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Research Article

The Degree of Accessibility to Credit Facilities from Financial Institutions by Small and Medium Enterprises: Evidence from Nigeria

Sylvia Nnenna Eneh PhD[1] & Chukwuemeka Jacob PhD[2]

[1 2] Department of Accountancy, University of Nigeria, Enugu Campus, Nigeria

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Abstract

This study investigates the degree of accessibility to credit facilities from financial institutions by Small and Medium Enterprises (SMEs) in Nigeria. The primary objective is to evaluate the factors influencing the accessibility of credit to SMEs, with a focus on government policies, tax incentives, collateral requirements, and international funding sources. Specific objectives include examining the extent to which government policies support SMEs, assessing whether access to credit is the most significant problem for SMEs, determining the effect of tax incentives on credit access, evaluating the impact of collateral on credit eligibility, and investigating the role of international funding sources in supporting SME finance. The study employs a descriptive and analytical survey research design, focusing on 360 manufacturing SMEs in Anambra, Ebonyi, and Enugu states. Data were collected through structured questionnaires and analyzed using descriptive statistics, including frequency, percentages, means, and standard deviations, alongside inferential statistics such as one-sample t-tests and linear regression analysis. The research models explored the relationship between government policies, tax incentives, and collateral requirements with SME credit accessibility. Findings reveal that government policies significantly enhance access to credit, with microfinancing schemes and mandatory bank lending playing key roles in SME funding. The study identifies access to credit as the most critical challenge faced by SMEs in Nigeria, with financial constraints hindering their growth and sustainability. Tax incentives were found to have a positive and significant impact on improving credit access by easing financial pressures and attracting investment. Collateral requirements were also found to positively influence credit accessibility, as financial institutions favor businesses with collateral or strong credit histories. In conclusion, the study underscores the importance of robust government policies, tax incentives, and favorable collateral conditions in improving SMEs' access to financial resources. It recommends that financial institutions reduce stringent collateral requirements and that the government enhance policies that provide easier credit access for SMEs. Furthermore, international financial agencies should be encouraged to increase their involvement in funding Nigerian SMEs to promote growth and development in this sector.

Keywords: SMEs; Credit Assessibility; Financial Institutions; Government Policies; Tax Incentives; Financial Constraints; Business Sustainability

Introduction

Businesses, whether small or large, public or private, are created with the intention to provide competitive prices, make profits, offer social services, or add value to the economy (Ayozie, 1999). In Nigeria, businesses are categorized into Small, Medium, and Large Enterprises. Small and Medium Enterprises (SMEs) are not uniformly defined but are better understood by their defining characteristics, such as project costs, turnover, number of employees, ownership composition, and capital outlay (Akinsurile, 2006).

The Federal and State Ministries of Industry and Commerce use the value of fixed capital to classify SMEs. The National Council of Industries defines SMEs as businesses with a capital base, excluding land, of no more than ₦2 million, and employing between 10 and 300 people (Akimade, 1991). The threshold for this definition has gradually increased over the years, from ₦60,000 in 1972 to ₦2 million in 1991. The Small and Medium Scale Industries Development Act (2003) further defines SMEs as businesses with assets, excluding land and buildings, ranging between ₦5 million and ₦499 million and employing 10 to 199 persons.

SMEs account for approximately 75% of all registered businesses in Nigeria and have been a part of the economy for decades, often evolving from Cottage Industries. Their operations span various sectors, including manufacturing, services, agriculture, construction, hospitality, education, real estate, and financial intermediation.

Despite their prevalence and importance, SMEs in Nigeria face significant challenges, especially in securing financing. These enterprises operate under regulatory frameworks monitored by the Central Bank of Nigeria (CBN) and supported by agencies like the Bank of Industry (BOI), Nigerian Industrial Development Bank (NIDB), and the Small and Medium Enterprises Development Agency (SMEDAN). These agencies are tasked with promoting the growth and development of SMEs through monitoring, financing, and ensuring they meet required standards. In addition, international organizations like the World Bank, International Finance Corporation (IFC), and United Nations Industrial Development Organization (UNIDO) also collaborate with the Nigerian government to boost SME performance and sustainability.

The focus on SMEs stems from their significant role in job creation, wealth generation, and economic development. SMEs are often referred to as the "Engine of Growth" and are seen as vital contributors to national objectives such as employment generation, rural development, entrepreneurship stimulation, and fostering linkages between agriculture and industries (Anyanwu, 2001). However, despite government policies and support programs aimed at empowering SMEs, their performance in Nigeria has been below expectations (Salam, 2012).

One of the most significant challenges faced by SMEs in Nigeria is the limited access to long-term credit facilities. Many Nigerian financial institutions primarily offer short-term financing, which hinders the growth potential of SMEs that require more stable and long-term financial support. According to Onugu (2005), SMEs in Nigeria struggle with multiple issues, including inadequate infrastructure (such as poor roads, unreliable electricity, and water supply), insecurity, inconsistent regulatory policies, and limited market access.

Inadequate access to credit, combined with other operational challenges, often leads to the failure of SMEs, particularly in their early years. Nonetheless, with the right infrastructure, legal frameworks, and policy incentives, SMEs in Nigeria could thrive, much like their counterparts in developed nations. The government's role in fostering an enabling environment and improving credit accessibility is essential for the future success of SMEs, which are crucial to the nation's economic growth and development.

