2019) focused on SMEs financing and economic growth in Nigeria using loans to SMEs, loan interests, inflation rates, exchange rates implication on SMEs and economic growth from 1992-2014. The ordinary least square results showed that loans to SMEs had an affirmative effect on economic growth while exchange rate had an adverse effect on economic growth in Nigeria.

Olawale, Idowu, Akudo and Yahaya (2019) evaluated the impact of the Nigerian financial markets on SMEs using selected SMEs in Gusau, Zamfara State. Questionnaires were administered to two hundred and fifty (250) owners of SMEs in some strategic locations in Zamfara State and the data obtained were analysed via frequency counts, simple percentages and t-test statistical tools. The study established a positive and significant relation between financial markets and SMEs in Gusau Metropolis, Zamfara State. Adelekan, Eze and Majekodunmi (2019) examined the nexus between bank loans (measured by access to loan and debt financing) and performance of SMEs (business expansions and outputs) in Lagos State, Nigeria. The descriptive survey design was adopted and a structured questionnaire was administered to three hundred and seventy-two (372) respondents who were chief executives of SMEs. The correlation result revealed that access to loan and debt financing were positively linked with business expansion and outputs of SMEs in Nigeria.

Ikon and Chukwu (2018) used secondary data of SMEs contribution to export, employment, credits to SMEs and money supply to investigate their effects on industrial growth in Nigeria during the period 2002-2016. The regression result revealed that manufacturing SMEs production had a statistical significant effect on industrial growth in Nigeria. It implied that manufacturing SMEs were viable in accelerating industrial growth via their contributions to the economy.

Gulani and Usman (2018) evaluated the challenges of SMEs in financing new or existing businesses in Gombe State. SMEs were randomly drawn from three (3) LGAs namely, Akko, Dukku and Gombe. The chi-square result showed that there was an insignificant difference in the difficulty SMEs faced when accessing finance from diverse means. More so, there was a significant difference on the level of awareness of microfinance institutions by SMEs.

Peter, *et al* (2018) explored the effects of financial assistance on SMEs performance across three states of the Nigerian Federation. Survey and semi-structured interview methods were employed and three hundred and sixty (360) questionnaires were administered to SMEs owners/managers. Descriptive and multiple regression results showed that while financial assistance had a significant effect on SMEs performance, those supports were inadequate, and were faced by stringent, unrealistic bureaucratic details.

Olaoye, Adedeji and Ayeni-Agbaje (2018) assessed the relationship between bank financing and SMEs growth in Nigeria from 1998-2017 using data of deposit money bank loans to average lending rates, inflation rates and GDP. Descriptive, correlation, regression and Granger causality tests were employed and the study found that deposit money bank loans to SMEs had a negative and an insignificant effect on GDP. Besides, average deposit money bank lending rates to SMEs had a negative and an insignificant effect on GDP while no causal connection was found to exist among deposit money bank loans to average lending rates to SMEs, inflation rate and GDP in Nigeria.

Usman, Isah and Tanko (2018) evaluated the contributions of financial institutions in financing SMEs investment scheme in Nigeria by means of a regression estimation technique. The study found that SMEs investment scheme, if adequately managed considering the volume of funds dedicated to the process, could serve as a fundamental incentive for the growth of the Nigerian economy.

Onwuchekwa, Emele and Onwuchekwa (2017) examined SMES and industrial development of Onitsha

Metropolis by means of a cluster-lead approach. A questionnaire based on a 5-point Likert scale was the

major instrument for the data collection. The Pearson Product-Moment Correlation Coefficient statistics showed that government policies, support and institutional knowledge transfer to SMEs cluster positively related with SMEs industrial development in Onitsha Metropolis.

The impact of SMEs financing on business growth in Keffi and Mararaba Metropolis was carried out by Oaya and Mambula (2017). The data of bank credits to SMEs, interest rates and GDP were obtained from the Central Bank of Nigeria Statistical Bulletin. The results of the t-test showed that bank credits to SMEs had an insignificant impact on the growth of the Nigerian economy while interest rates charged on SMEs credits had no effect on the business expansion of SMEs in Nigeria. Moreover, access to finance was found to be a sine qua non for the successful growth of SMEs via loans and advances.

Abbasi, Wang and Abbasi (2017) examined the potential sources of financing and role of government support for SMEs in Nigeria. The findings from the descriptive results revealed that SMEs financing had not got the expected support from the government, hence, the Nigerian government did not play a fundamental role in providing the financing needed for the growth of SMEs.

Ossai (2017) studied the problems and prospects linked with SMEs growth and development in Delta State. The descriptive survey design and t-test statistical technique were employed in ascertaining the extent to which the problems of SMEs affected the growth and development of SMEs. The findings indicated that the SMEs challenges had a significant effect on the growth and development of SMEs.

Maduagwu, Dapper & Nlemedim (2017) assessed the impact of capital management on the growth of SMEs in Enugu State. The study used descriptive survey design and a sample of sixty-nine (69) respondents was selected. The data were analysed using one sample Kolmogorov Smirnov statistic (K-S) and the findings indicated that most SMEs had inadequate employees to boost their growth, thus, inadequate employees reduced the capability of SMEs to break-even in the Nigerian economy.

Nwakoby, Kalu & Ezejiofor (2017) examined the financial incentives of SMEs and their impact on economic growth in Nigeria. The data of loan to SMEs and GDP were obtained during the period 1999- 2015 and the simple regression analysis was used. The findings showed that loans and other credit facilities had a significant impact SMEs output and on economic growth in Nigeria.

Taiwo, Falohun & Agwu (2016) assessed SMEs financing and economic growth nexus in Nigeria. The descriptive results showed that SMEs contributed significantly to the growth and development of the Nigerian economy. However, it was faced with the issue of access to funding and high interest rates which had led to the decline of SMEs growth.

Okonkwo & Obidike (2016) ascertained the problems and prospects of SMEs financing in Nigeria. The problems identified included government policies and programmes, intervention funds via banks and their disbursement as major obstacles to SMEs. The descriptive results indicated that finance accessibility and government policies and programmes were the major problems facing SMEs in Nigeria, and that there were no clear standard guidelines for banks to comply with in the disbursement of funds for SMEs financing in Nigeria.

Owenvbiugie and Igbinedion (2015) examined the effect of finance on SMEs growth in Edo State, Nigeria by means of a sample of one hundred and twenty-two (122) respondents. The descriptive statistics (mean and standard deviation) indicated that the growth of SMEs was hindered due to the inability to access funds from financial institutions. More so, the inability to access fund was as a result of the rigorous policies put in place by banks and other financial institutions.

Ilegbinosa and Jumbo (2015) evaluated the relationship between SMEs and economic growth in Nigeria. Secondary data involving SMEs financing, interest rate and inflation rate as well as economic growth (GDP) from 1975-2012 were obtained. The ordinary least square, co-integration and error correction

model results indicated that availability of finance to SMEs and inflation rate showed positive links with economic growth while interest rate had a negative influence on economic growth.

Eniola and Entebang (2015) explored financial innovation and challenges impeding SMEs performance in Nigeria. The descriptive result of the study showed that crowd-funding served as a means of financing for SMEs and it positively impacted on their performance. More so, the study established that essential strategies assisted SMEs to remain much motivated towards promoting their performance and making them successful.

Eze and Okpala (2015) surveyed the effect of SMEs on economic growth in Nigeria from 1993 to 2011. Multiple regression estimation and other econometric statistical tools were used. The Johansen result showed a long-run equilibrium link between SMEs and economic growth. However, the outputs of SMEs had an insignificant effect on economic growth in Nigeria. The reason for the insignificant effect was attributed to poor government policies on tariffs and incentives, bribery and corruption, and the poor state of infrastructure which acted as impediments to the growth of SMES in Nigeria.

Oyedokun (2015) surveyed the link between the availability of microfinance funds for SMEs and entrepreneurial activities in South-West, Nigeria. The primary data (questionnaire) obtained were analysed by means of Pearson Product Moment Correlation. The findings showed a substantial and an affirmative link between loan accessibility by SMEs from micro finance banks and the performance of SMEs. Importantly, the study established a significant contribution of microfinance funding for SMEs on entrepreneurial activities.

Yahaya (2015) explored the role of financial institutions in financing SMEs in selected local government areas in Kaduna State. The data of boardroom politics, loan settlement, competition, interest rate and value of fixed assets were employed. The findings from the descriptive results indicated that loan

settlement, interest rates, value of fixed assets, among others, were fundamental elements that determined

the capability of potential entrepreneurs in the procurement of advances from financial institutions in Kaduna State.

Similarly, Gbandi and Amissah (2014) investigated the financing options for SMEs growth in Nigeria. The financing debt options examined were deposit money banks, microfinance banks, cooperatives, other financing institutions as well as venture capital and business angels. The study found that while the financing options were able to promote SMEs growth in Nigeria, it had poorly contributed to the growth of the Nigerian economy.

Ogbuanu, Kabuoh and Okwu (2014) studied the relevance of SMEs and growth of Nigerian economy by means of time-series data. The data of manufacturing SMEs contributions to the share of GDP, employment and GDP from 2002-2012 were obtained. The descriptive results showed that the manufacturing SMEs recorded sizable contributions to sustained increases in GDP. They sustained more than 7 percent share in employment for the greater part of the period investigated.

Etuk and Baghebo (2014) examined the connection between SMEs and Nigerian economic development. The focal points of the study were the contributions of SMEs to GDP, taxes and other revenues in ensuring economic stability. The findings of the descriptive results showed that SMEs had significantly contributed to economic growth as well as given a substantial portion of government revenues (via taxes) in Nigeria. Alese and Alimi (2014) evaluated SMEs financing as a catalyst for Nigerian economic growth. The Error Correction Model (ECM) and Granger causality tests were used and the data spanned 1980 to 2012. The findings revealed that bank loans as SMEs financing options expanded the Nigerian economy in the long run but was unsubstantial in the short-run. More so, the Granger causality result showed a bi-directional correlation amid SMEs financing and economic growth.

Mohammed (2014) examined the necessity and strategies of repositioning deposit money banks in order

to augment the productive capacities of SMEs by means of Error Correction Model (ECM) and Co-

integration tests. The results indicated the existence of co-integration between repositioning the deposit money banks and the capacity of SMEs to deliver products/services.

Marshall (2014) investigated the impact of financial institution lending to SMEs from 1992-2012. Regression, Augmented Dickey-Fuller unit root, Phillip-Perron (PP) and Johansen co-integration tests were employed and the study found a positive and significant relationship between financial institutions and SMEs growth in Nigeria, while foreign investment exerted an inverse relationship. More so, a long- run integration was established among SMEs, deposit money bank lending, development institutions financing and foreign investment inflows.

Onakoya, Fasanya and Abdulrahman (2013) studied the impact of SMEs financing on Nigerian economic growth by means of quarterly time-series data from 1992-2009. Several econometric estimation techniques were adopted and the study found that loans to SMEs had a positive impact on economic growth while interest rate had a negative impact on economic growth.

Afolabi (2013) evaluated the effects of SMEs financing on Nigerian economic growth between 1980 and 2010. The ordinary least square method was employed and the findings showed that SMEs output (proxied by wholesale and retail trade output as a component of GDP and deposit money banks’ credit to SMEs) exerted a positive and significant effect on economic development (proxied by real GDP). On the other hand, lending rate was found to exert negative effects on economic growth.

Ofoegbu, Akanbi & Joseph (2013) employed Pearson correlation, variance analysis, Logit regression and paired sample t-test to assess the effects of commercial bank financing on SMEs performance in Nigeria. The findings revealed that enabling environments, provision of adequate human and material resources and erratic policy summersault by government had a significant effect on the growth of SMEs in Nigeria. Taiwo, Ayodeji & Yusuf (2012) carried out a study on the impact of SMEs on economic growth and

development in Nigeria using a survey of two hundred (200) SMEs officers and managers from five (5)

selected LGAs. The data were obtained via a structured questionnaire while the formulated hypotheses were tested using correlation coefficient. The results indicated that the most common constraints hindering SMEs business growth in Nigeria, among others, included lack of financial support, poor management, lack of training and experience, poor infrastructure, insufficient profits and low demand for the products and services of SMEs.

