PROJECT FINANCE AND THE GROWTH OF SMALL AND MEDIUM SCALE INDUSTRIES IN NIGERIA

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CERTIFICATION

I certify that this work "Project Finance and the Growth of Small and Medium Scale Industries in Nigeria" was carried out by CHINAGORO, IJEOMA LAWRETTA (Reg. No. 20114773068) in partial fulfillment for the award of the degree of Postgraduate Diploma (PGD) in Financial Management Technology in the Department of Management Technology of the Federal University of Technology, Owerri.

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To Almighty God and my lovely family.

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ABSTRACT

The work investigated the impact of project finance on the growth of SMEs in Nigeria. Primary data was collected using questionnaires. Employing simple percentages, the data set was analyzed while hypotheses were tested with the aid of chi-square distribution (x^2) , to reveal among others , that access to credit and level of interest rate significantly impact on SMEs while the ability to provide security for loan and duration of term-loans do not have any significant impact. Thus, the conclusion was that the informal credit sectors dominate in the financing of SMEs in Nigeria. The study on the basis of these findings therefore, recommends that the government should come up with credit guarantee scheme; which should indemnify banks and other financial institutions against project failures. Again, a reduction in interest rate as well as an enlightenment campaign for the operators of SMEs was recommended while encouraging the government to also provides efficient infrastructural facilities and policies.

Keywords: ***Project Finance, SMES Development***

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF STUDY

Small-Scale enterprises in most developing economies of the world including Nigeria are one of the main life wires of the economy. The march towards industrial growth and development may not be realized if the SMEs are ignored.

SMEs that are adequately managed and properly funded help the government to achieve some macro-economic objective which includes employment creation opportunities, mobilization of local resources, mitigation rural-urban migration and poverty reduction strategies.

SMEs are also to help in encouraging capacity utilization in the agriculture and industries. SMEs help in income distribution, and encourage development of local technology.

The Nigerian government has in its wisdom, made several attempts at encouraging the growth of SMEs in the country through various institutions and policies aimed at invigorating them. For example, the government had earlier establish industrial development centres (IDCS), the National Economic Reconstruction Fund (NERFUND), entrepreneurial Development Programmes (EDPS), Small Scale Industrial Credit Schemes (SSICS), Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and Nigerian Export-Import Bank (NEXIM). It had also set up and funded industrial areas and estates (to reduce overhead costs) among other measures.

However, the enabling environments have be provided with government going beyond the level of policy making to providing financing windows through the establishment of organizations and institutions to specifically or partly cater for the financing needs of these enterprises. This is because despite the vital contribution of SMEs to economic development, the potentials of SMEs have not been fully exploited in Nigeria. While SMEs employed 70 percent of industrial labour force, it only accounted for 10-15 percent of the total industrial output with a capacity utilization of slightly over 30 percent, which is a reflection of low productivity of SMEs. The major reason adduced for this dismal performance is poor access to credit (Cookey, 2001; Iheyembe, 2000).

There is however, no agreement as to the definition of small and medium enterprises (SMEs). Definitions vary from country to country, from industry to industry with inflationary trend and exchange rate. For instance, the World Bank defines SMEs in Nigeria as there with fixed assets (excluding land) plus cost of the investment project not exceeding N10million in constant 1988 prices (Ogunleye, 2000).

The Small and Medium Industries Equity Investment Scheme (SMIEIS) on its part defines SMEs as any enterprise with a maximum assets base of N200 million excluding land and working capital and with the number of staff employed not less than 10 or more than 300 (CBN, 2010).

However, the main criteria used throughout the world to describe small scale business include, number of employees sales values, financial strength, relative size, initial capital outlay, comparism with its past standards, independent ownership and type of industry (Oshagbemi, 1983).

1.2 STATEMENT OF PROBLEM

Do project finance have any relationship with small and medium Scale Industries (SMIs) and the impact of the different types of finances on SMIs.

What are the difficulties towards sourcing of finance for SMIs. The central problem of this study revolves round these stated problems above.

1.3 OBJECTIVES OF THE STUDY

With respect to the stated problem above, this project has its general objectives.

To determine the impact of project finance on the growth of small and medium industries in Nigeria.

However, this study is specially intended to ascertain the relationship between some discrete variables. Among these specific objectives are:

To determine the extent to which access to credit impacts on the performance of SMEs.

To ascertain how security requirement for credits affects the volume of funds raised by SMEs.

To determine the effect of loan duration on the profitability of SMEs.

To determine how interest rate affects accessibility to credit.

1.4 RESEARCH QUESTIONS

i) Does access to credit by SMEs affect their performance?

ii) Does the ability to provide security for credit affect the volume of funds raised by SMEs.

iii) Does the duration of term-loans given to SMEs affect their profitability?

iv) Does the level of interest rate affect the accessibility of credit by SMEs?

1.5 STATEMENT OF HYPOTHESIS

H_{01}: Access to credit has no significant impact on the performance of SMEs.

H_{02}: The ability of SMEs to provide securities for credit has no significant impact on the volume of funds raised by SMEs.

H_{03}: The duration of term-loan has no significant effect on the profitability of SMEs.

H_{04}: The level of interest rate does not have a significant effect on the accessibility of credit by SMEs.

1.6 SIGNIFICANCE OF THE STUDY

This study is therefore an attempt to provide information by making vital, qualitative and quantitative information readily available to bankers, investor researcher and other potential users.

The finding would also serve as guideline for management policy decision makers by studying carefully those constrains against banking operations particularly its credit portfolio management by studying carefully those constrains like government policy, CBN guideline.

1.7 SCOPE OF THE STUDY

In the guest of developing this report, the writer will restrict himself to available material gotten from bank library visited, most of the material consulted include.

Annual reports and statement of accounts

Monthly business report

Newspaper and financial time's reports

Compaired seminal presentations reports

Publication of the Central Bank of Nigeria report

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THE CONCEPT OF SMES

The concept of SMEs is amorphous and defies a universal definition even among academics, institutions, and practitioners. It has been relative, and dynamic, varying from country to country, even over time, among industries and depends to a large degree on the level of development of a country (Onwumere, 2002).

Some of the criteria often adopted, through on an arbitrary mix in many definitions include number of employees, relative size, initial capital outlay, sales value, financial strength, ownership structure, legal status, factor intensity and technology (Rogers, 2002 and Onwumere, 2000). It is important to add that the exchange rate and level of inflation all contribute in exacerbating, in particular, the capital outlay (Onwumere, 2007).