Statement of the Problem

SMEs in Nigeria are deeply intertwined with the challenges that characterize the country as a developing nation. Nigeria faces numerous obstacles, including economic and political instability, corruption, insecurity, widespread poverty, and poor infrastructure. As a vital sub-sector of the economy, SMEs inevitably share in these broader challenges. Studies by Cole (2008), Udell (2003), Blum & Laurie (1995), Burch & Claudia (2004), Birley (1996), and Bates (2007) reveal that one of the most significant problems SMEs face is access to credit.

Further research by Watson & Kunt (2002), Vos, Yeh, Carter & Tagg (2007), Beck & Kunt (2008), and Chittenden & Hall (1996) explores the extent to which limited access to finance impedes the performance and growth of SMEs. These studies confirm that inadequate funding remains a serious barrier to SME expansion and sustainability. Similarly, Abereyo & Fayomi (2005), Dagogo & Ollor (2012), Gbandi & Amissah (2012), and Anyawu (2010) have examined various financial sources available to SMEs, noting that while some financing options exist, they often come with high capital costs. The exception, retained earnings, is cost-free but typically too limited to effectively support substantial growth.

Moreover, financial institutions often impose unattainable conditions and high-interest rates when granting loans to SMEs. These institutions argue that SMEs frequently fail to present bankable projects, lack adequate collateral, and do not maintain proper accounting systems that would lead to audited financial statements. Additionally, the high mortality rate of SMEs exacerbates the reluctance of financial institutions to offer loans. As a result, it appears that the most pressing challenge for SMEs in Nigeria is the lack of accessibility to credit facilities.

Another significant concern is the role of the Federal Government in implementing SME policies. The government's commitment to enforcing laws that support SMEs is questionable, especially when it comes to the allocation of resources. For example, the Central Bank of Nigeria (CBN) set a policy requiring commercial banks to allocate 10% of their profit before tax to SME financing, but it appears that many banks prefer to pay penalties (20% to the CBN) rather than fulfill this obligation. Despite the vigorous promotion of SME loan facilities by financial institutions, access to these funds remains limited. This raises the critical question: Why are SMEs in Nigeria unable to access the credit facilities offered by financial institutions?

Objectives of the Study

The main objective of this study is to assess the degree of accessibility to credit facilities from financial institutions by Small and Medium Enterprises (SMEs) in Nigeria. The specific objectives of the study are as follows:

i. To examine the extent to which government policies support SMEs in Nigeria.
ii. To determine whether access to credit facilities is the most significant challenge faced by SMEs.
iii. To assess the impact of tax incentives on the accessibility of credit facilities for SMEs.
iv. To evaluate the role of collateral in determining access to credit facilities for SMEs.
v. To investigate the extent to which SMEs receive funding from international agencies, such as the World Bank and the International Finance Corporation (IFC).

Research Questions

The following research questions guide the investigation into the accessibility of credit facilities for SMEs in Nigeria:

i. To what extent do government policies support the growth and sustainability of SMEs in Nigeria?
ii. Is access to credit facilities the most significant challenge faced by SMEs in Nigeria?
iii. How do tax incentives influence the accessibility of credit facilities for SMEs in Nigeria?
iv. What role does collateral play in determining access to credit facilities for SMEs in Nigeria?
v. To what extent do international agencies, such as the World Bank and the International Finance Corporation (IFC), provide funding to SMEs in Nigeria?

Statement of Hypotheses

The following null hypotheses were proposed for the study:

i. There is no significant relationship between government policies and the accessibility of credit facilities for SMEs in Nigeria.
ii. Access to credit facilities is not the most significant challenge faced by SMEs in Nigeria.
iii. Tax incentives have no significant effect on the accessibility of credit facilities for SMEs in Nigeria.
iv. Collateral requirements do not significantly affect the accessibility of credit facilities for SMEs in Nigeria.
v. International funding sources, such as the World Bank and IFC, do not significantly contribute to the funding of SMEs in Nigeria.

Scope of the Study

The study focused on registered enterprises under the Small and Medium Enterprises Development Agency (SMEDAN). However, for a more realistic and manageable investigation, only three states in the South-East region - Anambra, Ebonyi, and Enugu - were selected. These states were chosen due to their proximity advantage. The population for the study consisted of senior accounting officers (managing directors) of enterprises operating under the Manufacturing Association of Nigeria (MAN) in these three states. Manufacturing enterprises were selected because they typically have a greater need for finance, better capacity utilization, and well-maintained records that make them suitable for this study.

Conceptual Review

Historical Development of SMEs in Nigeria

Small-scale industries have always been a crucial part of Nigeria's economic history. Evidence of the entrepreneurial spirit can be found in the traditions of local communities, where ancestors engaged in various successful enterprises such as yam barns, iron smelting, farming, and cottage industries. The success of these early ventures was not necessarily a result of any particular political ideology but stemmed from a people's inherent attitude towards enterprise and their ability to make risks worthwhile through appropriate incentives (Anyawu, 2011).

Economic history provides ample examples of how present-day multinational corporations began as small enterprises, growing as their industries evolved, and through ingenuity, were able to either reproduce products more cheaply or improve their quality. Government policies in Nigeria have consistently supported the growth of small-scale industries, which, as noted by Abudu (2009), are seen as the lifeblood of the economy. Their widespread presence, diversity, contribution to employment, and economic prosperity make their issues central to national development.