Bamidele (2012) assessed the role of SMEs financing in Amuwo Odofin Local Government of Lagos State, Nigeria. Quantitative and qualitative methods were used to obtain data and fifty (50) respondents were administered questionnaires. The descriptive statistics showed that government and other financial institutions had not done enough in supporting SMEs.

Morenikeji and Oluchukwu (2012) studied the impact of SMEs on employment generation in Lagos State. A sample of one hundred and twenty (120) questionnaires was administered to employees of SMEs, Simple percentage and chi-square statistical tool were employed. The study found that SMEs and sustainable development of Nigeria economy were related, an indication that SMEs impacted significantly on employment generation in Nigeria.

Evboumwan, Ikpi, Okoruwa & Akinyosoye (2012), in their study on the preference of SMEs for financial products in Nigeria, found out that inadequate capital was the most fundamental problem which faced SMEs with a per cent share of 60.7 per cent accompanied by deprived power supply and adequate infrastructure (55.7 per cent). The study further established that 75.7 per cent relied heavily on equity- capital to fund operations. More so, the Pearson correlation and variance analysis showed that inadequate capital was significantly correlated with SMEs financial products.

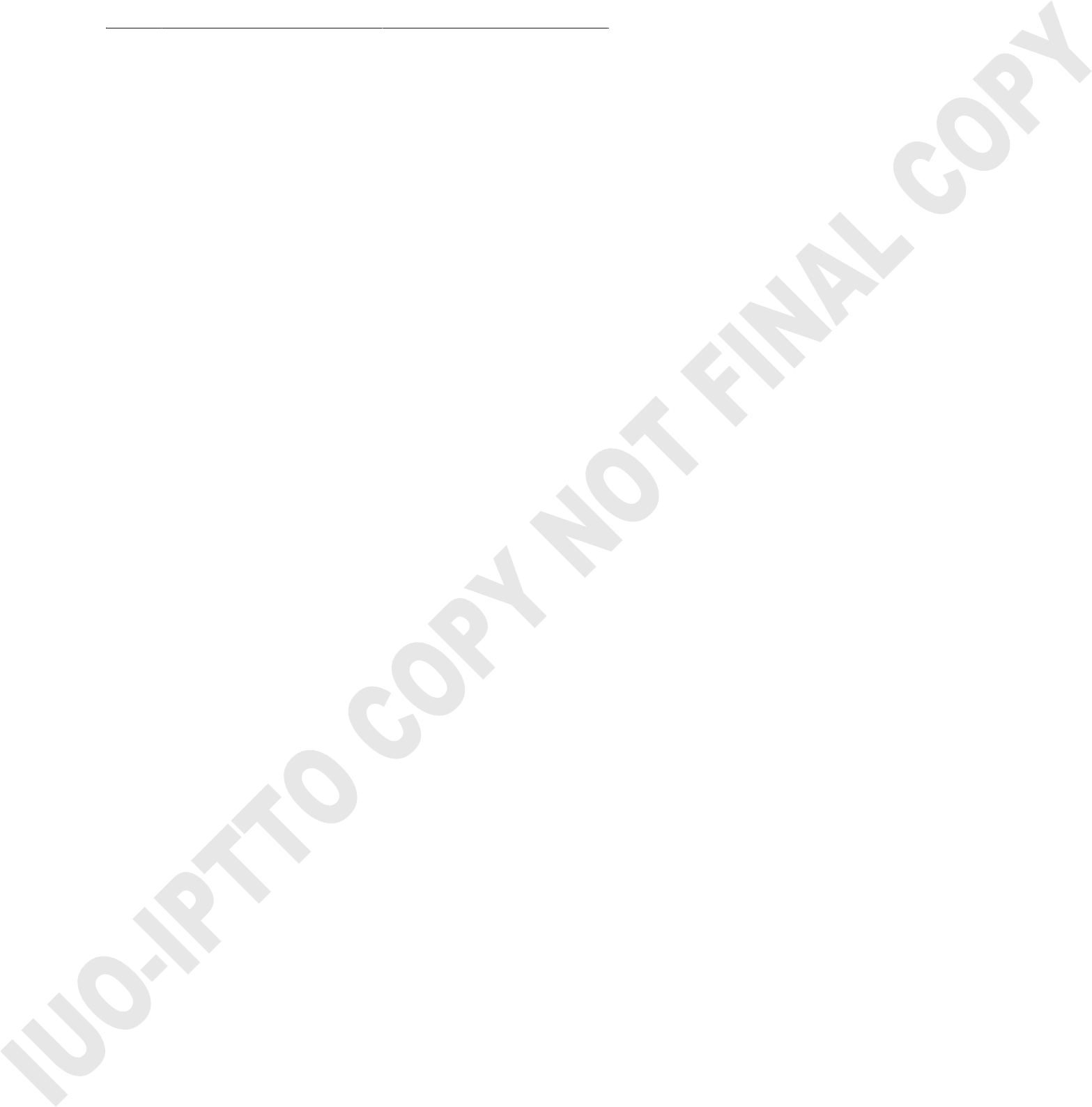
Akingunola (2011) evaluated the explicit financing possibilities accessible to SMEs and its impact on economic growth in Nigeria. The Spearman's Rho correlation was employed and the findings showed a

substantial Rho value of 0.643 at 10% level, indicating the existence of a positive correlation between SMEs financing and economic growth via investment levels.

Eke (2010) investigated the relevance of SMEs to Nigeria’s economic development. By means of a structured questionnaire and personal interview, data were obtained and the sign test and Pearson Product Moment Correlation Coefficient were used to analyse the data. The findings indicated that SMEs were underfinanced. However, diverse measures could be used to improve the funding status of SMEs such as direct government intervention in financing.

### Synthesis of Empirical Review

Table 2.1 captured the synthesis of empirical studies on SMEs by indicating the research methodology employed as well as the major findings



### Table 2.3: Summary of Empirical Studies

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 1. | Osemeke and Edobor (2019) | Secondary data of loan interests, inflation and exchange rates.  Ordinary Least Square | The results showed that loans to SMEs had an affirmative effect on economic growth while exchange rate had an adverse effect on economic growth in Nigeria. |
| 2. | Olawale, Idowu, Akudo and Yahaya (2019) | Primary data (questionnaire) Frequency counts, simple percentages and t-test statistical tools | The findings showed a positive and significant relationship between financial markets and SMEs in Gusau Metropolis, Zamfara State. |
| 3. | Adelekan, Eze and Majekodunmi (2019) | Secondary data (bank loans, business expansions and outputs) and primary data (questionnaire) Correlation statistical tool | The result revealed that access to loan and debt financing were positively linked with business expansion and outputs of SMEs in Nigeria. |
| 4. | Ikon and Chukwu (2018) | Secondary data (Export, employment, credits to SMEs, and money supply) Regression analysis | The result revealed that manufacturing SMEs production had a statistical significant effect on industrial growth. It implied, that manufacturing SMEs were viable in accelerating industrial growth via their contributions to the economy. |
| 5. | Gulani and Usman (2018) | Primary data (questionnaire)  Chi-square | The result showed that there was an insignificant difference in the difficulty SMEs faced when accessing finance from diverse means. More so, there was a significant difference on the level of awareness of microfinance institutions by SMEs. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 6. | Peter, Adegbuyi, Olokundun, Peter, Amaihian and Ibidunni  (2018) | Primary data (questionnaire)  Multiple regression | The results showed that while financial assistance had a significant effect on SMEs performance, the support was inadequate, and it was faced by stringent,  unrealistic bureaucratic details. |
| 7. | Olaoye, Adedeji and Ayeni-Agbaje (2018) | Secondary data (deposit money bank loans to average lending rates, inflation rates and GDP)  Descriptive, correlation, regression and Granger causality tests | The study found that deposit money bank loans to SMEs had a negative and an insignificant effect on GDP. Besides, average deposit money bank lending rates to SMEs had a negative and an insignificant effect on GDP while no causal connection was found to exist among deposit money bank loans to average lending rates to SMEs, inflation rate and GDP in  Nigeria. |
| 8. | Usman, Isah and Tanko (2018) | Primary data (Questionnaire)  Regression estimation technique | The study found that SMEs investment scheme, if adequately managed considering the volume of funds dedicated to the process, could serve as a fundamental incentive for the growth of the Nigerian economy. |
| 9. | Onwuchekwa, Emele and Onwuchekwa (2017) | Primary data (questionnaire)  Pearson Product-  Moment Correlation Coefficient | The findings showed that government policies, support and institutional knowledge transfer to SMEs cluster positively related with SMEs industrial development in Onitsha Metropolis. |
| 10. | Oaya and Mambula (2017) | Secondary data (bank credits to SMEs, interest rates and GDP)  t-test | The results showed that bank credits to SMEs had an insignificant impact on the growth of the Nigerian economy while interest rates charged on SMEs credits had no effect on the business expansion of SMEs in Nigeria. Moreover, access to finance was found to be a sine qua non for the successful growth of SMEs via  loans and advances. |
| 11. | Abbasi, Wang and Abbasi (2017) | Primary data (questionnaire)  Descriptive statistics | The findings revealed that SMEs financing had not got the expected support from the government, hence, the Nigerian government did not play a fundamental role in providing the financing needed for the growth of  SMEs. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 12. | Ossai (2017) | Primary data (questionnaire)  t-test | The findings indicated that the SMEs challenges had a significant effect on the growth and development of SMEs. |
| 13. | Maduagwu, Dapper and Nlemedim (2017) | Primary data (questionnaire).  Kolmogorov Smirnov statistic (K-S) | The findings indicated that most SMEs had inadequate employees to boost their growth, thus, inadequate employees reduce the capability of SMEs to break  even in the Nigerian economy. |
| 14. | Nwakoby, Kalu and Ezejiofor (2017) | Secondary data (SMEs incentive and GDP)  Simple regression | The findings showed that loans and other credit facilities had a significant  impact on SMEs output and on economic growth in Nigeria. |
| 15. | Taiwo, Falohun and Agwu (2016) | Secondary data (SMEs loans and GDP)  Descriptive statistics | The results showed that SMEs contributed significantly to the growth and development of the Nigerian economy. However, it was faced with the issue of access to funding and high  interest rates which had led to the decline of SMEs growth. |
| 16. | Okonkwo and Obidike (2016) | Questionnaire Descriptive statistics | The results indicated that finance accessibility and government policies and programmes were the major problems which faced SMEs in Nigeria, and that there were no clear standard guidelines for banks to comply with in the disbursement of funds for SMEs  financing in Nigeria. |
| 17. | Owenvbiugie and Igbinedion (2015) | Primary data (Questionnaire).  Descriptive statistics. | The findings indicated that the growth of SMEs was hindered due to inability to access funds from financial institutions. More so, the inability to access fund was as a result of the rigorous policies put in place by banks  and other financial institutions. |
| 18. | Ilegbinosa and Jumbo (2015) | Secondary data (inflation, SMEs financing interest and GDP).  Ordinary least square,  co-integration and error correction model. | The results indicated that availability of finance to SMEs and inflation rate showed positive links with economic growth while interest rate had a negative influence on economic growth. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 19. | Eniola and Entebang (2015) | Primary data (Questionnaire)  Descriptive statistics | The study showed that crowd-funding serve as a means of financing for SMEs and positively impacted on their performance. More so, the study established that essential strategies assisted SMEs to remain much motivated in promoting their  performance and making them successful. |
| 20. | Eze and Okpala (2015) | Secondary data (SMEs output and GDP)  Johansen co-integration and multiple regression | The result showed a long-run equilibrium link between SMEs and economic growth. However, outputs of SMEs had an insignificant effect on  economic growth in Nigeria. |
| 21. | Oyedokun (2015) | Primary data (Questionnaire)  Pearson Product Moment Coefficient | The findings showed a substantial and an affirmative link between loan accessibility by SMEs from micro finance banks and the performance of SMEs firms. Importantly, the study established a significant contribution of  microfinance funding for SMEs on entrepreneurial activities. |
| 22. | Yahaya (2015) | Primary data (Questionnaire)  Descriptive statistics | The findings indicated that loan settlement, interest rates, value of fixed assets among others, were fundamental elements that determined the capability of potential entrepreneurs in the procurement of advances from financial  institutions in Kaduna State. |
| 23. | Gbandi and Amissah (2014) | Primary data (Questionnaire)  Descriptive statistics | The study found that while the financing options were able to promote SMEs growth in Nigeria, it had poorly  contributed to the growth of the Nigerian economy. |
| 24. | Ogbuanu, Kabuoh, and Okwu (2014) | Secondary data (manufacturing SMEs contributions to share of GDP, employment and GDP)  Descriptive statistics | The results showed that manufacturing SMEs recorded sizable contributions to sustained increases in GDP. It sustained more than 7 percent share in employment for a greater part of the period investigated. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 25. | Etuk and Baghebo (2014) | Secondary data (contributions of SMEs to GDP, taxes and other revenues).  Descriptive statistics. | The findings showed that SMEs had significantly contributed to economic growth as well as the substantial portion of government revenues (via taxes) in Nigeria. |
| 26. | Alese and Alimi(2014) | Secondary data (SMEs loans and advances and GDP).  Error Correction Model (ECM) and Granger causality tests. | The findings revealed that bank loans as SMEs financing options expanded the Nigerian economy in the long run but was unsubstantial in the short-run. More so, Granger causality result showed a bi- directional correlation amid SMEs  financing and economic growth. |
| 27. | Mohammed (2014) | Secondary data (deposit money banks loans to SMEs and industrial growth).  Error Correction  Model (ECM) and Co- integration tests. | The results indicated the existence of co-integration between repositioning of deposit money banks and the capacity of SMEs to deliver products/services. |
| 28. | Marshall (2014) | Secondary data (Loans and advances of financial institutions to SMEs, foreign investment and GDP).  Regression, Augmented Dickey- Fuller unit root, Phillip-Perron (PP) and Johansen co-  integration. | The study found a positive and significant relationship between financial institutions and SMEs growth in Nigeria, while foreign investment exerted an inverse relationship. More so, a long-run integration was established among SMEs, deposit money bank lending, development institutions financing and foreign investment inflows. |
| 29. | Onakoya, Fasanya and Abdulrahman (2013) | Secondary data (SMEs loans and advances and GDP).  Regression analysis. | The study found that loans to SMEs had a positive impact on economic growth while interest rates had a negative impact on economic growth. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 30. | Afolabi (2013) | Secondary data (SMEs output – measured by wholesale and retail trade output as a component of GDP and deposit money banks’ credit to SMEs, lending rates to SMEs, and GDP).  Regression analysis. | The findings showed that SMEs output exerted a positive and significant effect on economic development. On the other hand, lending rate was found to exert negative effects on economic growth. |
| 31. | Ofoegbu, Akanbi and Joseph (2013) | Primary data (questionnaire).  Pearson correlation, variance analysis, Logit regression and paired sample t-test. | The findings revealed that enabling environments, provision of adequate human and material resources and erratic policy summersault by government had a significant effect on the growth of SMEs in Nigeria. |
| 32. | Taiwo, Ayodeji and Yusuf (2012) | Primary data (Questionnaire).  Correlation analysis. | The results indicated that the most common constraints hindering SMEs business growth in Nigeria, among others included lack of financial supports, poor management, lack of training and experience, poor infrastructure, insufficient profits and low demand for the products and services of  SMEs. |
| 33. | Bamidele (2012) | Primary data (questionnaire).  Descriptive statistics. | The results showed that government and other financial institutions had not done enough in supporting SMEs. |
| 34. | Morenikeji and Oluchukwu (2012) | Primary data (Questionnaire).  Simple percentage and chi-square statistical tool. | The study found that SMEs and sustainable development of the Nigerian economy were related, an indication that SMEs impacted significantly on employment generation in Nigeria. |
| 35. | Evboumwan Ikpi, Okoruwa and Akinyosoye (2012) | Primary data (Questionnaire). Pearson correlation and variance analysis. | The study showed that inadequate capital significantly correlated with SMEs financial products. |

