Impact of Deposit Money Banks' Lending Policy on Access to Credit: A Study of Selected Packaged Water Ventures in Ilorin Metropolis

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Abstract

Small businesses have in recent time contributed immensely to global economic output. However, in Nigeria, poor access to credit facilities from deposit money banks (DMBs) has constituted a serious impediment to the growth potential of the subsector. This study examined the impact of DMBs lending policy on credit access to SSEs in Ilorin metropolis. Descriptive survey design was adopted for the study involving twenty-seven (27) packaged water ventures selected using purposive sampling technique. Research hypotheses were tested with regression analysis, correlation and t-test statistical tools at 0.05 alpha levels. The results obtained from the analyses showed that interest rate has negative effect on credit access. The findings further revealed that collateral requirements (landed assets, other assets/facilities) significantly affect working capital loan. More so, it was revealed that business record such as financial statement, sales records, bank account records, business plan, customer record and evidence of insurance service have positive effect on credit access. The study concludes that both interest rate policy and collateral requirements have combined effect on credit access from DMBs to SSEs. It was recommended among others that management of deposit money banks should be strategic at implementing and or executing interest rate while the regulatory body and other stakeholders regularly review the market trends and other parameters while making lending policies.

Keywords: Deposit money bank, lending policy, credit access, collateral, interest rate
JEL Classification: D02, D04, 53, 78, E51

Contribution to/Originality Knowledge:
This empirical work established that lending policies (interest rate and collateral requirements) are inversely correlated to DMBs' credit access to SSEs in Ilorin metropolis; implying that regular reviewing and relaxed lending policies would enable easier credit access to SSEs in the study area

1.0 Introduction

Small Scale Enterprises (SSEs) have become key players in the global economy and in the wider eco-system of firms' operation. In recent time, it has become imperative to facilitate the growth of small scale enterprises through creating friendly environment and favourable policies in an attempt to bridge their growth-gap thereby creating inclusive global economic advancement. SSEs have important roles to play in achieving various developmental goals, across countries and at all levels of development, thereby promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialization, fostering innovation, and reducing income inequalities. Therefore, SSEs participation in the transition to more sustainable patterns of production, distribution and consumption is crucial for the greening of global economic growth (World Bank Global Economic Outlook, 2019).

In view of the above, the ability of the SSEs sub-sector to contribute significantly to any economy is a function of its performance and growth. Improved firm's performance ensures higher earnings, increment in sales volume, creation of employment and wealth maximization among others. However, optimal performance cannot be attained if SSEs fail to access and easily use external finance to support

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their investment opportunities. This signifies that the ability of SSEs to live up to their growth expectations depend heavily among others on the extent of credit delivery to the sub-sector. Generally, SSEs need credit access to financing working capital, fixed assets and trade financing that would further the scale of operation of the business. Studies have revealed that SSEs have continued to suffer financial challenges, such as unaffordable interest rates for loans, lack of grace period, high valued securities/collateral and minimal loan sizes (Aruwa, 2004; Farouk & Saleh, 2011; Erdogan, 2019). From the supply side perspective, credit delivery has to do with provision of appropriate, affordable and widely accessible quality financial services to the industrial sector mostly done through the banking system.

Being the pivot of all commercial activities and socio-economic development of any economy, the banking system is essential to any nation Terungwa, (2011). This implies that the deposit money banks otherwise called commercial banks have active developmental roles to play in the economy such as mobilizing fund from the surplus to the deficit spending units. Deposit money banks (DMBs) are supposed to be the main source of finance to SSEs or entrepreneurs in Nigeria. However, otherwise is the case as SSEs encounter various policy bottlenecks in credit access. Owolabi and Nasiru (2017) assert that finance is a critical element in the growth and development of SSEs. For instance, the commencement and efficient performance of any industrial enterprises either small or large will require the provision of funds for its capitalization, working capital and rehabilitation needs, fixed asset funding as well as for the creation of new investments. Credit delivery to the SSEs has, therefore, become a prime interest to policy-makers in both the public and private sectors. It is a known fact that firms depend on a variety of sources for their finances, including external and internal, formal and informal sources (Aruwa, 2004).