The Central Bank of Nigeria (CBN) (2010) has highlighted that small-scale industries make up a significant portion of all registered businesses in the country. Many of these small enterprises evolved from cottage industries, expanding from small-scale operations to medium and large-scale enterprises. Before Nigeria's independence, the business environment was largely dominated by colonial and European multinational corporations such as United African Company (UAC), GB Olivant, Unilever Plc, and Leventis, which imported finished goods from their parent companies. The government, at the time, encouraged these companies through favorable incentives and tax breaks (CBN, 2010).

A key milestone in the development of small-scale businesses occurred with the implementation of the Indigenization Decree of 1972, followed by the Nigerian Enterprise Promotion Act of 2007. These legislative actions aimed to ensure greater participation of Nigerians in the economic development of the country. The federal government recognized the vital role of small-scale industries in rural areas, with the National Development Plan specifically targeting their growth as key training grounds for entrepreneurs (Mungcal, 2011). This historical perspective shows how small enterprises have evolved to become a critical part of the nation's industrial fabric.

In recent decades, government policies have emphasized the technological development of small-scale industries, seeking to exploit natural resources efficiently and reduce reliance on capital-intensive production methods. Federal and state governments have continued to introduce fiscal and non-fiscal incentives to foster the growth of small-scale industries, particularly in rural regions. One significant initiative was the federal government's program to train unemployed graduates in entrepreneurship through various development programs, with loans provided to viable projects through pre-selected commercial banks with assistance from the National Directorate of Employment (CBN, 2010).

Further government commitment to entrepreneurship development can be seen in the incorporation of entrepreneurial courses in tertiary institution curricula and the National Youth Service Corps (NYSC) program, ensuring that the next generation of Nigerians is equipped with the skills needed to drive economic development.

Relevance of SMEs in Economic Development

The link between SMEs and economic growth is especially important in developing countries, where SMEs often make up a significant share of the economy and attract substantial international resources (Beck & Kunt, 2003). SMEs are seen as the backbone of the economy in high-income countries, though they are less developed in lower-income nations (OECD, 2005). Adelaja (2003) notes that SMEs contribute significantly to a nation's economic development by providing employment, fostering innovation, and marketing goods and services. As a result, they contribute to reducing crime and unemployment, particularly by offering opportunities to out-of-school youth and retirees.

Olorunshola (2001) argues that SMEs have gained significant attention in global economic literature and become a focal point in discussions about economic development. In Nigeria, this growing focus on SMEs is driven by the country's efforts to alleviate poverty and create sustainable jobs.

Nigeria, like many developing economies, has historically faced a choice between large-scale and small-scale industrialization strategies. The large-scale industrialization strategy seeks to develop heavy industries that then support smaller industries. This approach creates a backward link between large and small industries, spreading the benefits of industrial growth throughout the economy (Onwumere & Ige, 2000). In contrast, the small-scale industrialization strategy is viewed as a more effective means of promoting economic growth, especially in developing countries.

The success of some Southeast Asian economies in transforming from rudimentary to highly industrialized nations in the latter half of the 20th century illustrates the potential of small-scale industrialization in fostering rapid economic growth. This dynamic approach shows how small-scale industries can drive economic development when given an enabling environment (Uche, 2008). SMEs play an essential role in Nigeria's economic growth in areas such as capacity building, employment generation, fostering industrial development, technology acquisition, and poverty alleviation (Toyo, 2004; Venkataraman, 2004).

Sources of Finance for SMEs

The financing options available to SMEs are numerous and diverse, with entrepreneurs typically choosing based on several factors, including the availability and accessibility of credit, the cost of funds, and the conditions attached to loans (Adams, 2002). For a newly established business, some of the best sources of finance include personal savings, contributions from friends and family, asset sales, and non-governmental organizations. As the business grows, more formal sources of financing, such as commercial and merchant banks, equity financing, debt financing, and venture capital, become available (Bates, 2007; Abereijo & Fayomi, 2005; Terungwa, 2011).

SME Financing Issues and the Banking Sector

Providing finance to SMEs is often more challenging compared to larger enterprises, due to several factors (Berger & Udell, 2006; Frank & Goyal, 2003). Banks face difficulties in monitoring the performance of SMEs and ensuring they meet contract terms, make satisfactory business progress, and safeguard the interests of lenders. The lack of transparency in SME operations, their tendency to have lower corporate governance standards, and the greater volatility in their profitability and growth further complicate lending to them.

Moreover, SMEs are more prone to principal-agent problems and asymmetric information, which can lead to investments in risky projects, making it hard for lenders to differentiate between good and bad loans. As a result, banks often engage in credit rationing, offering only partial credit even when the borrower is willing to accept higher interest rates.

Additionally, SMEs typically have a less developed bank-client relationship, which is important for successful access to finance. These challenges are even more pronounced for start-ups and young enterprises, which may struggle to provide collateral or hire trained personnel, despite the high potential returns they could offer (Nofsinger & Wang, 2011). Moreover, the financial system may not offer a diverse range of products and services to meet the needs of SMEs effectively.

There is also evidence that larger firms are favored by lending institutions, as shown by studies indicating a "pecking order" in lending preferences (Seifert & Gonenc, 2008; Watson & Wilson, 2002). The challenges SMEs face in accessing finance are exacerbated by rigidities in macroeconomic policies, institutions, and regulatory environments. For instance, government policies that favor large-scale industrialization or import substitution strategies may grant favorable access to finance for large firms, excluding smaller enterprises.