In Nigeria, the definition of SMEs has varied overtime as the country advances in its pursuit of economic development. For instance, the country's 1989 industrial policy had defined small scale enterprises as those having total investment of between N100, 000 (one hundred thousand naira) and N2million, excluding land but including working capital while medium scale enterprise comprise those with total investment of between N2million and N5million excluding land but including working capital (Onwumere, 2000). The World Bank (1990) defines SME as any enterprise that has total fixed asset (excluding land) plus cost of investment not exceeding N10million in constant 1988 prices.

The small and medium scale Industries Equity Investment Scheme, (an initiative of Nigeria Bankers Committee) (2001), defines SME as any industry with a maximum asset base of N200 million, excluding land and working capital, and with the number of staff employed by the enterprises, not less than 10 and not more than 300 (Oboh, 2002). However, by 2006 a small and medium enterprise was defined by the Monetary Authorities/Committee of Bankers as “any enterprise with a maximum asset base of N1.5billion (excluding land and working capital), with no lower or upper limit of staff” (Central Bank of Nigeria, 2006). In the CBN credit guarantee scheme (2010), SMEs are defined as organizations with a staff strength of between 11 to 300 persons and asset base of between N5million to N500million (excluding land).

The small and medium scale enterprises in Nigeria includes block making, bakery, soap and pomade making, weaving, poultry, food processing etc. It is however doubtful whether lumping small and medium enterprises together into one "Jacket" definition will serve much useful purpose in the development of these organizations.

It would rather appear more plausible and relevant, for financing and developmental purposes, to differentiate between the two.

2.2 CHARACTERISTIC OF SMEs

There are common characteristic of SMEs (Anyanwu, 2001). They are typically small holdings largely limited by financial resources.

SMEs are also characterized by simple management structure which generally combines ownership and management in one person hence they revolve around the simple owner/manager rather than separating the ownership from management.

Consequently, in the operation of SMEs there is flexibility in decision making and prevalence of largely informal employer-employee relationship.

Given their intensive use of local raw materials, they are widely dispersed in many given economy (Osuka, 2007).

2.3 ROLES AND BENEFITS OF SMEs.

Many economies, developed and developing, have come to realize the value of small businesses. They are seen to be characterized by dynamism, witty innovations, efficiency and their small size allows for faster decision-making process. Governments all over the world have realized the importance of this category of companies and have formulated comprehensive public policies to encourage, support and fund the establishment of small and medium scale enterprises. Developments in small and medium enterprises are a sine qua non for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology.

According to the country's Financial System Strategy 2020; "Small and Medium Enterprises (SMEs) have been acknowledged worldwide as the catalysts for rapid and sustainable economic growth and the main driving force behind job creation, income distribution and reduction of income disparities, export earning poverty reduction, and wealth creation (Federal republic of Nigeria, 2007)".

SMEs also act as catalyst for technological development by serving as an essential source of innovation/promotion of technological culture, constitute a human capital development window for the creation of local entrepreneurs in various spheres of economic activity, and aid structural transformation in the rural areas, among others (Onwumere, 2007).

Discussing the importance of SMEs, Odubanjo (2000) and Nnanna (2001) reiterate that SMEs help in the achievement of improvement in rural infrastructure, living standard of the rural dwellers, employment generation, utilization of local resources, output expansion, transformation of indigenous technology, production of intermediate goods, increase the revenue base of the government etc.

Oboh (2002) also opined that SMEs provide the breeding ground for the emancipation of indigenous entrepreneurs in the generation and development of technical, managerial and marketing skills. SMEs are also important source for the supply of raw materials and intermediate inputs for the building of local larger-scale industries that have the potential to develop into multinational corporations.

These benefits of SMEs are easily noticeable to any country. Summarily, they include: contribution to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost especially in the fast growing services sector; provide a vehicle for reducing income disparities; develop a pool of skilled and semi-skilled workers, as a basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sector of the economy; provide opportunities for developing and adapting appropriate technological approaches; offer an excellent breeding ground for entrepreneurial and management talent, the critical shortage of which is often a great handicap to economic development and others (Nigeria Business info.com, 2002).

Nigeria needs a virile SMEs sub-sector in order to hasten its pace of development and fight the scourge of poverty. SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria. This is manifested in the following ways.

1. **Employment Creation:** SMEs contribute 30 percent to global Gross Domestic Product and an employment generation capacity of about 55% of global working population (Osuka, 2007). According to United Nations Industrial Development Organization, (UNIDO), empirical studies show that SMEs contribute over 55% of GDP and over 65% of total employment in high income countries, over 60% of GDP and over 70% of total employment in low income countries, while they contribute about 70% of GDP and 95% of total employment in middle income countries. In Nigeria, SMEs provide 70 percent of the industrial employment and 60 percent of agricultural sector employment in 2000 (Odubanjo, banjo, 2001 and Usman, 2001).

   SMEs also plays the critical role of prinicipal safety not for the bulk of the population in developing economics and their labour intensity structure accounts for their recognition as a job creation avenue.

2. **Rural Development:** SMEs constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services. The employment opportunities

offered apparently reduces rural-urban migration and allows for even development.

3. **Economic Growth and Industrialization:** National economic development prospects hinge on entrepreneurial energy of vibrant SMEs as most big business concerns grew from small scale to become big icons and as they grow, they protect nations from the geographical cost benefit permutations of a few multinationals who are ever prepared to close up their businesses and relocate at the slightest provocation or appearance of economic downturn.

4. **Better Utilization of Indigenous Resources:** The considerable low capital outlay required for setting up SMEs enables them to convert minimal resources into productive ventures.

   SMEs also offer veritable outlets for technological advancement especially in businesses with rudimentary technology requirements (Nigeria Business Ifo.com, 2002)

2.4 TECHNOLOGY AND THE SMALL AND MEDIUM SCALE ENTERPRISE DEVELOPMENT

There are a number of factors of the micro level, which motivate small enterprises to choose appropriate products/technologies or upgrade existing technologies. Based on considerations of profit maximization, the small firms are often driven to choose technologies that allow cost reduction or quality improvement or both so that they can compete successfully with medium and large firms and imports. Another major consideration in technology choice by small firms is product diversification. Through the development of new products, the small enterprises often attempt to create new markets partly to stabilize their revenue but mainly to remain economically viable and survive in the face of growth and competition. Rapid rises in income of households, in expenditure by firms and government and in exports are no doubt some of the important reasons provoking technological adjustments. But more important are the changes in relative prices, much of it caused by technological changes in different branches of economic activity (Sethuraman, 1987).