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Author’s Name & Year** | **Methodology** | **Findings** |
| 36. | Akingunola (2011) | Primary data (Questionnaire).  Spearman's Rho correlation analysis. | The findings showed a substantial Rho value, indicating the existence of a positive correlation between SMEs financing and economic growth via investment levels. |
| 37. | Eke (2010) | Primary data (Questionnaire).  Pearson Product Moment Correlation Coefficient analysis. | The findings indicated that SMEs were underfinanced. However, diverse measures could be used to improve the funding status of SMEs  such as direct government intervention in financing. |

*Source: Conceptualized by the Researcher, 2021*

*Source: Researcher’s Compilation, 2021*

**2.5 Conceptual Model of Study**

Independent Variables

Dependent Variable

SMEs Growth Development (SMEGDT)

Trade Credits (TRACRE)

Business Angels (BUSANG)

Bank Overdraft (BANVER)

Venture Capital (VENCAP)

In this study, the independent variables encompassed adequate funding which took the form of venture capital, trade credits, business angels, and bank overdraft while the dependent variable was the growth and development of SMEs. Therefore, the conceptual model buttressed or captured the relationship between the dependent variable (SMEs growth and development) and independent variables (venture capital, trade credit, business angel and bank overdraft).

## CHAPTER THREE METHODOLOGY

### Introduction

This chapter methodology x-rays the research design, population of the study, sample and sampling technique, instrument of data collection, validity and reliability of research instrument, method of data collection, model specification and method of data analysis.

### Research Design

In this study, the cross-sectional research design was adopted. Cross-sectional research design according to Nachmias & Nachmias (2009) is concerned with the collection of data via the use of a survey. Its purpose is to run interference in a population of interest while trying to measure their perception of a subject matter. In a cross-sectional design, data are obtained from research participants at a specific time or in a relatively brief period. By and large, data are obtained from diverse groups of individuals in a cross-sectional research.

The choice of this design was premised on the fact that it would help the researcher gain a certain degree of flexibility in data collection, enable presentation and analysis of data and have robust findings (Nachmias & Nachmias, 2009). Ohaja (2006) posited that a cross-sectional design was required whenever the views of a diverse people (e.g., owners of both small and medium scale enterprises) formed the sources of data, hence, this design enabled the researcher to obtain the perception of diverse members on the adequacy of funding and growth of small and medium enterprises in Edo State, Nigeria.

### Population of the Study

The population of this study was registered small and medium scale enterprises (SMEs) in Edo State as at 31st December, 2017. The total population of the study was put at two thousand, six hundred and thirty- three (2,633) small enterprises and forty-four (44) medium enterprises, totalling two thousand, six hundred and seventy-seven (2,677) SMEs in Edo State (SMEDAN and National Bureau of Statistics, 2017) in collaboration with the University of Benin Micro Finance Bank, Benin City, Edo State.

### Sample and Sampling Techniques

The sample of this study was drawn from both small and medium enterprises registered with SMEDAN as at 31st December, 2017, the most recent survey conducted by the Agency. Importantly, the sample size was obtained using two-staged sampling techniques (Krejcie and Morgan sample size determination formula and stratified random sampling). Given the large population of study, the probability sampling technique based on the Krejcie and Morgan (1970) sample size determination formula was adopted to calculate the actual sample size of the study.

The Krejcie and Morgan's sample size calculation was based on p = 0.05; where probability of committing type I error was less than 5 %orp *<0.05.* The formula was given as:

*s = X2 NP(1 – P) ÷ d2 (N – 1) + X2 P(1 – P) eq. 1*

Where: s required sample size; X2 = table value of chi-square for 1 degree of freedom at the desired confidence level *(0.05* = 3.841); *N =* population size; *P =* population proportion (assumed to be 0.50 since that would provide the maximum sample size); *d =* degree of accuracy expressed as proportion (0.05).

s = 3.841 x 2,677 x 0.5 x 0.5

(0.052 x 2,676) + 3.841 x 0.5 x 0.5

s = 2,570

6.69 + 0.96

s = 2,570

7.65

|  |  |  |
| --- | --- | --- |
| s | = | 335.9 |
| s | = | 336 |

Given the outcome of the Krejcie and Morgan's sample size determination formula resulting to three hundred and thirty-six (336) sample size, the stratified random sampling method was employed in the distribution of the sample size across the number of small and medium enterprises in Edo State, Nigeria (see Table 3.1)

### Table 3.1: Sample size distribution based on the computed sample size of the small and medium enterprises in Edo State, Nigeria

|  |  |  |  |
| --- | --- | --- | --- |
| **Enterprises** | **Population of Enterprises** | **Percentage (%) Representation** | **Sample Size** |
| Small | 2,633 | 98.4% | 331 |
| Medium | 44 | 1.6% | 5 |
| **Total** | **2,677** | **100%** | **336** |

*Source: Compiled by the Researcher, 2021*

In view of the above, three hundred and thirty-one (331) registered small enterprises were sampled as well as five (5) medium enterprises.

### Source of Data Collection

The major instrument of data collection was the questionnaire which was designed to elicit responses on the adequacy of funding of small and medium scale enterprises in Edo State, Nigeria. The researcher adopted the questionnaire method to obtain data on the dependent variable (SMEs growth and development) and independent variable (indicators of SMEs funding - venture capital, trade credits, business angels and bank overdraft). The questionnaire was divided into two sections, i.e., the first section encompassed socio-demographic information of respondents, which was designed in a close-ended form. The second section was on thematic issues, which included SMEs funding indicators (venture capital, trade credits, business angels and bank overdraft).

The questionnaire was designed on a 5-point Likert scale of Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1). Also, in order to reduce fatigue on the part of the respondents, the questions in the questionnaire were precise and at the same time, they retained important information. Thus, the questions were few and not designed to waste the respondents’ time.

### Validity of the Instrument

A valid instrument measures the concept in question and its’ accuracy (De-Vos, 1998). The validation of an instrument can be carried out using three techniques: self-evident, pragmatic and construct validity (Brink & Wood, 1998). In this study, self-evident validity technique was employed. Self-evident validity method refers to the degree to which the instrument gauges what it is supposed to measure. On this note, it is classified as face and content validity. In ensuring face-validity, the questionnaire was subjectively appraised on the basis of the relevance of questions by the research supervisor.

*First,* the questionnaire was given to the research supervisor to check whether the questions were relevant, unambiguous and clear. The supervisor critically evaluated it and made suggestions where necessary. *Second,* content validity is the degree to which the items of instrument appear to expansively examine the scope it is intended to measure. The relevant content that was inputted in the questionnaire to guide the achievement of the study’s objectives was derived from literature.

### Reliability of the Instrument

Reliability is the degree of consistency of a research instrument (Polit & Hungler, 1999). It refers to the degree to which an independent administration of a similar instrument produces similar results under comparable circumstances. In testing for the reliability of the instrument, the test-retest methods were adopted. In this case, the outcome obtained was subjected to Cronbach Alpha Reliability test. The procedures entailed the administration of the validated instrument to 10 per cent of the sample size which amounted to thirty-four (34) SMEs owners in a nearby State – Delta State.

The justification for choosing Delta State for the pilot study was hinged on the presence of SMEs and closeness to the study in focus. The data from the pilot study were correlated to find the stability of the instrument using Cronbach Alpha reliability. The Cronbach Alpha reliability test decision stated that if the alpha value was more than 0.50, it mean that the instrument items were reliable for the research, and vice vice-versa.