The Role of Banks in SME Development

The statement that the SME sector is the engine of growth for emerging economies like Nigeria is more relevant than ever, especially given the challenges posed by the financial meltdown (Sanusi, 2010). Despite this, banks in Nigeria have often treated the SME sector with indifference, citing the high-risk nature of these enterprises. This reluctance is evident in the fact that, in 2010, bank credit to SMEs accounted for less than 4% of the estimated N7.8 trillion claims to the private sector.

The Bankers' Committee, however, has attempted to address this issue by mandating banks to allocate 10% of their profits before tax to the SME sub-sector through equity investment schemes. The question that remains is how committed banks are to fulfilling this mandate and advancing funds to SMEs.

Comparative studies, such as those done by the CBN (2010), highlight that Nigerian SMEs lag behind those in countries like India, where SMEs contribute 39% of manufacturing output and 23% of total exports, demonstrating higher growth rates than other sectors.

The Existence of the SME Financing Gap

Research has shown that SMEs often face significant challenges in obtaining the finance they need, which in turn hinders their performance, growth, and productivity (Torre et al., 2010). The concept of a "financing gap" for SMEs has been debated for a long time, and while some have argued that such a gap only exists when authorities artificially suppress interest rates below the market clearing level, others contend that financing gaps can exist even in market-driven economies (Stiglitz & Weiss, 2001; Gertler & Gilchrist, 2004).

SMEs, due to their characteristics, are more likely to experience credit rationing than larger firms. In emerging and developing economies, these enterprises are particularly susceptible to financing gaps, as they often have higher risks associated with lending, compounded by a lack of adequate collateral and poor financial transparency. This phenomenon has led to a wider discussion about how banks in these economies rationally respond to such risks by imposing credit rationing, which often limits access to much-needed funds for SMEs.

Concept and Causes of a Financing Gap

The issue of access to finance for firms, especially small and medium enterprises (SMEs), and the theoretical understanding that financing gaps can exist, can be traced back to the theory of imperfect information in capital markets (Stiglitz & Weiss, 2001). Banks often adopt more stringent lending policies, favoring those who can provide collateral or have established credit histories. Essentially, banks engage in credit rationing to minimize risks associated with lending.

The financing gap can be measured by the difference between the desired access to finance and the actual access, including the cost and terms associated with financing.

Credit rationing is particularly significant for small firms. As argued by Petersen and Rajan (2004), banks typically have less information about small firms, including their managerial capabilities and investment opportunities. Additionally, these firms often lack sufficient collateral, further hindering their access to finance (Gertler & Gilchrist, 2004). Torre et al. (2010) highlight that "opaqueness" is a key factor contributing to SMEs' difficulty in accessing finance, as it makes it challenging to determine whether firms have the capacity to repay (viable projects) or the willingness to repay (moral hazard).

This opaqueness undermines lending, especially from institutions that rely on impersonal or arm's-length financing, which requires clear and objective information (Hytinen & Pajarinen, 2008). The result is a mismatch between the supply of funds (loans) and the demand for funds (loans), which gives rise to financial gaps. These gaps occur when businesses that should be receiving financing are unable to obtain it, even if they are willing to accept higher interest rates. This situation reflects a market failure, particularly when profitable business opportunities are being overlooked due to information asymmetry and the resulting difficulty in distinguishing between good and bad loans. Such credit rationing is more severe for SMEs than for larger enterprises (Berger & Udell, 2006).

Imperatives of Good Banking Habits for Successful SME Operations

The importance of banks having sound practices in supporting SMEs cannot be overstated. As Ogubunka (2003) emphasizes, sustainable industrial development is critical to national economic growth and development. Industrial development creates opportunities for economic and social progress, which is why governments worldwide are concerned with the state of industrial development in their countries. They continually seek measures that can improve and sustain such developments, particularly since the level of industrial development varies significantly across developed, developing, and underdeveloped nations.

Efforts such as the ongoing Millennium Development Goals (MDGs) are aimed at reducing socio-economic challenges globally. The success of these efforts depends on various factors, one of which is the role of key stakeholders, including SMEs and banks (Seers, 2002).

Banks, as financial intermediaries, hold a critical role in transforming national economies toward growth and development (Afolabi, 2004). This unique position makes them essential agents in economic development. Similarly, SMEs are key socio-economic transformers, especially when they work in synergy with banks. This collaboration can create a conducive environment for industrial operations and sustainable economic growth (Lamido, 2010).

In Nigeria, there is evidence of an operational relationship between SMEs and banks over the years. However, the question remains: has this relationship been meaningful in driving sustainable industrial development? While responses may vary, it is clear that there is significant potential for improvement. If Nigeria is to achieve its goal of becoming one of the world's top 20 economies and an African financial hub by 2020, it is essential for banks and SMEs to foster a more collaborative relationship that will drive successful industrial operations and development.

However, there have been challenges. Banks often cite poor banking habits among SMEs as a primary reason for their reluctance to provide financial assistance. On the other hand, SMEs have criticized banks for being insensitive to their needs and imposing overly stringent terms. As Nigeria moves toward its ambitious goals, it is crucial that both banks and SMEs evolve their relationship to ensure the success and sustainability of industrial development (Zuvekas, 2009).