In Nigeria, interests in the development of SSEs and their contribution to economic development have continued to be in the forefront of policy debates. The advantages claimed for this are diverse, including: the encouragement of entrepreneurship; the greater likelihood that small firms will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns. More so, the development of small businesses is seen as accelerating the achievement of wider economic and socio-economic objectives, including job creation and poverty alleviation (Akingunola, Olowofela & Yunusa, 2018). Thus, the intention of developing, sustaining and supporting SSEs is to increase their involvement in economic growth in terms of increasing output of goods and services, and improving the lives of the populace through wealth distribution.

A number of studies have shown that funding is a major obstacle to SSEs than it is for large firms, particularly in most developing nations, and that access to finance adversely affects the growth of the SSEs sub-sector more than that of large companies (Owolabi & Nasiru, 2017; Erdogan, 2019). It is, therefore, unsurprising that the international development community has listed SSEs access to finance as an important policy priority in most developing nations. Due to constraints internal to the firm, SSEs are disproportionately affected by market failures, barriers and inefficiencies in the business environment and policy sphere. More so, SSEs' contributions depend on their access to strategic resources, such as skills, knowledge, networks, and on public investments in areas such as education and training, innovation and infrastructure.

The peculiar nature and attributes of small scale enterprises have made formal financial institutions sceptical about lending to the sub-sector. The financial providers hence introduced stringent measures and stiffer lending policies that would potentially reduce credit access to small firms. The lending policies such as interest rates, collateral requirements, long documentation timing and increased processing cost among others pose major threats to most small scale enterprises, hence are acclaimed to discourage them from credit market participation. To a large extent, this has hampered credit access to small firms resulting to increasing growth-gap in the sub-sector unlike their medium and large scale counterparts.

Prior researches have further indicated policy summersault of government at promoting external funding to SSEs, hence, poor credit delivery to small businesses has remained an Africa-wide problem over time. It was revealed that three out of every five small businesses fail within the first one year of operation in Kenya; only two of every ten small businesses survival for more than five years in Nigeria; in Ghana, only two of every five small firms survives for five years; in Namibia, about 80% of small firms do not survive the first three years; while in South Africa, only about 30% of small firms survive for more than five year (Bongomin, Ntayi, Munene & Malinga, 2017; Cardon & Stevens, 2018;). The reasons attributed to high failure rate among others were largely adduced to poor credit delivery as SSEs are unable to finance fixed assets or have access to working capital loan or trade financing. In view of the above, poor credit delivery has been identified as one of the most serious constraints facing SSEs and hindering their development and performance in many African economies.

It is consequently evident among others, that poor access to formal credit facility is a key constraint to the growth of SSEs in Sub-Saharan Africa, thus an important limitation for employment generation, economic growth and shared prosperity in the region. Notwithstanding the above, the effects of existing institutional problems, especially the lending policies and conditions on access to credit facilities by deposit money banks, have not been well addressed. Hence, the broad objective of this study is to examine the impact of lending policy on access to credit. The scope of the study is limited to small scale packaged water ventures in Ilorin, Kwara state

2.0 Literature Review

2.1 Conceptual Review

Generally, Small Scale Enterprises (SSEs) have no universal acceptable definitions as the meaning revolves over time depending on time and country's level of development. For instance, according to time, what was large scale in the 1970s may be regarded as small-scale today. Also, what is regarded as small-scale business in one country may be relatively large in another industry or country (Owualah, 1999). The definition of Small and or Medium Enterprises changes overtime depending on the circumstances because the classification of businesses into large-scale is a subjective and qualitative judgment (Ray & Ray, 2017).

In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and or the number of paid employees. The European *definition of Small and or Medium Enterprises* is the category of Micro, Small and Medium-sized Enterprises (*MSMEs*) made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro" for Medium and Small enterprise respectively (EU/OECD, 2018). The USA definition of Small or Medium Enterprises is strictly based on the numbers of paid employees. Hence, SMEs are defined as such enterprises with fewer than 500 employees in the agriculture, manufacturing, and service sectors (United States International Trade Commission, USITC, 2015). This connotes that in the USA, there is no clear demarcation between small scale enterprises and medium scale enterprises.