### Method of Data Collection

The questionnaire was administered on a face-to-face basis by the researcher while adhering to the social distancing policy by the National Centre for Disease Control (NCDC) due to the COVID-19 pandemic. Moreover, the researcher spent ample time with the respondents who could have complained of lack of time to respond to the questionnaire. It was to enable the respondents who might not know how to fill a questionnaire be given the opportunity to give their responses via a face-to-face interaction. The questionnaires retrieved from the field survey were collated and coded (via item-coding principle: SA: 5, A: 4, UD: 3, D: 2 SD: 1) using Microsoft Excel (MS Excel) software.

### Method of Data Analysis

The responses from the completed questionnaires were analysed using both descriptive statistics such as frequency counts, simple percentages, mean and standard deviation, correlation matrix and variance inflator factor and inferential technique (regression). The simple regression statistical technique was adopted since the research hypotheses were formulated to test the dependent variable on the individual independent variables of the study.

Furthermore, since the study examined the significant relationship between adequate funding and SMEs, Pearson r-coefficient value was used to measure the strength of the relationship while regression was used to measure the effect of adequate funding on SMEs growth and development. The analysis was carried

out by means of STATA 13.0 statistical software.

### Model Specification

The simple regression statistical technique was employed to test the formulated hypotheses at 0.05% level of significance with a view to either rejecting or accepting the hypotheses. In view that, the regression model was estimated as follows:

*smes = f (vencap, tracre, busang, bankver) - eq. 2* Equation 2 was the implicit form of the regression model which showed the relationship between the dependent and independent variables. However, equations 3-6 were the explicit forms of the simple regression model:

*smesi = α0 + ß1vencapi + µt - eq. 3*

*smesi = α0 + ß1tracrei + µt - eq. 4*

*smesi = α0 + ß1busangi + µt - eq. 5*

*smesi = α0 + ß1bankveri + µt - eq. 6* Where: *smes* =small and medium scale growth and development; *vencap =*venture capital; *tracre=*trade credit; *busang=*business angel; *bankver=*bank overdraft; *α0, ß1 =*regression coefficients; and *ut=* Error term.

## CHAPTER FOUR

**DATA PRESENTATION, ANALYSIS AND DISCUSSIONS OF FINDINGS**

### Introduction

This study sought to investigate the adequacy of funding and growth of selected small and medium enterprises (SMEs) within the Benin Metropolis in Edo State, Nigeria. In order to do that, questionnaires were administered to three hundred and thirty-one (331) registered SMEs operators. Besides, the study’s questionnaire focused on four (4) dimensions of SMEs funding, namely, trade credit, business angel, venture capital and bank overdraft. More so, out of the 331 questionnaires administered, three hundred and nine (309) were completed and retrieved, representing 93.4% response rate. The responses from the respondents were subjected to both descriptive (mean, standard deviation, minimum and maximum values, correlation, variance inflator factor and heteroskedasticity test for multi-collinearity) and inferential (ordinary least square with its Best Linear Unbiased Estimates Property) statistics.

The results of descriptive statistics were further supported by graphical representations, especially in the aspect of the socio-demographic characteristics of respondents. The statistical analysis was done by means of STATA 13.0 version. The results of the study were presented in order of precedence: preliminary analysis (descriptive statistics) came first, closely followed by test of research hypotheses (inferential statistics) and then the discussion of findings concluded the chapter.

### Response Rate

**Table 4.1 Questionnaire Distribution**

|  |  |
| --- | --- |
| **Questionnaire** | **Frequency** |
| Distribution | 331 |
| Not – Retrieved | 16 |
| Retrieved | 312 |
| Discarded | 3 |
| Useful Response | 309 |

**Source: Field Survey, 2021**

Table 4.1 showed the questionnaire distribution to respondents: The results revealed that out of the 331 questionnaires distributed, 16 were not retrieved while 312 were fully retrieved. However, 3 were discarded resulting to 309 questionnaires, which we considered good enough for the analysis.

### Preliminary Analysis

**Table 4.2a: Demographic Variables of Respondents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ranks** | **Variables** | **Respondents** | **Frequency N=309** | **Percent (%)** |
| 1 | Gender | Male | 218 | 70.55% |
|  |  | Female | 91 | 29.45% |
|  |  | **Total** | **309** | **100.0%** |
| 2 | Marital Status | Single | 117 | 37.86% |
|  |  | Married | 189 | 61.17% |
|  |  | Others | 3 | 0.97% |
|  |  | **Total** | **309** | **100.0%** |
| 3 | Age | 18-37years | 103 | 33.33% |
|  |  | 38-57years | 126 | 40.78% |
|  |  | 58-77years  78years & above | 80  - | 25.89%  - |
|  |  | **Total** | **309** | **100%** |
| 4 | Level of Education | No formal | 11 | 3.56% |
|  |  | Primary | 27 | 8.74% |
|  |  | Secondary | 62 | 20.06% |
|  |  | Tertiary | 209 | 67.64% |
|  |  | **Total** | **309** | **100.0%** |

**Table 4.2b: Demographic Variables of Respondents (Continued)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ranks** | **Variables** | **Respondents** | **Frequency N=309** | **Percent (%)** |
| 5 | Location of SMEs | Rural Area | 113 | 36.57% |
|  |  | Urban Area | 196 | 63.43% |
|  |  | **Total** | **309** | **100.0%** |
| 6 | Operational Years of | 0-5years | 146 | 47.25% |
|  | SMEs | 6-10years | 108 | 34.95% |
|  |  | 11-15years | 38 | 12.30% |
|  |  | 16-20years  21years & above | 17  - | 5.50%  - |
|  |  | **Total** | **309** | **100.0%** |
| 7. | Sector of SMEs | Agriculture  Mining/Quarrying Manufacturing | 98  - 34 | 31.72%  - 11.00% |
|  |  | Water Supply | 26 | 8.41% |
|  |  | Construction | - | - |
|  |  | Wholesale/Retail | 28 | 9.06% |
|  |  | Transportation | 18 | 5.83% |
|  |  | Accommodation | 14 | 4.53% |
|  |  | ICT | 9 | 2.91% |
|  |  | Real Estate | 5 | 2.59% |
|  |  | Admin & Support | 9 | 2.91% |
|  |  | Education | 7 | 2.27% |
| Social Works | | | - - | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Arts/Entertainment | 51 | 16.50% |
| **Total** | **309** | **100.0%** |
| 8 | Number of | Less than 10 | 206 | 66.67% |
|  | Employees | 10-49 | 103 | 33.33% |
|  |  | 50-199 | - | - |
|  |  | 200-300 | - | - |
|  |  | **Total** | **309** | **100.0%** |
| 9 | SMEs Capital | Personal Savings | 151 | 48.87% |
|  | Source | Loans/BOD | 107 | 34.63% |
|  |  | Family Source | 18 | 5.83% |
|  |  | Cooperative/Esusu | 33 | 10.67% |
|  |  | Grant  **Total** | -  **309** | -  **100.0%** |

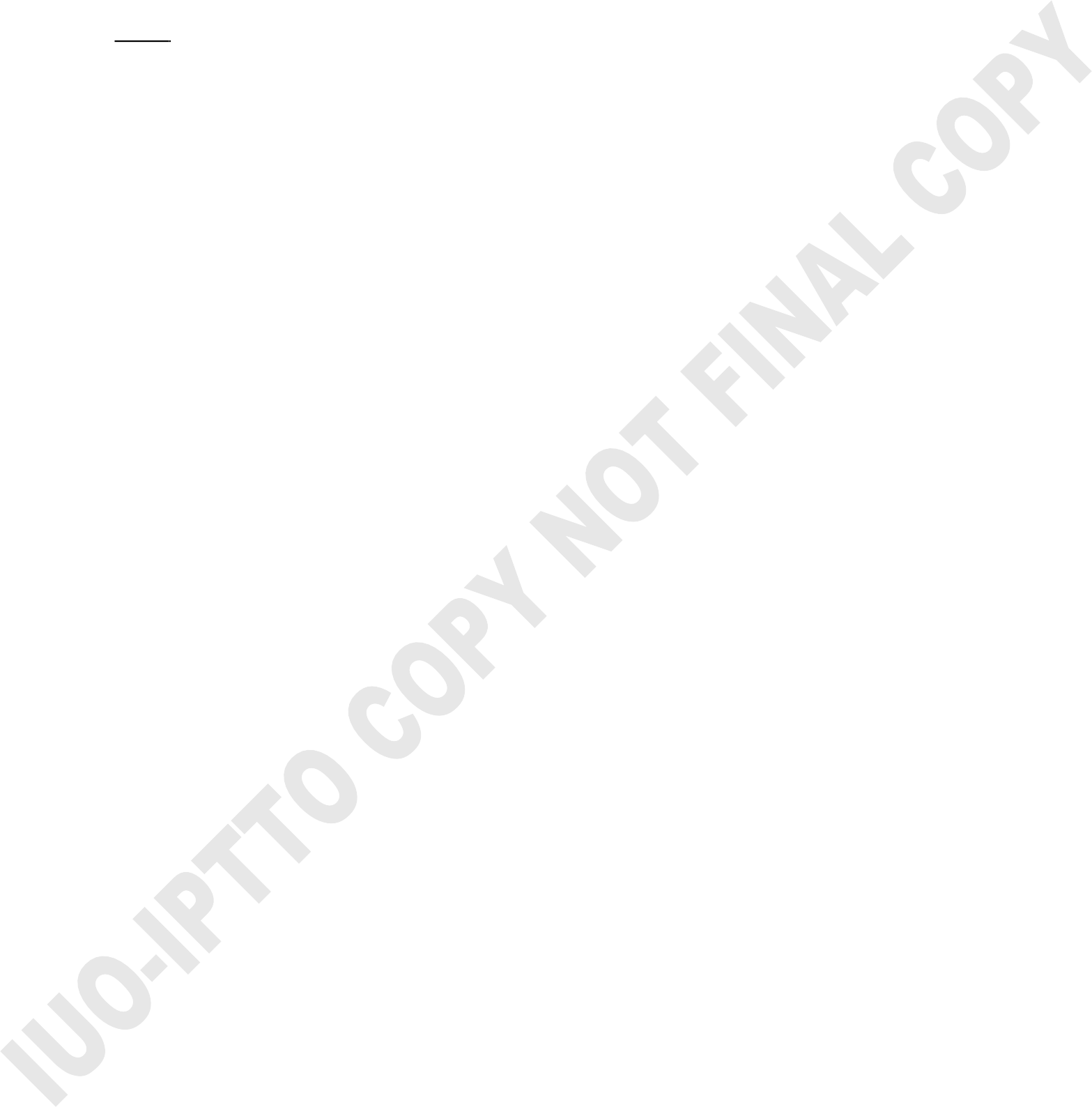
**Source: Field Survey, 2021**

Presented in Tables 4.2a-b were the demographic variables of three hundred and nine (309) registered SMEs operators within the Benin Metropolis in Edo State, Nigeria. The result revealed that 218(70.55%) of the respondents were males while 91(29.45%) were females. On the marital status of respondents, it was shown that 117(37.86%) and 189(61.17%) were single and married respectively while only 3(0.97%)

were either divorced or widowed. The data showed that 103(33.33%) and 126(40.78%) of the respondents were within the age brackets of 18-37years and 38-57years respectively while only 80(25.89%) were within the 78years and above age bracket. On the level of education, it was observed that 11(3.56%) and 27(8.74%) of the respondents had no formal education and primary education respectively while 62(20.06%) and 209(67.64%) had secondary and tertiary education respectively. It thus showed that majority of the respondents had tertiary education and were able to comprehend the issues raised in the questionnaire.

Furthermore, it was found that 113(36.57%) of the registered SMEs were domiciled in rural areas while 196(63.43%) were in urban areas. On the operational years of SMEs, it was shown that 146(47.25%) and 108(34.95%) of the SMEs had been in operation for 0-5years and 6-10years respectively, and 38(12.30%) and 17(5.50%) for 11-15years and 16-20years. None of the SMEs had been in operation for more than 20years and above. Also, it was shown that majority of the SMEs were domiciled in the agricultural sector, representing 98(3.72%), followed by arts and entertainment 51(16.50%) while there were few registered SMEs in accommodation, ICT, admin and support services, education, real estate and social works sectors.