Yet another reason for being concerned with the technology question may be the subcontracting relationship between large enterprises and small enterprises. Production and commercial subcontracting are made possible through technological adjustments in small enterprises to the extent that access to credit is limited, small enterprises may not be in a position to undertake the necessary additional investment in business required for the adoption of better technologies. Likewise, the skill capacity within the enterprise and the scope for specialization among workers can seriously limit their ability to improve technologies already in use. Another constraining factor could be the managerial ability of the small enterprises (Osuka, 2007).

Osinowo (1990) has noted that in developing appropriate technologies for this class of enterprises, consideration must be given to the level of technology assimilation capacity, available capital and existing market for the product. Due to the strategies for technology development, therefore, is the upgrading of indigenous technologies particularly in the area of food processing, raw material processing into intermediate products, production of agricultural implements, small metal working tools, arts and crafts based on locally available resources.

Reaching world class technological performance is a long and arduous task. Studies in Brazil and Asia have monitored enterprises learning processes which have taken over twenty years. Mastering a technology may require even more time, and development of the technological capacities of entire industries is likely to be more demanding still. For example, the electronics industry in Silicon Valley has certainly been evolving since the 1950s. While Silicon Valley has become a symbol of technological competitiveness, its electronic industry almost certainly has not reached full mastery of the technology in terms of fully exploiting the innovation potential, maximizing productivity, or reaching the attainable quality standards. Japan had embarked on a technology learning curve which goes back more than a century, and is still in relatively rapid flux (Sethuraman, 1987).

Osinowo (1990) continues to note that the experiences of the more successful emerging developing countries suggest that government interventions, despite their dismal record in many countries, do have a vital role to play if carefully designed and well implemented. Incentives geared to promote competitiveness in world markets, but providing some protection for ‘infant industries’ and the process of building up indigenous capabilities seem to be the most effective combination. Capabilities should be developed through education, training, technological effort and diffusion in which governments have a role to play due to the fact that many skill and information markets suffer from “Failure”. Success experiences suggest that it is important that institutions develop to enable markets to function effectively and to promote capability development since market by themselves may not generate the right institutions, governments again have to intervene in establishing them.

While it seems clear that all developing countries must develop appropriate policies to encourage small and medium enterprises to achieve adequate performance vis a vis these rapidly changing technologies, it seems that some developing countries will successfully compete in high technology industries, it would also seem that the job of achieving technological mastery is much broader than mastering any single technology (Osuka, 2007).

2.5 FINANCING OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

Financial resources play an important role in the development process of any nation. The institutions that make available these resources from surplus economic units, that is those who have more resources than they need to spend at a given time period to deficit economic units, those who have less resources than they desire, are the banks.

In extending facilities to applicants including small and medium scale enterprises (SMEs), banks are usually conscious of their liquidity position at any point in time (Osuka, 2007).

Since SMEs have difficulty in raising funds from the capital market even from the second tier securities market established to help them, banks therefore stand out as their most likely avenue for raising the much needed capital for their operations. But banks in practice principally invest in short-term, self-liquidating loans, hence gap in the volume of bank funds available to SMEs- The Gap Thesis of Macmillan Committee (Madumezie, 2000). Banks are always skeptical in lending to the operators, because they do not see them as viable. Operators find it difficult to borrow especially from commercial banks, because of tight conditions such as; high interest rates, security requirements and short-term repayment conditions even where such businesses require long term funding (Nwakoby, 2007).

Discussing the importance of credit to small and medium scale enterprises, Usman (2001) opined that inspite of prominence of oil in the provision of the country’s export earnings, credit to SMEs is capable of encouraging and expanding SMEs which would enable SMEs to achieve an improvement in local technology. Transfer of employment opportunities as well as earn more foreign exchange than oil exports earns for the country. Essien (2001) also argued that adequate credit delivery to SMEs is what is required to enable the country’s industrial sector meet the contemporary challenges of globalization, economic restructuring and poverty eradication.

2.5.2 OTHER SOURCES OF FINANCE FOR SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN NIGERIA

There are other sources of funds other than the commercial banks. Development financial institutions were established to bridge the lending gap created by the commercial and merchant banks, which had created predominantly short-term funds. SMEs do not always require short-term funds for their projects.

Apart from these, SMEs can also avail themselves of required capital by seeking enlistment in the Second tier Securities Market (SSM). According to Anyanwu (1993), the SSM established in April 1985 was set up to assist small and medium sized companies that are unable to meet the requirements of the first-tier market in raising long term capital.

Some of the earlier schemes established to help find SMEs in Nigeria include; the Small Scale Industries Credit Guarantee Scheme which was established in 1971 as a matching grant agreement between the Federal and State Government, Nigerian Bank for Commerce and Industry which was established in 1971 to provide funds for the sector, credit guidelines in the annual monetary policy circular issued by the CBN between January 1979 and October 1996, which require banks to allocate stipulated minimum credit to the preferred sectors of the economy including small scale enterprises and National Economic Reconstruction Fund (NERFUND) which was established in 1980.

Other schemes include, the World Bank SMEII loan scheme 1990, fiscal incentives in the form of tax relief to all small and medium enterprises during the first six years of operation, pioneer status involving non-renewable tax relief for five years, and periodic downward adjustment of tariffs to reduce production costs.

The inadequate provision of funds to SMEs and the importance of the sub-sector to economic development necessitated the evolvement of complementary funding arrangements to enable it play its vital role. It was because of this that the Bankers' Committee initiated the small and medium industries equity investment scheme (SMIEIS) in 1999. The scheme requires all banks in Nigeria to set aside 10 percent of their profit before tax (PBT) annually for equity investment in small and medium enterprises as the banking industry's contribution to Government's efforts towards stimulating economic growth, developing local technology and generating employment. The participating banks for equity investment under this scheme have currently set aside over 5 billion for alternative approach to financing SMEs. The goal is to reduce borrowing and consequently relieve them from interest and other bank changes that are not favourable to their capital structure. It also espouses the provision of financial, advising, technical and managerial support to SMEs by banks.

The scheme has not attracted the expected patronage by SME promoters as evidenced in the relatively low draw down and large pool of investible funds for a number of reasons. These include low awareness by many SMEs, unwillingness of many SMEs proprietors to dilute ownership and partner with others as well as the general investment environment, which seems harsh to productive activities.

Generally, however, SMEs are financed by informal financial sources. The informal sources include; owners savings/retained earnings, friends and relations, clubs, “esusu” or “isusu” (micro-credit groups) and local moneylenders. These groups provide enormous funds in the financing of SMEs. They can be reached with ease, and their activities are out seriously bureaucratized and their funds are readily available at low operating cost. According to Onyenwaku and Fabyi (1991), the peculiar characteristic of informal finance markets is that they are far more loosely monitored and regulated than formal finance markets.