In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees (Wolfgang, Kenneth, Yan & Dermoth, 2015). Consequently, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, and those in the retail and services trades with 10 million yen paid-up capital and 50 employees. Therefore, the statistical definition of Small or Medium Enterprises varies by country and is usually based on the number of employed staff, and value of sales and/or value of assets. However, due to its ease of collection, the most commonly used variable is the number of employees. The EU and a large number of OECD, transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the USA (500 employees) for medium sized enterprises. The OECD (2017) refers to SMEs as the firms that have employment capacity of up to 249 persons, with the following breakdown: micro (1 to 9), small (10 to 49) and medium (50-249).

There is no much difference between the EU and American's definitions and Africa. In Ghana, the Ghanaian Enterprise Development Commission defined a small industry as one requiring a loan of not more than USD 250,000 (if the borrower's equity were 30 percent including land and building) (Huselid 2013; Hayton, 2005). The Bank of Ghana, which operated a Credit Guarantee Scheme (CGS), defined a small scale business by its sales volume (turnover) and by size of its investment in plant and equipment (assets). To qualify for the CGS, an enterprise must have annual turnover not greater than c300,000 (three hundred thousand Cedis) and plant and buildings valued at no more than c100,000 in 1998. In view of the above, the National Board for Small Scale Industry in Ghana defined Small scale enterprise as a company having an asset valued at c10,000 (excluding land, building and vehicle) and employ 9 persons or less (Boateng, Boateng & Bampoe, 2015; Bongomin, Ntayi, Munene & Malinga, 2017).

In Uganda, as available elsewhere in the world there is no nationally agreed definition for SMEs. The Micro and Small Enterprise Policy Unit (MSEPU) in the Ministry of Planning and Economic Development adopted that companies with 10 and less employees are micro enterprises, while small enterprises are those that employ between 11 and a maximum of 50 people; and the value of assets excluding land, buildings and working capital is less than Ush360 million; with an annual turnover between Ush10 –50 million. Therefore, a Small Enterprise is defined as an enterprise employing maximum 50 persons; annual Sales/revenue turnover of maximum Ugandan Shillings 360 million (US$ 218,181) and total assets of maximum Ugandan Shillings 360 million (US$ 218,181).

In Nigeria, the definition of SMEs is based on three major criteria via operating cost, turnover and employees capacity. Accordingly, a small scale enterprise is such whose total operating cost excluding cost of land but including working capital above N1 million but not exceeding N10 million (Central Bank of Nigeria, 1995). The Nigeria Federal Government defined SMEs as businesses whose annual turnover not exceed N500,000 for merchant bank loans, those enterprises with annual investment not exceeding N2 million excluding cost of land or maximum of N5 million (Adepoju, 2007). A small-scale business is such with total cost excluding land but including working capital above N1.5 million but not exceeding N50 million with a labour size of 11 but not exceeding 100 paid employees (National Council of Industry, 2006).

2.1.1 Credit Access to Small Scale Enterprises

Literature has established that Small Scale Enterprises play significant roles in the economic development of most developed and developing countries in terms of job creation, innovation of new ideas, harnessing resources for productive purposes, and contribution to general socio-economic welfare (Gunu, 2004; Gundal, 2015). However, SSEs in Nigeria have not been able to play these important roles given the quantum of challenges they face which include inadequate capital as they are not able to have access to finance from banks, poor operating environments as typified by poor state of infrastructure, low entrepreneurial skills and inconsistent government policies. Prominent among these challenges is poor access to credit facility from formal financial providers.

The credit gap amongst SSEs was created in various ways through; unattractive and high interest rate, collateral requirement; lack of confidence, volatility and high business risk, and ultimately limited fund which enhanced conscious lending to high profile large corporations (OECD, 2004; OECD, 2018; Kadiri, 2012; Masanai & Fatoki, 2012). In the same vein, Gbandi & Amissah (2014), World Bank

(2014) opine that the gap affects both formal and informal sectors as the local financial systems do not sufficiently cater for the needs of small businesses, and this results to negative consequences on business growth, employment generation, poverty incidence and ultimately, poor economic development. In a similar view, Oba & Onouha (2013) attest that SMEs poor performance has resulted to high level of poverty, unemployment and poor standard of living in the Nigeria, though SMEs provide 70% industrial employment and 60% of agricultural sector employment, but only account for 10-15% of the total industrial output with a capacity utilization of a little over 30%.