In addition, the number of employees of studied SMEs ranged from less than 10, representing 206(66.67%) and 10-49, representing 103(33.33%). It was found that the studied SMEs obtained sourced capital based on personal savings 151(48.87%) and 107(34.63%) from loans and advances from formal lending institutions such as banks and other non-formal lending entities like money lenders. However, 18(5.83%) sourced capital from cooperative societies while 33(10.67%) sourced from family members and associates.



### Analysis of Questionnaire Items

**Table 4.3: Descriptive Statistics showing Venture Capital as a Determinant of SMEs Growth**

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Items** | **Mean** | **Std. Dev.** |
| 1 | Venture capital is a vital avenue for funding SMEs | 2.657 | 1.446 |
| 2 | Seed and start-up capitals are profoundly used by SMEs | 2.694 | 1.435 |
| 3 | Venture capital is used for expansion and buyout by SMEs | 2.612 | 1.386 |
| 4 | Venture capital assists SMEs in solving numerous funding | 3.00 | 1.402 |
| 5 | problems  Venture capital has no significant effect on the growth and | 2.793 | 1.210 |
|  | development of SMEs |  |  |
|  | **Aggregate Mean/Standard Deviation** | **2.751** | **1.376** |

*Source: Field Survey, 2021*

Table 4.2 presented the research questions on venture capital of SMEs within the Benin Metropolis in Edo State, Nigeria. The result showed that out of the five (5) items on venture capital, all 5-items scored above

2.50 cut-off point of the mean. It suggested that the five (5) items that scored above the cut-off point determined venture capital among the selected SMEs and were fundamental to the growth of SMEs. Overall, the grand mean (2.751) which was above the cut-off point of the mean was an indication that the selected SMEs considered venture capital as a driver of SMEs growth and development. Furthermore, the results of the question to the respondents if trade capital contributed to the growth of SMEs were presented in Table 4.3.

### Table 4.4: Descriptive Statistics showing Trade Credit as a Determinant of SMEs Growth

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Items** | **Mean** | **Std. Dev.** |
| 1 | Trade credit is a universal practice by SMEs other than | 2.960 | 1.373 |
| 2 | conventional bank lending  Trade credit is one of the most external significant sources of | 2.520 | 1.423 |
| 3 | funding SMEs  Trade credit is a vital source of funding for start-up SMEs | 2.504 | 1.421 |
| 4 | Trade credit aids SMEs in solving funding problems | 2.556 | 1.475 |
| 5 | Trade credit has no significant effect on the growth and development of SMEs. | 2.737 | 1.275 |
|  | **Aggregate Mean/Standard Deviation** | **2.655** | **1.393** |

*Source: Field Survey, 2021*

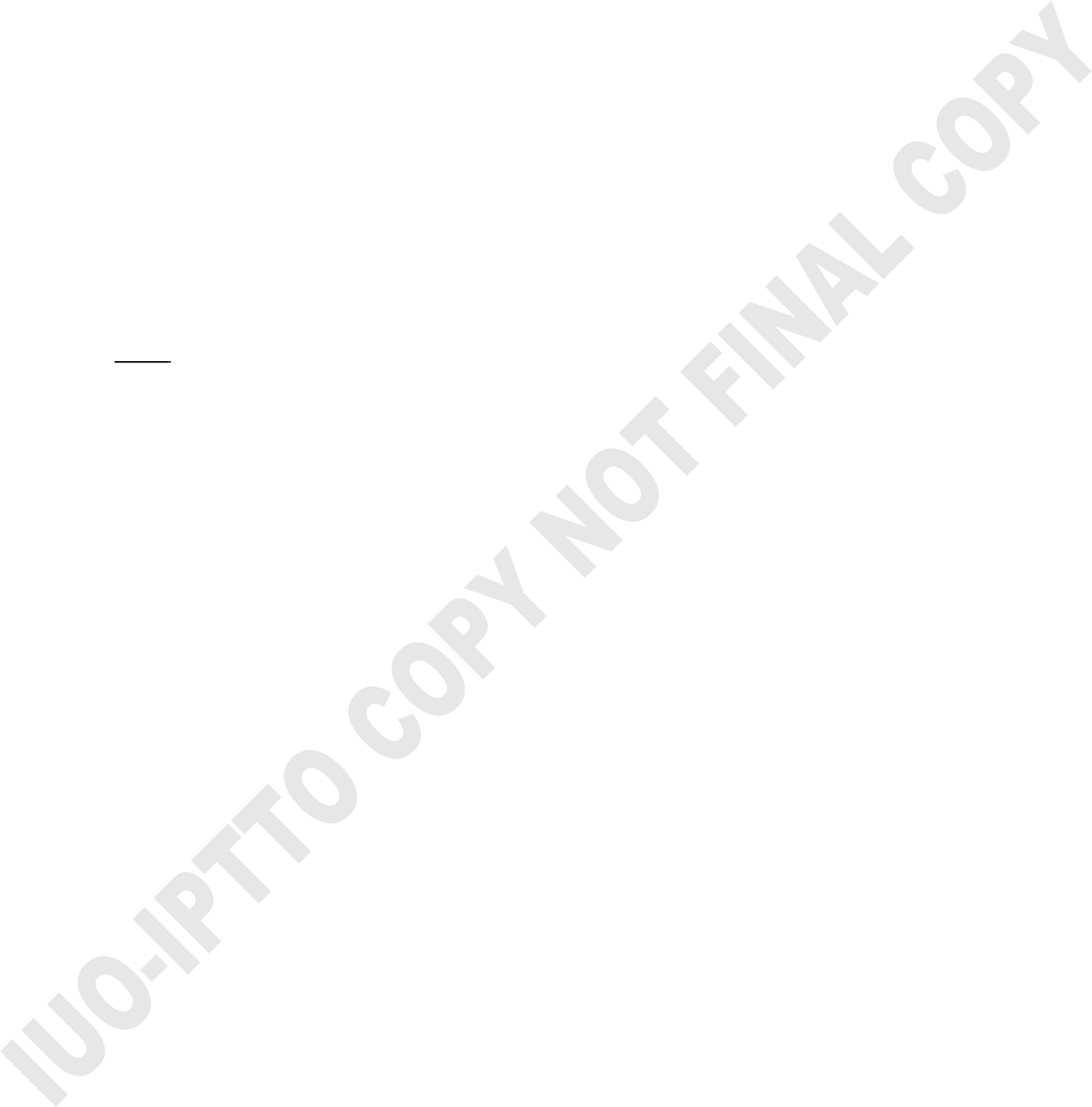


Table 4.3 presented the research questions on trade capital among the selected SMEs within the Benin Metropolis in Edo State, Nigeria. The result showed that all five (5) items on trade capital scored above

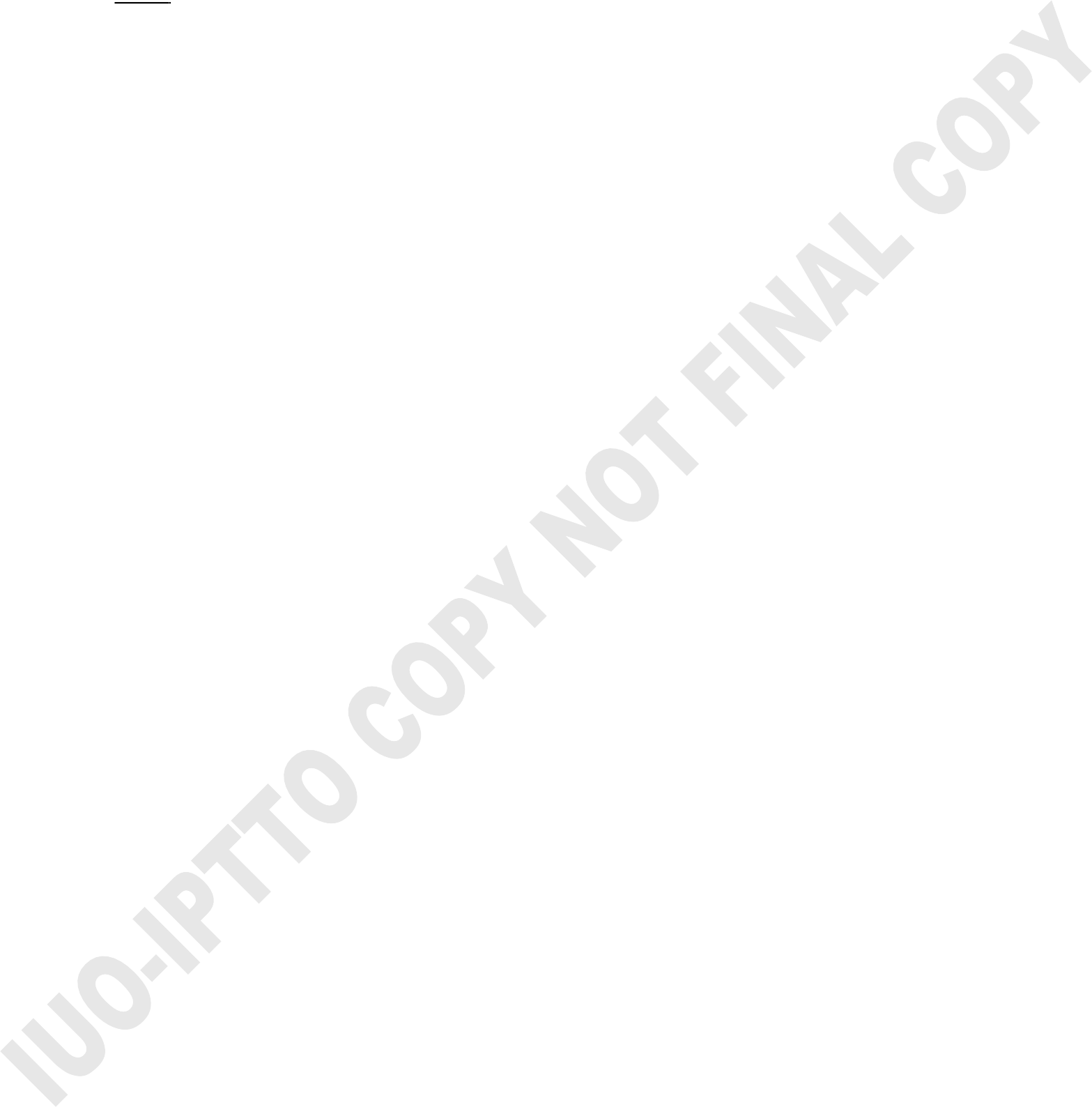
2.50 cut-off point of the mean. It implied that the 5-items that scored above the cut-off point determined the trade capital of the selected SMEs and were vital metrics for assessing trade capital. Overall, the grand mean (2.655) which was above the cut-off point of the mean was an indication that the selected SMEs considered trade capital as a driver of SMEs growth and development. Furthermore, the respondents were asked if business angel contributed to the growth of SMEs and the results were presented in Table 4.4.

**Table 4.5: Descriptive Statistics showing Business Angel as a Determinant of SMEs Growth**

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Items** | **Mean** | **Std. Dev.** |
| 1 | Business angels play a dynamic role in SMEs funding. | 2.742 | 1.356 |
| 2 | Business angels offer almost similar amounts of funding. | 2.861 | 1.388 |
| 3 | offered by financial institutions to finance SMEs operations.  Business angels assist SMEs to increase the flow of finance | 2.558 | 1.442 |
| 4 | by contributing directly to their growth and development. SMEs find it cumbersome to find suitable business angels. | 2.590 | 1.470 |
| 5 | Business angel aids SMEs in solving funding problems | 2.986 | 1.302 |
|  | **Aggregate Mean/Standard Deviation** | **2.607** | **1.392** |

*Source: Field Survey, 2021*

Table 4.4 presented the research questions on business angel as a determinant of SMEs growth among the selected SMEs within the Benin Metropolis in Edo State, Nigeria. The result showed that all the five (5) items on business angel scored above 2.50 cut-off point of the mean. It means that all the 5-items were good indicators for assessing business angel among the selected SMEs. Overall, the grand mean (2.607) which was above the cut-off point of the mean was an indication that the selected SMEs considered business angel as a driver of SMEs growth and development. Furthermore, the respondents were asked if bank overdraft contributed to the growth of SMEs and the results were presented in Table 4.5.