Loan disbursement from the informal sources of financing SMEs is usually timely. They also have their shortcomings. The amount of capital that can be mobilized from these sources is usually very small and inadequate when compared to the need of SMEs.

Often, conditions attached to their funds are very exploitative, most especially those from moneylenders whose interest rates are computed on compound bases. As a result of the exploitative tendencies of this financing source, the government established the micro-finance institutions in the country. This was established to assist small-scale entrepreneurs to increase their income and standard of living. It is believed that these programs are veritable tools for redistributing resources, which would lead to maximization of wealth of the small-scale entrepreneurs and general economic development.

2.5.3 HINDRANCES TO NON-UTILIZATION OF FINANCING OPPORTUNITIS BY SMES

Many factors have contributed to the non-utilization of existing financing windows/opportunities by SMEs. These include high interest rates, lack of security requirements, many restrictive covenants and short term repayment conditions. In relation to the capital market opportunities, a major hindrance has been in the area of fear of loss of ownership and control and associated high costs.

There are however other complications impacting negatively on the capacity and capability of these enterprises to reach out and assess financing opportunities and even where they do, impinges on their growth and development. These as identified by Onwumere (2000)1 include:

i. Inadequate and decaying infrastructural facilities thereby increasing the cost of doing business and creating an unfriendly business environment.

ii. Low entrepreneurial skills as a result of low human capital development due to their lack of good exposure or at times complete absence of exposure to management theories/training/practices.

iii. Multiplicity of policies/regulatory measures resulting in a regime of multiple taxation, several additional charges to interest on loans and advances, and various importation and clearing charged delays which create challenges inimical to growth. Often, products are not standardized, giving rise to low quality outputs.

iv. Inadequate use of modern technology as technology in use is often outdated, unable to meet the production challenges of the present times, and in some cases, physical human power are used in place of available, more efficient and effective technology. These frustrate SMEs from taking the initiative to take advantage of existing financing opportunities.

2.6 PROBLEMS OF SMALL AND MEDIUM SCALE ENTERPRISES

Adebusuyi (1997), has noted that in Nigeria, since ownership of informal industrial units is largely restricted to the operator and members within the immediate family circles, there is usually inadequacy of working capital. Moreover, the limited scale of production and turnover, restrictive ownership base and non-registration of the business often directly forecloses accessibility to credit.

The owner manager, who is either a technical expert or an able administrator, runs his business with average efficiency. This leaves much scope for better and fuller utilization of resources at his disposal. Most of the operators are frequently independently minded and less than forthcoming about their resources and business opportunities. Involvement with financial institutions, government bodies, etc tends to be seen as a threat to personal independence and they do not want people telling them how they should be running their businesses.

Again business finance and stocks are mixed up with personal requirements. Cash and stocks are just taken for personal use whenever the need arises without proper accounting. Such a mix up makes it difficult to assess the operation of the business.

Some feel that keeping proper records of accounts means inviting trouble from tax authorities.

There is absence of basic quality control standard among most informal industrial sector operators. This means quality of goods are assessed on the personal judgment of the operator and depends on variables like psychological disposition, mood etc.

More often, operations in the informal industrial sector are based on trial and error as the operator lacks the necessary technical knowledge of the business. This often results in considerable wastage of resources.

Also, the limited and poor infrastructural facilities as well as the poor operating environment faced by these enterprises constrain their efficiency and productivity especially as many of them operate in similar structures.

The restricted ownership base, small size, inadequate working capital and inadequate technical know how often severally or jointly contribute to high rate of business failure. The promoters/owners are people of average means with no specialized skills or expertise. Due to constraints of finance and smallness of business, they cannot afford to hire the services of specialists on full time basis and in most cases on part time too. Finally members assist the owner manager and the business is run as a family firm.

Productivity is low and they find it difficult to survive with stiff competition. Similarly, government policies and programmes such as urban renewal and environmental measures easily contribute to the demise of these enterprises.

Moreover, the lack of succession plan also implies that the business dies as soon as the owner dies, since it is mostly a one man affair. It can be said that although informal businesses collectively represent a rapid and flexible response to economic change and market developments, individually they tend to be vulnerable to market fluctuations.

ECONOMIC SIGNIFICANCE OF SSIs AND COUNTRIES EXPERIENCES

SSIs are noted for their job creating prowess. They play an important role and foster industry linkages with positive economic and social implications and diffusion of techniques by producing inputs and services for large scale units in the domestic and export market.

SSIs help build entrepreneurial and managerial skills as a basis for efficient indigenous investment and management of industry (kilby 1988).

The economic miracles of the south pacific region were hinged on the nurturing of the vibrant SSIs. In spite of the high level of industrial concentration in developed economies, SSIs still account for an important part of economic activity and increasing share in the international business (Miti, 1989).

Interdependence and inter linkages among manufacturing companies in the global village have induced gradual replacement of the traditional form of direct foreign investment with non-equity strategic alliances (Oman, 1984). Globalization process has fostered the integration of SSIs to the global market through networking and sub-contracting with the multinational companies and the development of collective efficiency in the industrial estates while reflecting the global trend in down sizing of enterprises. Multinational enterprises have continued to shift the focus of activity a way from the giant vertically integrated corporations which dominated productive activities in the 1950s and 1960s towards small industries to gain competitive advantages.

Reflecting countries experiences, SSIs employ more than 50 percent of the industrial work force in Columbia, India, Indonesia, Kenya, Philippines, Tanzania and Zambia. They are the real job creators in the European Union (EU) accounting for 99.9 percent of 11.6 million enterprises (excluding enterprises in agriculture, fishing and other sectors), 72 percent employment of the 80.7 million persons employed by all enterprises and generate 67.7 percent of turnover in European Union (Deloitte Touche Tohmatsu, 1995). SSIs were equally responsible for more than 50 percent of total employment in Canada (Government of Ontario, 1995). In the

United States SMEs, have played an important role in the transition from the industrial aged to the post-industrial era.

In addition, the newly industrialized nations of the south East Asia have played an important role in the transition from the industrial aged to the post-industrial era. Also in Japan, 70 percent of the values of exports of large firms are themselves the product of SMEs.

In addition, the newly industrialized nations of the south East Asia have demonstrated that any country that pays serious attention to the growth of small enterprises will ultimately benefit in terms of employment generation, laying solid enterprises base and encouraging the use of local raw materials and technology, among others. In the 1988 census of businesses conducted in Nigerians by the Federal Office of Statistic (FOS), SSIs were estimated to have constituted about 70 percent of industrial employment as well as 10-15 percent of manufacturing output.