Appraisal of Some Sources of Financing SMES in Nigeria

The availability of various sources of finance is irrelevant without an appropriate appraisal of the key financing sources for SMEs. This is why the government established the "Small Scale Industries Corporation" in 1971, tasked with promoting SMEs. The corporation facilitated this by creating institutions and programs designed to provide development capital to SMEs. Some of the notable institutions and programs are as follows:

Small Scale Industries Credit Scheme (SSICS)

The SSICS was a revolving grant provided by the federal and state governments to meet the credit needs of SMEs under more favorable conditions than those offered by private lending institutions, such as commercial banks. However, the scheme faced significant challenges, including financial resource shortages at the state level and widespread mismanagement of funds by both administrators and beneficiary SMEs. These issues ultimately led to the collapse of the scheme.

The First Bank of Nigeria's bi-annual review in December 2003 highlighted that the federal government, seeking alternative solutions, moved away from the SSICS. This led to the creation of another scheme: the Nigerian Bank for Commerce and Industry (NBCI).

Nigerian Bank for Commerce and Industry (NBCI)

The NBCI was established to provide financial services to indigenous businesses, particularly SMEs. It also administered the World Bank loan scheme for SMEs. Between 2001 and 2004, NBCI approved 797 projects worth N965.5 million. Additionally, between 2006 and 2008, the bank disbursed N141.82 million and financed 126 projects under the World Bank loan scheme. Unfortunately, some projects were canceled due to the failure of sponsors to contribute counterpart funding. The NBCI faced severe operational issues, leading to insolvency, and was eventually integrated into the newly established Bank of Industry (Oputa, 2011).

Central Bank of Nigeria (CBN)

The CBN, as the apex regulator of financial institutions in Nigeria, has played a pivotal role in promoting and developing the SME sector. Since 1990, the CBN has issued credit guidelines that require commercial and merchant banks to allocate a minimum percentage of their credit to sectors, including SMEs, which are considered priority areas. For example, since the 1990s, the CBN has mandated that at least 10% of loans to indigenous borrowers should be directed toward SMEs (CBN, 2012).

However, the cumbersome administration of such loans led many banks to prefer paying prescribed penalties rather than directing credit to SMEs. In response to this, from 1987, the CBN required banks that failed to meet their credit allocation to transfer the shortfall to the CBN for onward distribution to the relevant sub-sector. Despite this, many banks remain reluctant to make credits available to SMEs, which continues to hinder the growth and development of the sector.

State Governments

State governments in Nigeria have also contributed to promoting the development of SMEs. According to Udechukwu (2003), state governments, through their ministries of commerce and industry, have implemented initiatives to support SMEs. Some states have established state-owned finance and investment companies that provide both technical and financial assistance to SMEs. However, due to numerous constraints, the effectiveness of these initiatives has varied from state to state.

State governments have been involved in several programs aimed at strengthening and supporting SMEs, including the Centre for Management Development (CMD), SSICS, NERFUND, and the Small and Medium Enterprises Equity Investment Scheme (SMIEIS). However, the success and active involvement of these state programs have been inconsistent, with some states showing more commitment than others.

National Economic Reconstruction Fund (NERFUND)

According to Olorunshola (2011), the primary focus of the National Economic Reconstruction Fund (NERFUND) is to provide medium- to long-term, low-interest loans to fully Nigerian-owned SMEs in sectors such as manufacturing, agro-allied industries, mining & quarrying, and equipment leasing. NERFUND offers financial assistance for acquiring fixed assets and financing new investments (excluding land), with the maximum loan amount set at N36 million. Additionally, manufacturing projects must source at least 60% of their raw materials locally to qualify.

NERFUND's interest rates are set slightly below market rates, as reported by the Central Bank of Nigeria (CBN) in 2012. Moreover, the interest rates payable by the participating banks (PBs) are capped at 1% above NERFUND's borrowing cost. PBs are permitted to add a spread of no more than 4% on top of their own cost of funds.

It is important to note that, regardless of a beneficiary's ability to meet repayment obligations, PBs are required to repay NERFUND. If a PB fails to do so, the CBN will automatically debit the bank's account for the outstanding amount.

Theoretical Framework

In examining the financial management decisions of SMEs, two primary theories are essential to understand their financing behavior: Agency Theory and Pecking Order Framework (POF). These theories provide the foundation for understanding the complexities of financing and decision-making in SMEs, particularly in the context of access to capital and financial challenges.

1. Agency Theory: Agency theory focuses on the relationship between principals (owners) and agents (managers). In larger firms, this relationship often leads to agency problems due to information asymmetry, where agents (managers) may not always act in the best interest of the principals (owners). In SMEs, however, this problem is less pronounced because the owner is often also the manager, thus reducing the potential for conflicts of interest. However, for SMEs, the challenge lies in the difficulty of financing due to the lack of formal monitoring and the high cost of bonding solutions that are typically used in larger organizations. This theory is relevant to the study as it explains how SMEs manage financial decisions and resources despite these inherent challenges. The agency problem, although less significant in owner-managed SMEs, still influences how SMEs interact with external lenders, investors, and other stakeholders.