**Table 4.6: Descriptive Statistics showing, A Bank Overdraft as a Determinant of SMEs Growth**

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Items** | **Mean** | **Std. Dev.** |
| 1 | A bank overdraft is an alternate method of funding SMEs | 2.089 | 1.444 |
| 2 | SMEs do not rely heavily on bank overdrafts due to their huge | 2.694 | 1.435 |
| 3 | costs.  SMEs consider bank overdrafts common place in funding. | 2.612 | 1.386 |
| 4 | A bank overdraft aids SMEs in solving funding problems. | 3.000 | 1.402 |
| 5 | A bank overdraft has no significant effect on the growth and development of SMEs. | 1.793 | 1.310 |
|  | **Aggregate Mean/Standard Deviation** | **2.438** | **1.395** |

*Source: Field Survey, 2021*

Table 4.5 presented the research questions on bank overdraft as a determinant of SMEs growth among the selected SMEs within the Benin Metropolis in Edo State, Nigeria. The result showed that out of the five

(5) items on bank overdraft, three (3) scored above 2.50 cut-off point of the mean while two (2) items were below the cut-off point of the mean. More so, the grand mean (2.438) which was below the cut-off point of mean was an indication that the selected SMEs did not consider bank overdraft as a driver of SMEs growth and development. Furthermore, respondents were asked on a holistic view if the SMEs funding contributed to the growth of SMEs and the results were presented in Table 4.6.

### Table 4.7: Descriptive Statistics showing Growth of SMEs

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **Items** | **Mean** | **Std. Dev.** |
| 1 | Over the years, SMEs have experienced unprecedented | 2.510 | 1.460 |
| 2 | growth.  The growth of SMEs largely depends on venture capital. | 2.684 | 1.489 |
| 3 | SMEs growth essentially depends on trade credits. | 2.793 | 1.418 |
| 4 | The growth of SMEs is broadly enhanced via business angel. | 2.984 | 1.273 |
| 5 | The growth of SMEs is supported by bank overdrafts. | 1.745 | 1.590 |
|  | **Aggregate Mean/Standard Deviation** | **2.543** | **1.486** |

*Source: Field Survey, 2021*

Table 4.6 presented the research questions on SMEs growth among the selected SMEs within the Benin Metropolis in Edo State, Nigeria. The result showed that out of the four (4) measures of SMEs growth,

three (business angel, trade credits and venture capitals) scored above 2.50 cut-off point while one (bank overdraft) scored below the mean benchmark. It suggested that all the three (3) measures of SMEs growth drove SMEs growth except bank overdraft. Overall, the grand mean (2.543) which was above the cut-off point of the mean was an indication that the selected SMEs considered certain measures as drivers of SMEs.

**Table 4.8: Correlation Results for the Dependent and Independent Variables of the Study**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | smes | vencap | tracre | busang | bankver |  |
| smes | 1.0000 |  |  |  |  |  |
| vencap | 0.0485 | 1.0000 |  |  |  |  |
| tracre | -0.0027 | -0.1247 | 1.0000 |  |  |  |
| busang | 0.0269 | 0.1486 | 0.2327 | 1.0000 |  |  |

bankver -0.0248 0.1105 -0.0235 0.1206 1.0000

*Source: Field Survey, 2021*

Presented in Table 4.7, was the correlation matrix which was used to test for the presence or absence of multicolinearity among the variables of the study. It was an econometric problem which nullified the result of regression estimates and led to wrong statistical applications. In order to examine the presence or absence of interdependence among the variables under investigation, a pair-wise correlation test was performed. The result showed that there was association between each pair of the variables used. However, the correlation matrix showed that venture capital (vencap r=0.0485) and business angels (busang r=0.0269) were positively correlated with SMEs growth (smes) while trade credit (tracre r=0.- 0.0027) and bank overdraft (bankver r=0.-0.0248) were negatively correlated with SMEs growth.

The correlation results suggested that venture capital and business angel positively related with SMEs growth while the opposite was the case for trade credit and bank overdraft. More importantly, none of the correlation coefficients exceeded 0.8, an indication that there was absence of multi-colinearity among the

pairs of independent variables. More so, in order to verify the above result, a Variance Inflation Factor (VIF) test was conducted. The results were presented in Table 4.8

### Table 4.9: Variance Inflation Factor Result

|  |  |  |  |
| --- | --- | --- | --- |
|  | Variable | VIF 1/VIF |  |
| busang | 1.11 0.902322 |
| tracre | 1.09 0.918571 |
| vencap | 1.06 0.943941 |
| bankver | 1.03 0.975235 |
| Mean VIF | 1.07 |

*Source: Field Survey, 2021*

Table 4.8, the VIF of the variables (busang= 1.11; tracre = 1.09; vencap = 1.06; bankver = 1.03) did not exceed the standardized VIF level of 10. Besides, the mean VIF (1.07 < 10.0) suggested that there was no heteroscedasticity problem between the dependent (smes) and independent variables (busang, tracre, vencap and bankver) of the study.

### Test of Research Hypotheses

***Ho1: Venture capital has no significant effect on the growth and development of SMEs.***

### Table 4.10: Regression Results for Venture Capital and SMEs Growth

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Source | SS | df | MS | Number | of obs | = | 309 |
|  |  |  |  | F( 1, | 307) | = | 4.52 |
| Model | 1.51522163 | 1 | 1.51522163 | Prob > | F | = | 0.0344 |
| Residual | 102.974358 | 307 | .335421361 | R-squared | | = | 0.0145 |
|  |  |  |  | Adj R-squared | | = | 0.0113 |
| Total | 104.48958 | 308 | .339251882 | Root MSE | | = | .57916 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| vencap | .0121141 | .0056996 | 2.13 | 0.034 | .0008988 | .0233293 |
| \_cons | 3.823264 | .0424806 | 90.00 | 0.000 | 3.739674 | 3.906854 |

*Source: Field Survey, 2021*

Presented in Table 4.9, was the regression result for venture capital (vencap) and SMEs growth among selected SMEs within the Benin Metropolis in Edo State, Nigeria. The R-squared for *vencap* was 0.0145 It suggested that the independent variable explained about 14.5% of the systematic variations in SMEs growth. The f-ratio indicated that venture capital (*vencap* = 4.52 Prob < f = 0.0344) significantly affected SMEs growth. Moreover, the t-value (t= 2.13; p-value = 0.034) showed that venture capital positively affected SMEs growth. The result was further supported by the correlation result (see Table 4.7).

Furthermore, the coefficient for venture capital (.0121141) implied that a unit increase in venture capital would result to 1.2% increase in SMEs growth. Besides, the p-value of *vencap* (0.0000) was an indication that there was a significant relationship between venture capital and the growth of SMEs within the Benin Metropolis in Edo State, Nigeria. Hence, the null hypothesis was rejected and the alternate hypothesis was accepted that venture capital had a significant effect on the growth and development of SMEs.

***Ho2: Business angels have no significant effect on the growth and development of SMEs.***

### Table 4.11: Regression Results for Business Angels and SMEs Growth

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | 1.33889009 | 1 | 1.33889009 |
| Residual | 103.150689 | 307 | .335995731 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |
| --- | --- | --- | --- |
| Number | of obs | = | 309 |
| F( 1, | 307) | = | 3.98 |
| Prob > | F | = | 0.0468 |
| R-squared | | = | 0.0128 |
| Adj R-squared | | = | 0.0096 |
| Root MSE | | = | .57965 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| busang | .0070363 | .0035248 | 2.00 | 0.047 | .0001004 | .0139721 |
| \_cons | 3.839809 | .0387036 | 99.21 | 0.000 | 3.763651 | 3.915967 |

*Source: Field Survey, 2021*

Presented in Table 4.10, was the regression result for venture business angels (busang) and SMEs growth among selected SMEs within the Benin Metropolis in Edo State, Nigeria. The R-squared for *busang* was 0.0128, suggesting that the independent variable explained about 12.8% of the systematic variations in SMEs growth. The f-ratio indicated that business angels (*busang* = 3.98 Prob < f = 0.468) significantly affected SMEs growth. Moreover, the t-value (t= 2.00; p-value = 0.047) showed that business angels positively affected SMEs growth. The result was further supported by the correlation result (see Table 4.7).

Furthermore, the coefficient for business angels (.0070363) implies that a unit increase in business angels would lead to 0.7% increase in SMEs growth. Besides, the p-value of *busang* (0.0000) was an indication that there was a significant relationship between business angels and the growth of SMEs within the Benin Metropolis in Edo State, Nigeria. Hence, the null hypothesis was rejected and the alternate hypothesis was accepted that business angels had a significant effect on the growth and development of SMEs.

***Ho3: Bank Overdraft has no significant effect on the growth and development of SMEs***

### Table 4.12: Regression Results for Bank Overdraft and SMEs Growth

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | .064463226 | 1 | .064463226 |
| Residual | 104.425116 | 307 | .340146959 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |
| --- | --- | --- | --- |
| Number | of obs | = | 309 |
| F( 1, | 307) | = | 0.19 |
| Prob > | F | = | 0.6636 |
| R-squared | | = | 0.0006 |
| Adj R-squared | | = | -0.0026 |
| Root MSE | | = | .58322 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| bankver | -.025376 | .0582908 | -0.44 | 0.664 | -.1400761 | .0893241 |
| \_cons | 3.980597 | .2328603 | 17.09 | 0.000 | 3.522393 | 4.438801 |

*Source: Field Survey, 2021*

Presented in Table 4.11, was the regression result for bank overdraft (*bankver*) and SMEs growth among selected SMEs within the Benin Metropolis in Edo State, Nigeria. The R-squared for *bankver* was 0.0006, suggesting that the independent variable explained about 0.6% of the systematic variations in SMEs growth. The f-ratio indicated that bank overdraft (*bankver* = 0.19; Prob < f = 0.6636) insignificantly affected SMEs growth. Moreover, the t-value (t= -0.44; p-value = 0.664) showed that bank overdraft negatively affected SMEs growth. The result was further supported by the correlation result (see Table 4.7).

Furthermore, the coefficient for bank overdraft (-.025376) implied that a unit increase in bank overdraft would lead to a 0.25% decrease in SMEs growth. Besides, the p-value of *bankver* (0.664) was an indication that there was an insignificant relationship between bank overdraft and the growth of SMEs within the Benin Metropolis in Edo State, Nigeria. Hence, the null hypothesis was accepted and the alternate hypothesis was rejected that bank overdraft had no significant effect on the growth and development of SMEs.

***Ho4: Trade credit has no significant effect on the growth and development of SMEs.***

### Table 4.13: Regression Results for Trade Credit and SMEs Growth

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Source | SS | df | MS | Number | of obs | = | 309 |
|  |  |  |  | F( 1, | 307) | = | 0.08 |
| Model | .027632606 | 1 | .027632606 | Prob > | F | = | 0.7759 |
| Residual | 104.461947 | 307 | .340266928 | R-squared | | = | 0.0003 |
|  |  |  |  | Adj R-squared | | = | -0.0030 |
| Total | 104.48958 | 308 | .339251882 | Root MSE | | = | .58332 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| tracre | -.0074684 | .0262076 | -0.28 | 0.776 | -.0590376 | .0441008 |
| \_cons | 3.909006 | .1061957 | 36.81 | 0.000 | 3.700043 | 4.11797 |

*Source: Field Survey, 2021*

Presented in Table 4.12, was the regression result for trade credit (*tracre*) and SMEs growth among selected SMEs within the Benin Metropolis in Edo State, Nigeria. The R-squared for *tracre* was 0.0003, suggesting that the independent variable explained about 0.3% of the systematic variations in SMEs growth. The f-ratio indicated that trade credit (*tracre* = 0.08; Prob < f = 0.7759) insignificantly affected SMEs growth. Moreover, the t-value (t= -0.28; p-value = 0.776) showed that trade credit negatively affected SMEs growth. The result was further supported by the correlation result (see Table 4.7).