THE CURRENT INITIATIVE OF BANKER'S COMMITTEE

The need for a sustainable source of financing for SSIs, following the failure of various arrangements necessitated the banker's committee initiative, with the CBN as the prime mover. Under the scheme, all banks in Nigeria are required to set aside 10 percent of their annual profit before tax (PBT) for equity investment in small-scale industries. A comprehensive report on the program produced by a consultancy firm, African Development Consultancy Group (ADCG) has been discussed and accepted by the bankers committee, while the guidelines for operations are being finalized. This could revive the SMEs sector if all stakeholders play their roles as expected. The initiative, in addition to providing finance also requires banks to identify, develop and package viable industries with the entrepreneurs. To this end venture capital companies are being formed to manage the accumulated funds contributed by banks under the initiative (SMIEIS).

Through the scheme, banks are expected to spearhead the restructuring or refinancing of SSIs, many of which are now mobilized owing partly to poor funding. In order to give further support to the initiative, the central bank has contacted the International Finance Corporation (IFC), which has agreed to bring in resources for lending when an enabling environment has been created.

if the scheme is well managed, the bankers committee initiative has good prospects of fostering an enduring privates sector led financing support for a viable small and medium industry sector which is needed to provide a solid indigenous base from the nation's industrialization drive it would, among other things:

(a) Boost and Deepen SMI Financing

The program is expected to reverse the age long lukewarm attitude of the banking sector in meeting the credit needs of the SMIs. Substantial funds will be pooled annually from the banking sector to boost SMI operations. This is aside of the anticipated IFC financing in foreign exchange, which would further deepen sources of financing in the country.

(b) Facilitate Access to the Capital Market '

Access to the capital market will be facilitated as the bankers initiative is expected to broaden equity participation in SMIs, thereby resolving operations characteristic aversion to dissolve and ownership dilution. Through this, the prospects form many more SMIs satisfying the listing requirements on the second Tier Market (STM) and existing ones moving to the First Tier of market appears bright.

(c) Stimulate Activities in the Sub-Sector

With enhanced funding and improved infrastructural facilities, capacity utilization in existing firms would provide incentive for prospective investors, thereby stimulating productive activities in the economy. The set-up activities will in turn facilitate employment generation and utilization of local resources for which small industries are noted for, with the attendant multiplier effect on the overall economy.

(d) Widen Banks Service Delivery to the Economy

The new initiative provides a veritable avenue for all the banks in the country to participate in the ownership of business enterprises through equity participation, thereby widening their service delivery to the economy. Increased availability of equity capital to SMIs will in turn help in restructuring their capital bases for revival and growth.

(e) Improve Operators Management Practices

As the new initiative would influence banks to be involved in the ownership of enterprises, there will be improvement in the management practices of SMIs. For instance, with banks export advice, the problem of poor record keeping and lack of adequate delineation of owners fund from entrepreneurs would be overcome, leading to efficient management of such business and growth of entrepreneurship in the economy.

(f) Reduce Rate of Default

As banks under normal circumstances, would ensure proper loan administration and monitoring the erstwhile notion of seeing every loan facility as national cake will be mitigated, thereby reducing the rate of default.

Complimentary Policy Proposals

In order to ensure that the objectives of the new initiatives is achieved and the pitfalls of past schemes avoided, the funding schemes needs to be complimented with other remedial measures to address some of the constraints mitigating past policies identified. These include:

(i) Creation of an SMI Window in the New Bank for Industry

The emerged merger of three development financial institution (NIDB, NBIC and NERFUND) into the Bank for industry should operate as a financial conglomerate with different windows. The industrial bank according to the government will have a capital base on N50 billion for its take off and will provide loanable fund to entrepreneurs in the areas of SSIs. To reduce-default loans, lending rate would not be more than 10%.

(ii) Establishment of SME Credit Guarantee Scheme

The proposed credit guarantee scheme meant to relieve banks of some risks that are inherent in SME financing should be implemented expeditiously. As an entry point, the current agricultural credit guarantee scheme (AGES) could be expanded to incorporate SSIs through appropriate legal reforms.

Conclusion

Small industries are undoubtly the backbone of a market economy and are noted for their job-creating process, but given their low survival capacity, there is need for different and innovative approaches in promoting their survival and growth. The change in policy environment is crucial in stimulating the development and growth of SSTs. Government has a dominant role in creating and maintaining an enabling environment for SMEs. The critical success factors that created the enabling environment and promoted enterprise in successful economics can be grouped as follows:

- Stable macro-economic environment
- Conducive legal and regulatory framework
- Modern infrastructure
- Enabling fiscal regime

- Developed financial systems
- Modern management and technical competence.

In summary, these six critical success factors are at the heart of policies employed by thriving economies and effectively represent the success formula for creating the enabling environment for the promotion of private enterprise and stimulating economic growth.

In this work an attempt ha also been made to assess the likely impact of the CBN driven banking sector financing initiative. The bankers committee initiative, which was necessitated partly by past program failure and also by the need for evolving a sustainable source of financing, therefore possesses great potentials if it is well implemented with adequate complementary policy measures.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter is concerned with the presentation and analysis of primary data collected from the administration of questionnaires and interview of Bank Officials and also SMEs investors located in Owerri. it also deals with the method used in conducting the research and how results obtained were analyzed.

However, for more clarity, this chapter is examined under the following headings.

- Research area
- Population and sample
- Sampling and technique
- Research instrument
- Sample size
- Presetting of questionnaires
- Method of data analysis
- Data analysis and discussion
- Data presentation

3.1 RESEARCH AREA

The Population is limited to Banks and SMEs in Owerri Imo state. The sample of thirty five was chosen from the population of Bank staff in Owerri and sixty five was chosen from the population of SMEs in Owerri Imo state. The sample size chosen of both establishments represents a reasonable size of the total workforce of the establishments.

3.2 SAMPLING TECHNIQUE

All employees of different banks in Owerri were randomly served with questionnaires. This was to give all of them equal chance of participating in the study. Personal interview were also carried out with some senior staff of the banks. The interview was carried out to end.

3.3 RESEARCH INSTRUMENT

The data for this research was collected by primary sources. Questionnaires and personal interview was used as the primary source of obtaining data.

3.4 SAMPLE SIZE

A total of thirty five employees of different banks in Owerri Imo state were randomly selected and administered with thirty five questionnaires, the whole 35 were returned and all 65 questionnaires distributed among SMEs located in Owerri Imo state where also returned.

3.5 PROTESTING OF QUESTIONNAIRES

To establish the validity and suitability, the instruments were tested before they were administered in the field. The questionnaires were shown to my supervisor for setting. His evaluation includes checking for content of validity and clarity of the different items in the questionnaires to be administered to the sample population so as to permit a good fit.