2. Pecking Order Framework (POF): The Pecking Order Theory suggests that firms follow a hierarchical approach to financing: first, using internal funds (retained earnings), second, debt financing, and lastly, issuing new equity. SMEs are more likely to rely on internal financing or debt due to the desire to avoid diluting ownership through equity issuance. This preference for debt or internal funds is particularly strong because SMEs often fear losing control over their business. This is in line with the observation that SMEs, especially those that are owner-managed, tend to minimize the influence of external investors.

How the Theories are linked to the Study:

Both theories help in understanding the financial behavior of SMEs, especially in developing countries like Nigeria. Agency Theory provides insight into how SMEs' internal structure (owner-manager relationship) influences their financial decisions and their ability to attract and manage external finance. Meanwhile, Pecking Order Theory offers an explanation for the financing preferences of SMEs, shedding light on why they prioritize internal funding and debt over external equity.

These theories are linked to the study as they offer a lens to examine the financial challenges SMEs face, particularly the financing gap. The study explores how SMEs struggle with accessing external finance and prefer debt or internal sources, which resonates with the Pecking Order Theory. Additionally, Agency Theory is useful in understanding the internal decision-making process within SMEs, particularly how they manage financial information and communicate with potential investors and financial institutions.

Together, these theories provide a solid foundation for analyzing SME financing behavior and the factors contributing to the challenges SMEs face in accessing capital. They also help explain why certain financial management practices are prevalent in SMEs, such as the reluctance to issue equity and the preference for debt financing or reinvested profits.

Empirical Review

Cole (2008) investigated the importance of credit facilities for the growth of SMEs. This study, which focused on the impact of financial access on small businesses, adopted a quantitative approach using survey data. The findings revealed that the availability of finance is crucial for SMEs' operations and growth. The study showed that access to credit enhances the ability of SMEs to expand, innovate, and compete effectively in their respective markets.

Beck, Kunt, and Maksimovic (2005) studied the long-term growth of SMEs in developed and developing countries. The study, which utilized cross-country analysis and regression models, found that SMEs in developed countries experience faster growth compared to those in developing nations. The study attributed the disparity to factors such as a more enabling environment, better access to financial resources, and stronger government support in developed countries.

Auboin (2009) examined the alternative sources of funding available to SMEs, focusing on non-bank financial sources. The study, which involved a comparative analysis of different funding mechanisms, found that SMEs can access funding through various channels such as venture capital, microfinance institutions, and government schemes. The study concluded that alternative funding options are crucial for SMEs, especially in environments where traditional financial institutions are reluctant to lend.

Caprio and Peria (2002) investigated government policies in Ireland aimed at improving SME access to credit. The study, which focused on the implementation of action plans and alternative funding mechanisms, found that the government had successfully launched policies that facilitated SME financing. These policies included exploring peer-to-peer lending, supply chain finance, and crowdfunding. The study revealed that these alternative mechanisms significantly contributed to the growth and sustainability of SMEs in Ireland.

Sule (1986) and the OECD (2006a) studied the role of collateral in enhancing SME access to credit. The study, which used a combination of case studies and statistical analysis, found that the availability of collateral significantly increased the likelihood of SMEs obtaining loans from financial institutions. The research suggested that collateral acts as a risk mitigation tool for banks, making them more willing to lend to SMEs.

Clor and Manova (2013) conducted a study on the principle of additionality in credit allocation. The study, which used a qualitative approach and policy analysis, found that credit policies designed by the government must adhere to the principle of additionality, meaning the credit provided should not have been allocated without the policy intervention. The study emphasized that policies should be structured to avoid political or bureaucratic influences that could lead to inefficient credit allocation.

Honoghan (2010) examined the policy options available to the government and the Central Bank of Nigeria (CBN) to improve SME access to credit. The study, which employed a policy review methodology, found that various options, including direct lending, loan guarantees, and low-cost funding, could alleviate the financing challenges faced by SMEs. The study also highlighted the importance of developing non-bank alternatives such as retail bond markets and peer-to-peer lending.

Bricogne et al. (2010) investigated the impact of credit availability on the growth rate of SMEs. The study, which used a longitudinal approach, found a steady decline in SME growth when relying solely on traditional bank credit. However, the study also pointed out that the development of non-bank alternatives, such as peer-to-peer lending and export financing, could serve as viable solutions to address SMEs' financing needs.

Methodology

Research Design

The research design for this study is an analytical survey. This method does not aim to manipulate or control any variables under investigation; rather, its main focus is to observe occurrences at a specific point in time (cross-sectional). The method has the advantage of accommodating as many variables as the researcher desires, in addition to being cost-effective.

Area of Study

The researcher selected all SMEs in the three states of South-East Nigeria: Anambra, Ebonyi, and Enugu. Most of these enterprises were located away from densely populated areas in the cities, in industrial zones such as Emene, Gariki, and Akwuke in Enugu State; Nnewi and Onitsha in Anambra State; and Ezza and Amaogborida in Ebonyi State, to minimize health hazards from pollution.

Sources of Data

The researcher utilized both primary and secondary data sources. Questionnaires were distributed to respondents to gather responses, while SME operators were personally interviewed by the researcher.

Population of the Study

The total number of registered SMEs in Nigeria, who are also members of MAN and registered under the CAC as enterprises, is 44,182 (SMEDAN/NBS, 2012). From this, 1,526 SMEs were selected from the three states in the South Eastern part of Nigeria: Anambra, Ebonyi, and Enugu. Further, a restricted selection of 360 manufacturing enterprises was made due to their prominent activities, optimal capacity utilization, and greater need for finance. These enterprises also maintain records that make them suitable for the study.