Besides, the coefficient for trade credit (-.0074684) implied that a unit increase in trade credit would lead to 0.07% decrease in SMEs growth. More so, the p-value of *tracre* (0.776) was an indication that there was an insignificant relationship between trade credit and the growth of SMEs within the Benin Metropolis in Edo State, Nigeria. Hence, the null hypothesis was accepted and the alternate hypothesis was rejected that trade credit had no significant effect on the growth and development of SMEs.

### Discussion of Findings

This study investigated the adequacy of funding and growth of small and medium enterprises (SMEs) in Nigeria, with particular reference to selected SMEs within the Benin Metropolis in Edo State, Nigeria. The adequacy of funding was measured using four (4) dimensions of business angels, venture capitals, bank overdraft and trade credits. The study employed primary data in the form of a questionnaire which was administered to some selected SMEs operators within the Benin Metropolis. Three hundred and nine

(309) questionnaires were fully completed and retrieved.

The responses from the respondents were analysed by means of both descriptive statistics such as mean, standard deviation, correlation and variance inflation factor (VIF) tests and inferential statistics like regression statistical technique with its Best Linear Unbiased Estimates (BLUES) property. The statistical

analysis was done by means of STATA 13.0 version. The analysis of the data revealed some insightful revelations. *First,* research questions on venture capital of SMEs showed that out of the five (5) items on venture capital, all 5-items scored above 2.50 cut-off point of the mean. It suggested that the five (5) items that scored above the cut-off point determined venture capital among the selected SMEs and were fundamental to the growth of SMEs. Overall, the grand mean (2.751) which was above the cut-off point of the mean was an indication that the selected SMEs considered venture capital as a driver of SMEs growth and development (see Table 4.2).

*Second,* research questions on trade capital revealed that all five (5) items on trade capital scored above

2.50 cut-off point of the mean. It implied that the 5-items that scored above the cut-off point determined trade capital of the selected SMEs and were vital metrics for assessing trade capital. Overall, the grand mean (2.655) which was above the cut-off point of the mean was an indication that the selected SMEs considered trade capital as a driver of SMEs growth and development (see Table 4.3). *Third,* research questions on business angel showed that all the five (5) items on business angel scored above 2.50 cut-off point of the mean. It means that all the 5-items were good indicators for assessing business angel among the selected SMEs. Overall, the grand mean (2.607) which was above the cut-off point of the mean was an indication that the selected SMEs considered business angel as a driver of SMEs growth and development (see Table 4.4).

*Fourth,* research questions on bank overdraft showed that out of the five (5) items on bank overdraft, three

(3) scored above 2.50 cut-off point of the mean while two (2) items were below the cut-off point of the mean. More so, the grand mean (2.438) which was below the cut-off point of the mean was an indication that the selected SMEs did not consider bank overdraft as a driver of SMEs growth and development (see Table 4.5). *Fifth,* research questions on SMEs growth revealed that out of the four (4) measures of SMEs growth, three (business angel, trade credits and venture capitals) scored above 2.50 cut-off point while

one (bank overdraft) scored below the mean benchmark. A suggested that all the three (3) measures of SMEs growth drove SMEs growth except bank overdraft. Overall, the grand mean (2.543) which is above the cut-off point of mean was an indication that the selected SMEs considered certain measures as drivers of SMEs (see Table 4.6).

Furthermore, the correlation matrix showed that venture capital and business angels positively correlated with SMEs growth (smes) while trade credit and bank overdraft negatively correlated with SMEs growth. It means that venture capital and business angel positively correlated with SMEs growth while trade credit and bank overdraft negatively correlated with SMEs growth (see Table 4.7). Besides, the mean VIF suggested that there was no heteroscedasticity problem between the dependent (SMEs growth) and independent variables (business angels, trade credit, venture capitals and bank overdraft) of the study (see Table 4.8).

On the basis of the research hypothesis testing, the results which complemented the outcomes of descriptive statistics were established. On the relationship between venture capital and SMEs growth, the f-ratio indicated that venture capital (*vencap* = 4.52 Prob < f = 0.0344) significantly affected SMEs growth. Moreover, the t-value (t= 2.13; p-value = 0.034) showed that venture capital positively affected SMEs growth (see Table 4.9). Therefore, the null hypothesis was rejected and the alternate hypothesis was accepted that venture capital had a significant effected on the growth and development of SMEs. The findings were in agreement with a study conducted by Gbandi and Amissah (2014) which found that venture capital positively contributed to the growth of SMEs in Nigeria.

In the relationship between business angels and SMEs growth, the f-ratio indicated that business angels (*busang* = 3.98 Prob < f = 0.468) significantly affected SMEs growth. Moreover, the t-value (t= 2.00; p- value = 0.047) showed that business angels positively affected SMEs growth. The result was further

supported by the correlation result (see Table 4.10). Thus, the null hypothesis was rejected and the

alternate hypothesis was accepted that business angels had a significant who effect on the growth and development of SMEs. The findings corroborated those of Gbandi and Amissah (2014) which revealed that business angels positively contributed to the growth of SMEs in Nigeria.

In terms of the relationship between bank overdraft and SMEs growth, the f-ratio indicated that bank overdraft (*bankver* = 0.19; Prob < f = 0.6636) insignificantly affected SMEs growth. Moreover, the t- value (t= -0.44; p-value = 0.664) showed that bank overdraft negatively affected SMEs growth. The result was further supported by the correlation result (see Table 4.11). Consequently, the null hypothesis was accepted and the alternate hypothesis was rejected that bank overdraft had no significant effect on the growth and development of SMEs. The findings are new in literature as no studies have established whether bank overdraft as a funding adequacy measure contributes to the growth of SMEs in Nigeria.

In the test of research hypothesis on trade credits and SMEs growth, the f-ratio indicated that trade credit (*tracre* = 0.08; Prob < f = 0.7759) insignificantly affected SMEs growth. Moreover, the t-value (t= -0.28; p-value = 0.776) showed that trade credit negatively affected SMEs growth. The result was further supported by the correlation result (see Table 4.12). Consequent upon that, the null hypothesis was accepted and the alternate hypothesis was rejected that trade credit had no significant effect on the growth and development of SMEs. The finding disagreed with the studies by Ikon and Chukwu (2018), Oaya and Mambula (2017) and Nwakoby, Kalu and Ezejiofor (2017) which showed that trade credit contributed positively and significantly to the growth of SMEs in Nigeria.

The overall findings of the study affirmed that adequacy of funding, particularly venture capital and business angels contributed positively and significantly to the growth of SMEs in Nigeria except trade credit and bank overdraft. Thus, the study, in part, corroborated the viewpoints of Gbandi and Amissah (2014) and disagreed in part, with the results by Ikon and Chukwu (2018), Oaya and Mambula (2017) and

Nwakoby, *et al* (2017).

## CHAPTER FIVE

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### Summary of Findings

This study focused on the adequacy of funding and growth of small and medium enterprises (SMEs) in Nigeria, with particular reference to selected SMEs within the Benin Metropolis in Edo State, Nigeria. The study was structured into five (5) chapters. Chapter one discussed the introductory part of the study which comprised amongst others, the background to the study, statement of problem, objectives of the study, research questions and hypotheses, significance and scope of the study, among others. Literature review in chapter two encompassed conceptual review, theoretical framework, empirical studies and conceptual model of the study. The design of the study, sampling techniques, reliability of research instrument and method of analysis were some of the areas discussed in chapter three while chapters four and five were centred on data presentation and analysis as well as summary of findings, conclusion and recommendations.

The study adopted the survey research design and a sample size of 309 respondents. The data that were generated from the study were presented and analysed, and the relevant hypotheses were tested. The findings and recommendation were drawn from the results of the hypotheses tested. On the basis of the test of research hypotheses, the following findings emerged:

1. Venture capital had a significant effect on the growth and development of SMEs among the selected SMEs within the Benin Metropolis in Edo State, Nigeria.
2. Business angels had a significant effect on the growth and development of SMEs among the selected SMEs within the Benin Metropolis in Edo State, Nigeria
3. Bank overdraft had no significant effect on the growth and development of SMEs among the

selected SMEs within the Benin Metropolis in Edo State, Nigeria

1. Trade credit had no significant effect on the growth and development of SMEs among the selected SMEs within the Benin Metropolis in Edo State, Nigeria

### Conclusion

Globally, small and medium scale enterprises (SMEs) play a fundamental role in generating employment and advancing economic development. The existence of SMEs has been seen as the solution to the problems of slow economic development among developing countries such as Nigeria. On the other hand, while SMEs in Nigeria had experienced slow growth, funding adequacy has been emphasized as the bane of their slow growth of SMEs. The United Nations Development Programme (UNDP, (1997) supports this fact and argued that in order for SMEs to experience rapid growth, there was the need to have adequate funding, hence, this study on the adequacy of funding and growth of SMEs, with particular reference to selected SMEs within the Benin Metropolis in Edo State, Nigeria.

On the basis of the analysis of data, it was concluded that while business angels and venture capital (measures of funding adequacy of SMEs) significantly and positively affected the growth of SMEs, bank overdraft and trade credits (measures of funding adequacy of SMEs) were found to negatively and insignificantly affect SMEs growth in Nigeria. Consequently, the findings, in part, corroborated the results by Gbandi & Amissah (2014) and disagreed, in part, with the findings of Ikon & Chukwu (2018), Oaya and Mambula (2017) and Nwakoby, *et al* (2017).

### Recommendations

Given the findings of the study, the following recommendations were made:

1. The management of SMEs should use more venture capitals for its source of funding since they have been found to be major determinants of SMEs growth. In fact, venture capitals should form a major proportion of the capital base of SMEs.
2. SMEs operators should inculcate the habit of encouraging business angels as a source of funding in order to promote their growth. This can be realized by persuading individuals whose net-worth is high to invest in SMEs stocks.
3. Given the fact that bank overdrafts negatively and insignificantly contribute to SMEs growth in Nigeria, there is the need for SMEs operators to discourage the use of bank overdrafts as much as they can.
4. As a matter of urgency, SMEs operators should consider discouraging the use of trade credit given that they have some elements of interest rates. Rather, SMEs operators should seek interest-free trade credits in order to promote their growth.
5. Again, government should continue to make appropriate policies that will enhance and create an enabling environment for SMEs to thrive in Edo State in particular and Nigeria in general.

### Contribution to Knowledge

This study contributed to knowledge in the following dimensions:

1. The study brought to light the relationship between adequacy of funding and SMEs growth which were hitherto not known to SMEs operators.
2. The study showed that funding adequacy dimensions of venture capitals and business angels significantly and positively affect SMEs growth in Nigeria while trade credits and bank overdraft do not. More so, funding adequacy measure of bank overdraft has not been incorporated in prior studies on the growth of SMEs, particularly in the Nigerian context.
3. The study contributed to knowledge by affirming that when SMEs employ venture capitals and business angels, their growth will be enhanced
4. The study contributed to knowledge by conducting a survey that cut across several SMEs in Edo State, Nigeria. Most empirical evidence in this area was done in other countries and regions of the Nigerian federation.

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## APPENDIX I QUESTIONNAIRE

Department of Accounting, Faculty of Management Sciences, Igbinedion University Okada, Edo State.

Dear Respondent,

I am a postgraduate student of the above named Department/Institution. I am currently conducting a research on the **“Adequacy of Funding and Growth of Small and Medium Enterprises (SMEs) in Nigeria”.**

In this regard, your responses to this questionnaire will go a long way in ensuring the success of this research. I promise that your responses will be treated with utmost confidence and only be used for the purpose of research. Receive my highest regard as I anticipate your cooperation. Thank you.