3.6 METHOD OF DATA

The method of data analysis used in this study consists of simple rating or ratios or percentage and the use of the CHI SQUARE (x^2) to test the hypothesis.

3.7 DATA ANALYSIS METHOD

Here the data collected from various sources for the study are assembled, analyzed and discussed. The study concentrate on Banks and SMEs located in Owerri Imo state, from these conclusions will be drawn. However, from these one may if need be draw a general conclusion.

STATISTICAL TOOL (CHI SQUARE)

The chi-square test determines whether the observed frequencies of individuals with given characteristic differ significantly from the frequencies which would be expected under some theory or hypothesis.

The chi-square test statistic is defined as

$$X^2 = \sum \frac{(0_1 - e_1)^2}{E_1}$$

Where 0_1 = observed frequencies

E_1 = expected frequencies

THE CONTINGENCY TABLE

A contingency table is one that illustrates the responses to questions from the sample polled or the questionnaires. It is made up of rows and columns, rows horizontally, columns runs vertically. The dimension of a contingency table is described by first stating the number of rows and then the number of columns. In calculating the expected frequency for any cell, it is done by:

$$Fe = \frac{RT \times CT}{n}$$

Where Fe = the expected frequency in a given cell.

RT = the row total for the row containing that cell.

CT = the column total for the column containing cell.

n = the total number of observations.

DETERMINING DEGREE OF FREEDOM

To use the chi-square test, we must calculate the number of degrees of freedom in the contingency table by applying the equation below:

Number of degree of freedom = (number of rows – 1)(number of columns – 1). It can be illustrated mathematically, thus:

$$DF = (r-1)\,(c-1)$$

Where r = number of row

C = number of columns

THE DECISION RULE

The computed chi-square $(x)^2$ is compared with the chi-square value. This is done with a level of significance 0.05.

The decision rule is:

i) Accept null hypothesis (H_o) if computed chi-square is less than the theoretical chi-square value (table value) x^2 and reject the alternative hypothesis.

ii) Accept the alternative hypothesis (H_1) if the computed chi-square x^2 is greater than the theoretical (table value) chi-square x^2 value and reject the null hypothesis.

CHAPTER FOUR

4.1 PRESENTATION AND ANALYSIS OF DATA

A total of one hundred questionnaires were distributed, and all was returned, showing a full 100%, the questionnaires were distributed as follows, thirty five questionnaires to banks and sixty five for SMEs.

PRESENTATION OF THE ANALYSIS

QUESTIONNAIRE DISTRIBUTED

	Distributed	**Percentage**
Banks	35	35%
SMEs	65	65%
Total		**100%**

The analysis therefore will be based on 100% responses of the questionnaires returned from both the banks and the SMEs.

Table 1: Does access to credit affect SMEs performances?

Responses	Bank	Percentage	SMEs	Percentage
Yes	35	100	50	77
No	0	0	15	23
Total	**35**	**100**	**65**	**100**

As shown above, it can be seen that 100% of the bankers and 77% of the SMEs operator making a total to 85% of the total respondents agree that access to credit affect SMEs performance.

Table II: Does the ability to provide security for credit affect the volume of funds raises by SMEs?

Responses	Bank	Percentage	SMEs	Percentage
Yes	15	43	35	54
No	20	57	30	46
Total	**35**	**100**	**65**	**100**

As shown above, it can be seen that 43% of bankers and 54% of SMEs operators agree that ability to provide security for credit affect the volume of funds raised by SMEs, while the remaining 50% of the total respondents think otherwise.

Table III: Does the duration of term-loans given to SMEs after their profitability

Responses	Bank	Percentage	SMEs	Percentage
Yes	10	29	6	9
No	25	71	59	91
Total	**35**	**100**	**65**	**100**

As shown above, it can be seen that only 29% of bankers and 9% of SMEs operator agree that duration of term-loan affect the profitability of SMEs, this implies that 84% of the total respondents share an opposite view.

Table IV: Does the level of interest rate affect the accessibility of credit by SMEs?

Responses	Bank	Percentage	SMEs	Percentage
Yes	34	97	51	78
No	1	3	14	22
Total	**35**	**100**	**65**	**100**

As shown above, it can be seen that majority of the respondent (85%) agree that the level of interest rate affect the accessibility of credit by SMEs, while 15% of the respondent think otherwise.

4.2 DATA ANALYSIS

H_{O1}: Access to credit has no significant impact on the performance of SMEs.

H_{A1}: Access to credit has a significant impact on the performance of SMEs.

Responses	SMEs	Bankers	Total
Yes	15	0	15
No	50	35	85
Total	65	35	100

$$C_{11} = \frac{15 \times 65}{100} = 9.75$$

$$C_{12} = \frac{15 \times 35}{100} = 5.25$$

$$C_{21} = \frac{85 \times 65}{100} = 55.25$$

$$C_{22} = \frac{85 \times 35}{100} = 29.75$$

$$X^2 = \sum_{n=1}^{n} \frac{(Oi - Ei)^2}{Ei} = \frac{(15 - 9.75)^2}{9.75} + \frac{(0-5.25)^2}{5.25} + \frac{(50-55.25)^2}{55.25}$$

$$+ \frac{(35 - 29.75)^2}{29.75}$$

$$= \frac{(5.25)^2}{9.75} + \frac{(-5.25)^2}{5.25} + \frac{(-5.25)^2}{55.25} \quad \frac{(5.25)^2}{29.75}$$

$$= \frac{27.5625}{9.75} + \frac{27.5625}{5.25} + \frac{27.5625}{55.25} + \frac{27.5625}{29.75}$$

$$X^2 = 2.8269 + 5.25 + 0.4989 + 0.9265 = 9.5023$$

$$X^2_{(0.05)}{}^{(1)} = 3.841$$

Using the decision rule, since the computed value is more than the table value, we reject Ho and conclude that access to credit has a significant effect on the performance of SMEs.

H_{O2}: The ability of SMEs to provide securities for credit has no significant impact on the volume of funds raised by SMEs.

H_{A2}: The ability of SMEs to provide securities for credit has significant impact on the volume of funds raised by SMEs.