Sample Size Determination

The entire 360 manufacturing enterprises were selected as the sample for the study. Given the nature of the study, 360 managing directors from these manufacturing enterprises were also chosen as respondents. They were selected because they are in the best position to provide accurate information regarding the business's credit portfolio and management.

Techniques of Data Analysis

The data obtained were subjected to descriptive analysis, which included frequency distribution, percentages, means, and standard deviations to address the research questions. Inferential statistics, specifically one-sample t-test and linear regression analysis, were employed to test the hypotheses. A significance level of $p < 0.05$ was used for all statistical tests. The results were presented in tables and charts, with all analyses performed using the Statistical Package for the Social Sciences (SPSS).

Results

1. There is no significant relationship between government policies and the accessibility of credit facilities for SMEs in Nigeria.
2. Ho_1: Government policies do not significantly favour SMEs in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761[a]	.579	.512	.69580

a. Predictors: (Constant), Government policy

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.989	1	.989	112.043	.000[b]
	Residual	170.415	352	.484		
	Total	171.404	353			

a. Dependent Variable: Access to credit
b. Predictors: (Constant), Government policy

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.753	.436		8.605	.000
	Government policy	2.151	.105	-.076	9.429	.000

a. Dependent Variable: Access to credit

The model summary table shows that the correlation coefficient r (0.761) indicates that a strong linear relationship exists between government policy and access to credit by SMEs. The coefficient of determination r^2 (0.579) indicates that more than half the variation that exists in the dependent variable – access to credit is explained by the independent variable – Government policy. The ANOVA table tests for overall significance, ($f = 112.043$, $p<0.001$).

Decision Rule:

Since the significant value ($p<0.001$) of the t-statistic is less than 0.05 level of significance, the null hypothesis is hereby rejected and the alternative accepted. Therefore, Government policies significantly favour SMEs in Nigeria. This effect is positive as indicated by the regression coefficient (B = 2.151).

Access to credit facilities is not the most significant challenge faced by SMEs in Nigeria
Ho_2: Access to credit facilities is not the greatest problem facing SMEs

	One-Sample Test							
	Test Value = 3							
Items	Mean	Std. dev.	t	Df	P value	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
The only sources of fund for SMEs are commercial/merchant banks	2.32	1.49	-8.547	353	.000	-.67514	-.8305	-.5198
The greatest problem facing SMEs is accessibility to credit facilities	4.32	0.78	31.958	353	.000	1.31921	1.2380	1.4004
There are other sources of fund for SMEs which are cheaper. e.g the SMIEIS, NERFUND e.t.c.	4.07	0.82	24.448	353	.000	1.06780	.9819	1.1537
The first four greatest problems facing SMEs in the order of magnitude are: Access to credit/fund, management structure, lack of infrastructures, and environmental related problems.	4.33	0.74	33.914	353	.000	1.33051	1.2534	1.4077
The greatest problem facing SMEs is management structure	1.99	0.97	19.537	353	.000	-1.00847	-1.1100	-.9070
The greatest problem facing SMEs is lack of infrastructures	1.81	1.04	21.648	353	.000	-1.19209	-1.3004	-1.0838
The greatest problem facing SMEs are: access to finance and management	2.40	1.33	-8.482	353	.000	-.60169	-.7412	-.4622
The greatest problem facing SMEs are finance, management problem and lack of infrastructures e.g. roads, electricity.	2.91	1.25	-1.361	353	.174	-.09040	-.2210	.0402

Decision Rule:
Since the significant values (p-value) of the t-statistics are less than 0.05 level of significance for all the items except one, the null hypothesis is hereby rejected and the alternative accepted. Therefore, access to credit facilities is the greatest problem facing SMEs.

Tax incentives have no significant effect on the accessibility of credit facilities for SMEs in Nigeria.
Ho_3: Tax incentives do not have a significant effect on accessibility of credit by SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781[a]	.609	.509	.69771

a. Predictors: (Constant), Tax incentives

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.048	1	.048	120.99	.000[b]
	Residual	171.356	352	.487		
	Total	171.404	353			

a. Dependent Variable: Access to credit
b. Predictors: (Constant), Tax incentives

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.984	.473		6.308	.000
	Tax incentives	3.138	.120	.017	7.314	.000

a. Dependent Variable: Access to credit

The model summary table shows that the correlation coefficient r (0.781) indicates that a strong linear relationship exists between Tax incentives and Access to credit by SMEs. The coefficient of determination r^2 (0.609) indicates that more than half the variation that exists in the dependent variable – access to credit is explained by the independent variable – Tax incentives. The ANOVA test indicate overall significance, ($F= 120.99$, $p<0.001$).

Decision Rule:
Since the significant value ($p<0.001$) of the t-statistic is less than 0.05 level of significance, the null hypothesis is hereby rejected and the alternative accepted. Therefore, Tax incentives have a significant effect on accessibility of credit by SMEs. This effect is positive as indicated by the regression coefficient (B = 3.138).