Yours faithfully,

***Ovedje Ogheneovo Helen***

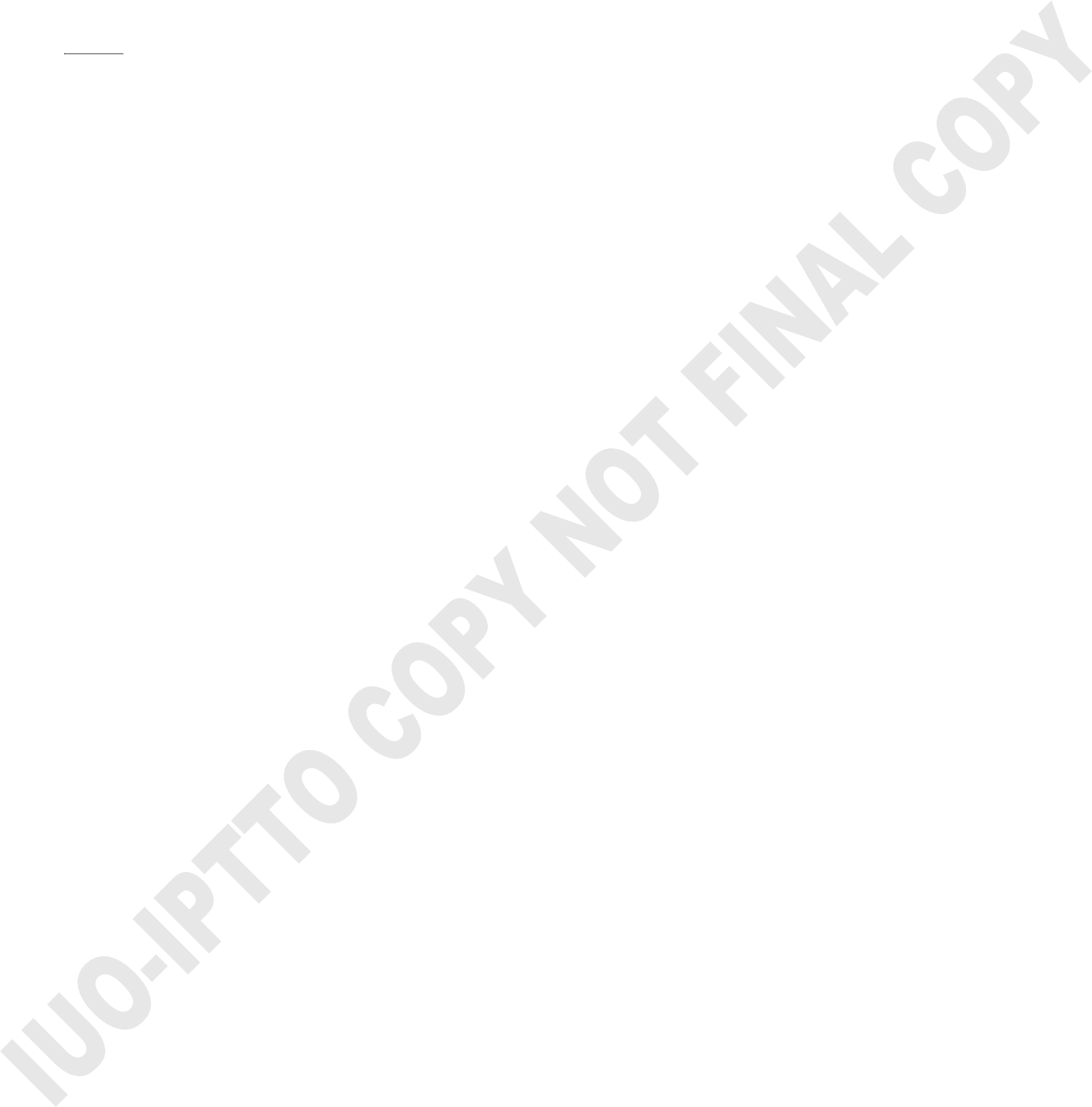
**Researcher**

## QUESTIONNAIRE:

### Adequacy of Funding and Growth of Small and Medium Enterprises (SMEs) in Nigeria

**SECTION A: Bio-data of Respondents**

1. **Gender:** Sex: Male [ ] Female [ ]
2. **Marital Status:** Single [ ] Married [ ] Others [ ]
3. **Age:** 18-37yrs [ ] 38-57yrs [ ] 58-77yrs [ ] 78yrs-above [ ]
4. **Level of Education:** No Formal Education [ ] Primary Education [ ] Secondary Education [ ] Tertiary Education[ ]
5. **Location of SME:** Urban Area [ ] Rural Area [ ]
6. **How long has your enterprise been?** 0-5yrs[ ] 6-10yrs[ ]11-15yrs[ ] 16-20yrs[ ] 21yr and above[ ]
7. **Sector:** Agriculture [ ] Mining and Quarrying[ ] Manufacturing[ ] Water Supply, Sewage[ ] Construction[ ] Wholesale and Retail[ ] Transportation and Food[ ] Accommodation and Food Service[ ] Information & Communication[ ] Real Estate Activities [ ] Administration and Support Services [ ] Education [ ] Human and Social Work [ ] Art, Entertainment and Creation [ ] Others [ ]
8. **Number of Employees**: Less than 10[ ] 10-49[ ] 50-199[ ] 200 -300[ ]
9. **Source of Capital:** Personal Savings [ ] Loans/Bank overdraft [ ] Family Source [ ] Cooperative/Esusu[ ] Grants [ ]



### SECTION B: Thematic Questions

***Instruction:*** *In section B kindly tick [√] the option that best describes your opinion.*

Key: Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **VENTURE CAPITAL** | **1** | **2** | **3** | **4** | **5** |
| 1 | Venture capital is a vital avenue for funding SMEs |  |  |  |  |  |
| 2 | Seed and start-up capitals are profoundly used by SMEs |  |  |  |  |  |
| 3 | Venture capital is used for expansion and buyout by SMEs |  |  |  |  |  |
| 4 | Venture capital assists SMEs in solving numerous funding problems |  |  |  |  |  |
| 5 | Venture capital has no significant effect on the growth and development of SMEs |  |  |  |  |  |
|  | **TRADE CREDIT** |  |  |  |  |  |
| 6 | Trade credit is a universal practice by SMEs other than conventional bank lending |  |  |  |  |  |
| 7 | Trade credit is one of the most external significant sources of funding SMEs |  |  |  |  |  |
| 8 | Trade credit is a vital source of funding for start-up SMEs |  |  |  |  |  |
| 9 | Trade credit aids SMEs in solving funding problems |  |  |  |  |  |
| 10 | Trade credit has no significant effect on the growth and development of SMEs. |  |  |  |  |  |
|  | **BUSINESS ANGEL** |  |  |  |  |  |
| 11 | Business angels play a dynamic role in SMEs funding |  |  |  |  |  |
| 12 | Business angels offer almost similar amounts of funding offered by financial institutions to finance SMEs operations |  |  |  |  |  |
| 15 | Business angels assist SMEs to increase the flow of finance by contributing directly to their growth and development. |  |  |  |  |  |
| 13 | SMEs find it cumbersome to find suitable business angels |  |  |  |  |  |
| 14 | Business angel aids SMEs in solving funding problems |  |  |  |  |  |
| 15 | Business angels have no significant effect on the growth and development of SMEs. |  |  |  |  |  |
|  | **BANK OVERDRAFT** |  |  |  |  |  |
| 16 | Bank overdraft is an alternate method of funding SMEs |  |  |  |  |  |
| 17 | SMEs do not rely heavily on bank overdrafts due to that huge costs. |  |  |  |  |  |
| 18 | SMEs consider bank overdraft common place in funding |  |  |  |  |  |
| 19 | Bank overdraft aids SMEs in solving funding problems |  |  |  |  |  |
| 20 | Bank Overdraft has no significant effect on the growth and development of SMEs. |  |  |  |  |  |
|  | **GROWTH OF SMEs** |  |  |  |  |  |
| 21 | Over the years, SMEs have experienced an unprecedented growth |  |  |  |  |  |
| 22 | The growth of SMEs largely depends on venture capital |  |  |  |  |  |
| 23 | SMEs growth essentially depends on trade credits |  |  |  |  |  |
| 24 | The growth of SMEs is broadly enhanced via business angel |  |  |  |  |  |
| 25 | The growth of SMEs is supported by bank overdraft |  |  |  |  |  |

Thank you for filling the questionnaire.

## APPENDIX II

### Demographic Variables Results

(R)

/ / / / /

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | smes | vencap | tracre | busang | bankver |
| smes | 1.0000 |  |  |  |  |
| vencap | 0.0485 | 1.0000 |  |  |  |
| tracre | -0.0027 | -0.1247 | 1.0000 |  |  |
| busang | 0.0269 | 0.1486 | 0.2327 | 1.0000 |  |

bankver -0.0248 0.1105 -0.0235 0.1206 1.0000

|  |  |
| --- | --- |
| Variable | VIF 1/VIF |
| busang | 1.11 0.902322 |
| tracre | 1.09 0.918571 |
| vencap | 1.06 0.943941 |
| bankver | 1.03 0.975235 |
| Mean VIF | 1.07 |

. regress smes vencap

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | 1.51522163 | 1 | 1.51522163 |
| Residual | 102.974358 | 307 | .335421361 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |
| --- | --- | --- | --- |
| Number | of obs | = | 309 |
| F( 1, | 307) | = | 4.52 |
| Prob > | F | = | 0.0344 |
| R-squared | | = | 0.0145 |
| Adj R-squared | | = | 0.0113 |
| Root MSE | | = | .57916 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| vencap | .0121141 | .0056996 | 2.13 | 0.034 | .0008988 | .0233293 |
| \_cons | 3.823264 | .0424806 | 90.00 | 0.000 | 3.739674 | 3.906854 |

. regress smes busang

Number of obs =

F( 1, 307) =

Prob > F =

R-squared =

309

0.19

0.6636

0.0006

Adj R-squared = -0.0026

Root MSE = .58322

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | 1.33889009 | 1 | 1.33889009 |
| Residual | 103.150689 | 307 | .335995731 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |
| --- | --- | --- | --- |
| Number | of obs | = | 309 |
| F( 1, | 307) | = | 3.98 |
| Prob > | F | = | 0.0468 |
| R-squared | | = | 0.0128 |
| Adj R-squared | | = | 0.0096 |
| Root MSE | | = | .57965 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| busang | .0070363 | .0035248 | 2.00 | 0.047 | .0001004 | .0139721 |
| \_cons | 3.839809 | .0387036 | 99.21 | 0.000 | 3.763651 | 3.915967 |

. regress smes bankver

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | .064463226 | 1 | .064463226 |
| Residual | 104.425116 | 307 | .340146959 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| bankver | -.025376 | .0582908 | -0.44 | 0.664 | -.1400761 | .0893241 |
| \_cons | 3.980597 | .2328603 | 17.09 | 0.000 | 3.522393 | 4.438801 |

. regress smes tracre

|  |  |  |  |
| --- | --- | --- | --- |
| Source | SS | df | MS |
| Model | .027632606 | 1 | .027632606 |
| Residual | 104.461947 | 307 | .340266928 |
| Total | 104.48958 | 308 | .339251882 |

|  |  |  |  |
| --- | --- | --- | --- |
| Number | of obs | = | 309 |
| F( 1, | 307) | = | 0.08 |
| Prob > | F | = | 0.7759 |
| R-squared | | = | 0.0003 |
| Adj R-squared | | = | -0.0030 |
| Root MSE | | = | .58332 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| smes | Coef. | Std. Err. | t | P>|t| | [95% Conf. | Interval] |
| tracre | -.0074684 | .0262076 | -0.28 | 0.776 | -.0590376 | .0441008 |
| \_cons | 3.909006 | .1061957 | 36.81 | 0.000 | 3.700043 | 4.11797 |