Responses	**SMEs**	**Bankers**	**Total**
Yes	30	20	50
No	35	15	50
Total	**65**	**35**	**100**

$$C_{11} = \frac{50 \times 65}{100} = 32.5$$

$$C_{12} = \frac{50 \times 35}{100} = 17.5$$

$$C_{21} = \frac{50 \times 65}{100} = 32.5$$

$$C_{22} = \frac{50 \times 35}{100} = 17.5$$

n

$$X^2 = \sum_{n=1} \frac{(Oi - Ei)^2}{Ei} = \frac{(30 - 32.5)^2}{32.5} + \frac{(20-17.5)^2}{17.5} + \frac{(35-32.5)^2}{32.5}$$

$$+ \frac{(15 - 17.5)^2}{17.5}$$

$$= \frac{(-2.5)^2}{32.5} + \frac{(2.5)^2}{17.5} + \frac{(2.5)^2}{32.5} + \frac{(-2.5)^2}{17.5}$$

$$= \frac{6.25}{32.5} + \frac{6.25}{17.5} + \frac{6.25}{32.5} + \frac{6.25}{17.5} = 0.1923+0.3571+0.1923+0.3571$$

$$X^2 = 1.0988$$

$$X^2_{(0.05)}{}^{(1)} = 3.841$$

Using the decision rule, since the computed value is less than the table value, we accept H_O and conclude that ability to provide securities for loan does not have a significant effect on the volume of funds available to SMEs.

$H0_3$: The duration of term-loan has no significant effect on the profitability of SMEs.

H_{A3}: The duration of term-loan has a significant effect on the profitability of SMEs.

Responses	SMEs	Bankers	Total
Yes	59	25	84
No	6	10	16
Total	**65**	**35**	**100**

$$C_{11} = \frac{84 \times 65}{100} = 54.6$$

$$C_{12} = \frac{84 \times 35}{100} = 29.4$$

$$C_{21} = \frac{16 \times 65}{100} = 10.4$$

$$C_{22} = \frac{16 \times 35}{100} = 5.6$$

$$X^2 = \sum_{n=1}^{n} \frac{(Oi - Ei)^2}{Ei} = \frac{(59-54.6)^2}{54.6} + \frac{(25-29.4)^2}{29.4} + \frac{(6-10.4)^2}{10.4}$$

$$+ \frac{(10-5.6)^2}{5.6}$$

$$= \frac{(4.4)^2}{54.6} + \frac{(-4.4)^2}{29.4} + \frac{(-4.4)^2}{10.4} + \frac{(4.4)^2}{5.6}$$

$$= \frac{19.36}{54.6} + \frac{19.36}{29.4} + \frac{19.36}{10.4} + \frac{19.36}{5.6}$$

$X2 \quad = \quad 0.3546 + 0.6585 + 1.8615 + 0.3457 = 3.2203$

$X_{2\,(0.05)}^{(1)} \quad = \quad 3.841$

Using the decision rule, since the computed value is less than the table value, we accept H_O and conclude that the duration of term loan does not have a significant effect on the profitability of SMEs.

H_{O4}: The level of interest rate does not have a significant effect on the accessibility of credit by SMEs.

H_{A4}: The level of interest rate dos not a significant effect on the accessibility of credit by SMEs.

Responses	**SMEs**	**Bankers**	**Total**
Yes	14	1	15
No	51	34	85
Total	**65**	**35**	**100**

$$C_{11} = \frac{15 \times 65}{100} = 9.75$$

$$C_{12} = \frac{15 \times 35}{100} = 5.25$$

$$C_{21} = \frac{85 \times 65}{100} = 55.25$$

$$C_{22} = \frac{85 \times 35}{100} = 29.75$$

$$X^2 = \sum_{n=1}^{n} \frac{(Oi - Ei)^2}{Ei} = \frac{(14-9.75)^2}{9.75} + \frac{(1-5.25)^2}{5.25} + \frac{(51-55.25)^2}{55.25}$$

$$+ \frac{(34-29.75)^2}{29.75}$$

$$= \frac{(4.25)^2}{9.75} + \frac{(-4.25)^2}{5.25} + \frac{(-4.25)^2}{55.5} + \frac{(4.25)^2}{29.75}$$

$$= \frac{18.0625}{9.75} + \frac{18.0625}{5.25} + \frac{18.06225}{55.25} + \frac{18.0625}{29.75}$$

$$X^2 = 1.8526 + 3.4405 + 0.3269 + 0.6071 = 6.2271$$

$$X_{2\,(0.05)}^{(1)} = 3.841$$

Using the decision rule, since the calculated value is more than the table value, we reject H0 and conclude that the level of interest rate affect the accessibility of credit by SMEs.

4.3 DISCUSSION OF RESULTS

From the results of the analysis above, it is evident that there is a consensus both banker and SME operators that access to credit has a significant effect on the performance of SMEs. They also agree that the level of interest rate affect the accessibility of credit by SMEs significantly.

They however do not agree that ability of SME operators to provide securities for loan do not have a significant effect on the volume of funds available to them nor do they accept that the duration of term loan have a significant effect on the profitability of SMEs. Judging from a simple comparison of the empirical results with responses I got from oral interviews. This is because most of this SMEs do not rely on banks as the major source of their finances. Rather, they prefer to use their savings, loans from friends and informal money lenders like contribution group that do not have strict restrictions on their loan durations and security availability but charge enormous interest in lieu of security. These are in line with the opinions of Nzotta (2004) and Usman (2001) on the importance of access to credit by SMEs and Nwakoby (2007) on the dominance of informal credit as the major source of finance to SMEs and the subsequent cut-throat or exploitative interest rate they charge.

CHAPTER FIVE

5.1 SUMMARY

This work was carried out to determine the impact of project finance on the growth of SMEs in Nigeria. In the course of the work, four hypothesis were formulated with a general objective which is;

To determine the impact of project finance on the growth of SMEs in Nigeria.

However the specific objectives included:

- To determine the extent to which access to credit impacts on the performance of SMEs.
- To ascertain how security requirement for credit affects the volume of funds raised by SMEs.
- To determine the effect of loan duration on the profitability of SMEs.
- To determine how interest rate affects accessibility of credit by SMEs.

The work reviewed related literature which assessed the financing options available to SMEs, their problems, the roles SMEs play in the economy as well as the hindrances to the utilization of the financing opportunities by SMEs. The work proceeded to test the hypothesis formulated by analyzing the data gathered through the use of questionnaires issued to sixty five SME operators and thirty five bankers using chi-square (x^2) statistics.

5.2 CONCLUSION

From the results of the tests conducted, we conclude that:

- Access to credit has a significant impact on the performance of SMEs.
- The ability of SMEs to provide securities for loan does not have a significant impact on the volume of funds available to them.
- The deviation of term-loan does not have a significant relationship with the profitability of SMEs.
- The level of interest rate has a significant effect on the accessibility of credit by SMEs.

This evidence, corroborated with the responses gathered from oral interview, points to the fact that SMEs do not rely on banks as the major source of their finances. Instead, they prefer loans from friends and other informal money lenders.