Collateral requirements do not significantly affect the accessibility of credit facilities for SMEs in Nigeria
Ho_4: Having collaterals do not significantly affect credit facilities accessed by SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.805	.799	.69505

a. Predictors: (Constant), Collaterals

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.356	1	1.356	215.807	.000[b]
	Residual	170.047	352	.483		
	Total	171.404	353			

a. Dependent Variable: Access to credit
b. Predictors: (Constant), Collaterals

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.752	.372		10.086	.000
	Collaterals	4.143	.085	-.089	11.675	.000

a. Dependent Variable: Access to credit

The model summary table shows that the correlation coefficient r (0.897) indicates that a strong linear relationship exists between Collaterals and Access to credit by SMEs. The coefficient of determination r^2 (0.805) indicates that more than half the variation that exists in the dependent variable – access to credit is explained by the independent variable – Collaterals. The ANOVA test indicate overall significance, ($f= 215.807$, $p<0.001$).

Decision Rule:
Since the significant value ($p<0.001$) of the t-statistic is less than 0.05 level of significance, the null hypothesis is hereby rejected and the alternative accepted. Therefore, the availability of collaterals

significantly affects accessibility of credit facilities by SMEs. This effect is positive as indicated by the regression coefficient (B = 4.143).

Multiple Regression Analysis result of effect of Government policy, Tax incentives and Collaterals on Accessibility of credit facilities by SMEs.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812[a]	.659	.600	.69366

a. Predictors: (Constant), Collaterals, Government policy, Tax incentives

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.994	3	.998	211.074	.000[b]
	Residual	168.410	350	.481		
	Total	171.404	353			

a. Dependent Variable: Access to credit
b. Predictors: (Constant), Collaterals, Government policy, Tax incentives

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.715	.556		6.688	.000
	Government policy	2.198	.124	-.100	3.592	.014
	Tax incentives	2.224	.143	.099	3.563	.001
	Collaterals	4.149	.091	-.093	9.629	.000

a. Dependent Variable: Access to credit

The model summary table shows that the correlation coefficient (r = 0.812) indicates that there is a strong linear relationship between the dependent variable (Credit access) and the explanatory variables (Government policy, Tax incentives and Collaterals). The coefficient of determination ($r^2 = 0.659$, i.e 66%), indicates that more than half the variation that exists in Credit access is explained by the multiple explanatory variables.

Decision rule:

Since the significant values are less than 0.05 level of significance ($p < 0.05$), we hereby conclude that Government policy, Tax incentives and Collaterals have significant positive effect on credit accessibility by SMEs. Hence the regression equation: $Y = 3.715 + 2.198X_1 + 2.224X_2 + 4.149X_3$.

Summary of Findings

The key findings of the study are summarized below, highlighting the most significant factors influencing SMEs' access to credit in Nigeria:

i. The regression analysis shows that government policies significantly favor SMEs in Nigeria, confirming the findings of previous studies like Beck & Kunt et al. (2008). These policies, such as microfinancing schemes and mandatory lending by banks, enhance credit access for SMEs and contribute to their growth potential.

ii. The results indicate that access to credit is the most significant problem facing SMEs in Nigeria, which aligns with findings from Onwumere (2000) and the World Bank (2011). Financial constraints remain a major barrier to SME growth, affecting performance and innovation in the sector.

iii. The regression analysis reveals that tax incentives positively impact SMEs' access to credit, corroborating findings from Carpentier & Suret (2005) and Dagogo & Ollor (2012). Tax reliefs help alleviate financial pressures and attract investments, ultimately fostering the growth of SMEs in Nigeria.

iv. The analysis indicates that collateral requirements significantly influence credit accessibility for SMEs, as financial institutions prefer businesses with collateral or strong credit histories. This finding is consistent with previous research by OECD (2013a) and Gentler & Gilchrist (1994), which highlights the importance of collateral in securing loans.

v. The study found that international funding sources can play a crucial role in supporting Nigerian SMEs. This aligns with recommendations from the abstract, emphasizing the need for international financial agencies to increase their involvement in funding SMEs to promote sectoral growth and development.

Conclusion

The findings indicate that the accessibility of credit facilities from financial institutions to SMEs in Nigeria has been severely hampered by numerous challenges. This is evident from the responses gathered from SME operators in the manufacturing sector, which show that there is poor accessibility to credit from financial institutions.

It is imperative that the government take responsibility for creating avenues that ensure funds are both available and accessible to the sub-sector. Additionally, providing enabling environments, upgrading infrastructure, and implementing favorable policies will not only support the growth of SMEs but also enable them to become a key driver of national development. Lessons can be drawn from developed nations that have successfully supported their SMEs, offering valuable insights for Nigeria.

Financial institutions, on the other hand, must be held accountable by the government to prevent abuse of existing rules and regulations affecting SMEs. The government must urgently address any violations of these rules to minimize their impact. For instance, to generate broader interest in the scheme and maximize its developmental impact, a reasonable portion of allocated funds should be used to provide working capital loans at interest rates suited to the viability of SMEs.

Recommendations

The following recommendations were made for the study:

i. The Nigerian government should strengthen and consistently implement supportive policies like credit guarantee schemes and simplified regulations to improve SME access to finance.

ii. Financial institutions should develop inclusive financing models with flexible terms and digital lending options to address the major challenge of credit access for SMEs.

iii. Tax incentives for SMEs should be expanded and clearly communicated to enhance creditworthiness and ease financial burdens.

iv. Collateral requirements should be relaxed by accepting movable assets and using alternative credit assessments to improve SME loan accessibility.

v. The government and financial institutions should collaborate with international agencies to secure more funding and technical support for SME development.

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