5.3 RECOMMENDATIONS

From the ongoing, we draw the following recommendations:

- Government should set up a credit guarantee scheme fund for a revolving loan for SMEs.
- Bank rates (interest rate) on credit facilities extended to SMEs should be drastically reduced. We recommend “soft loans by banks to this important sector of the economy. Credit delivery should not be stringent.
- There should be an enlightenment/orientation by the government for the SME operators, as a large percentage of them lack the basic book keeping skills. Many are not aware of the agencies and banks that provide funds for SMEs, They are also scared of going to take bank credits because of high charges, high demand for collateral securities and other requirements, which they cannot provide.
- The government should provide sound and efficient infrastructure to reduce operating cost for operators in the sub sector. Again, security should be assured to enable entrepreneurs operate within suitable political and economic environment. Also, consistent and well co-ordinated policies concerning financing operation and management of SMEs should be put in place.

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5th October, 2013.

Dear Sir/Madam,

RESEARCH QUESTIONNAIRE

THE IMPACT OF PROJECT FINANCE ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISE IN NIGERIA

I am a postgraduate student of the above institution, I am carrying out a research on the above topic for a Postgraduate Diploma(PGD) in Financial Management Technology.

This questionnaire has been structured into two sections, section A, and B. A seeks information about your personal data while section B seeks information on the above stated.

I would be most grateful if you could kindly complete the questionnaire below for me. Your responses will be treated strictly as confidential because the research is exclusively for research purposes.

Thanks for your co-operation.

Yours faithfully,

Chinagoro, Ijeoma. L.

QUESTIONNAIRE FOR BANKS

INSTRUCTION

Please tick the appropriate box and give brief comments where necessary.

SECTION A

GENERAL INFORMATION

1. SEX, MALE ☐ FEMALE ☐

2. Position held in your organization.

   Top Management Staff ☐ Senior Staff ☐ Junior Staff ☐

3. Name of Organization: ________________________

SECTION B: FOR BANKS

1. Is profit generated during a financial year have any effect on the finance available for disbursement to SMIs. Yes ☐ No ☐

2. What period of time is your bank willing to grant credit to SMEs.

   1-2Yrs ☐ 3-5Yrs ☐ 7-10Yrs ☐ over 10Yrs ☐

3. Do the periods of payback affect further credit to intending SMIs beneficiary?

   Yes ☐ No ☐

4. Do you agree that the success or failure of many SMIs depends largely on the availability of adequate finance? Yes ☐ No ☐

5. Do you agree that multinational financial institutions contribute meaningfully to SMIs financing? Yes ☐ No ☐

6. What types of security is usually demanded by your bank as collateral: Land ☐ Shares certificates ☐ Life Policies ☐ specify any other:____________

7. What will you say are the constrains mitigating project financing to SMIs in your bank. Poor prepared proposal ☐ Lack of managerial expertise ☐ Poor financial record keeping ☐ Please specify any other:____________________

8. Do you think interest rate affect the accessibility of credit by SMEs. Yes ☐ No ☐

9. Who are your major customers? Private individuals Corporate bodies ☐ Private business ☐

10. Which type of financing option do you think is best for SMEs. Debt Equity ☐ Full debt ☐ Full Equity ☐

11. How efficient is the credit disbursement criteria used in your bank. Very Efficient ☐ Efficient ☐

12. Which of these debt instruments are available to SMEs in securing capital? Bond ☐ Debenture Development stock ☐

13. What will you say are the constrains mitigating project financing to SMEs in your bank? Poorly Prepared Proposal ☐ Poor financial record keeping ☐ Lack of managerial expertise ☐

14. Do you agree that the size of capital required has any relationship with the size of SMEs? Yes ☐ No ☐

15. Do you agree that SMEs need more finance than they get from banks. Yes ☐ No ☐

16. Do you think the government should increase the amount of fund to be disbursed to SMEs? Yes ☐ No ☐

17. Do you think the duration of term-loans given to SMEs affect their profitability? Yes ☐ No ☐

18. Do you think the ability to provide security for credit affect the volume of funds raised by SMEs? Yes ☐ No ☐

19. Do you think access to credit by SMEs affect their performance? Yes ☐ No ☐

20. How do you rate the present performance of SMEs?
Average ☐ Above Average ☐ Below Average ☐

QUESTIONNAIRE FOR SMES

INSTRUCTIONS:

Please tick the appropriate box and give brief comments where necessary.

SECTION A

GENERAL INFORMATION

1. Sex, Male [ ] Female [ ]
2. Name of organization:__________________________
3. Position held in the organization:__________________

SECTION B

1. What is the source of your initial capital? Bank loan [ ]

   Personal Saving [ ] Contribution Borrowing from friends and relatives [ ] Others (please specify)

   ____

2. Have you ever applied for a loan or overdraft from your bank?

   Yes [ ] No [ ]
3. If yes, was it granted? Yes [ ] No [ ]
4. Which will you say is a major constrain towards sourcing for project financing from banks

i) Collateral ☐ High lending rate ☐ No bank account with the bank ☐ Others (please specify) ______________________________

5. Do you think duration of term-loans given to SMEs affect their profitability? Yes ☐ No ☐

6. Do you think the level of interest rate affect the accessibility of credit to the SMEs. Yes ☐ No ☐

7. Do you think ability to provide security for credit affect the volume of funds raised by SMEs? Yes ☐ No ☐

8. Do you operate bank accounts? Yes ☐ No ☐

9. If yes, what type: Savings ☐ Personal Cheque Account ☐ Business Current Account ☐ A combination of any above:______________________

10. Has there been any meaningful impact of secured loan on your business? Yes ☐ No ☐

11. Which of this type of project finance will you consider better for you?
Long term ☐ Short term ☐ Medium term ☐

12. Which of these will you consider as your major constrain to growth?
Lack of access to capital ☐ Regulatory constrains ☐
Cost constrain ☐

13. Which of these traditional sources of project finance is mostly available to SMEs? ESUS [ ] Friends [ ] Relatives [ ] Organizations [ ] Age grade [ ]

14. Of the two modern sources of project finance which is most available to SMEs? Money market [ ] Capital market [ ]

15. Do you think access to credit by SMEs affect their performance? Yes [ ] No [ ]

16. Do you think ability to provide security for credit affect the volume of funds raised by SMEs? Yes [ ] No [ ]

17. Do you think duration of term loans given to SMEs affect their profitability? Yes [ ] No [ ]

18. Does the level of interest rate affect accessibility of credit by SMEs? Yes [ ] No [ ]

19. Do you think the government should increase availability fund for disbursement to SMEs? Yes [ ] No [ ]

20. How do we rate the performance of SMEs so far? Average [ ] Above Average [ ] Below Average [ ]