Credit access is central to the growth of businesses in any economy, as financial facilities are needed to establish production, upgrade technology and increase productivity capacity. Generally, due to its small nature, SSEs lack easy access to credit facilities unlike their large scale counterpart. This is confirmed in an empirical study by Safiriyu and Njogo (2012), who revealed that 65% of small businesses record low progress due to poor access to credit facilities. Since the risks and transaction cost associated with commercial lending are high, banks are unwilling to lend to small businesses. Other limiting factors include inability to provide required equity capital fund e.g. collateral securities to support loans, shortage of long term loans, restrictive monetary policies and high cost of lending.

According to Forster (2015), the provision of credit has increasingly been regarded as an important tool for expansions of operations of small and medium enterprises. However, the recent financial crisis has tightened credit constraints for most small and medium-sized enterprises (SMEs) around the world, particularly in emerging African economies. This has turned the attention of policy makers and academics to the role played by informal finance. Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of enormous potential contribution to the economic growth (ROK, 2013). Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. In addition, there is need for more empirical studies to indicate the potential role of improved lending policies by both formal and informal credit institutions in alleviating problems of access to credit to SSEs.

Literature considered access to credit as the single most important challenge facing the operations of small businesses in Africa, (World Bank Report, 2013). The problems bedeviling the SMEs in Nigeria are multi-faceted (Olaitan, 2006). According to Utomi (1997), Owolabi and Nasiru (2017) inadequate capital, inaccessible credit facilities are the common challenge of small firms in Africa. Long term institutional facilities are generally not available to SSEs because they are considered high credit risks by financial institutions. The study by Inang and Ukpong (1992) indicated that 75.7% of their survey respondents relied mostly on own funds to finance their businesses. A widespread concern is that the banking system in the sub sector (which supposed to be the major financier of SMEs) is not providing enough support to new economic initiatives and in particular to the expansion of SSEs and agriculture sector.

2.1.2 Size of Collateral as Determinant of Credit Delivery

The collateral requirement in a loan contract is a conventional way of reducing credit risk to the borrower. Due to information asymmetry in SMEs lending, commercial banks face difficulties in pricing the loans and lending decision leading to credit rationing may be difficult for them (Stiglitz & Weiss, 1981; 1997). Collateral has been proxies by land and machineries. SSEs have fewer assets to offer as collateral than large firms. This may largely relate to the stage of growth the firms belong to. In the earlier stage of the firm, it may have lower retained profit which may hinder them from purchasing fixed asset compared to larger firms which have a longer history (Pandula, 2011). In another research in Ghana, Ofei (2004) found that generally bank savings and landed property are the most important collateral accepted by credit institutions. The importance of size of SMEs collateral to the banks in granting loan cannot be over emphasized. Storey (1994) stated that bank financing of SMEs will depend on whether the lending can be secured by collateral. He also stated that firm with least intangible asset need to borrow less, compared with firms with more tangible asset because of collateral factor.

2.1.3 Records keeping as Requirement

Fatai (2015) pointed out that the internal documents and management methods, poor functional accounting methods and system, insufficient manpower, unclear organizational set up, poor entrepreneurial innovative and initiating skills, improper strategic business plan, lack of financial discipline often contribute to rejection of credit access to SSEs. The importance of record keeping cannot be over emphasized in modern business setting. To a large extent banks relies on business records such as updated bank statement, cash flow record, business plan, sales record, customer records, and insurance record amongst others. Most SSEs do not consider these items s been significant, hence it often create information asymmetry against small businesses.

2.1.4 Owner's Familiarization with Loan as Determinant of Credit Delivery

Operators of small businesses poor familiarization with loan processes and procedure is another constrain to access credit for SMEs. Entrepreneurs need to get training on the loan procedure and other modalities. Isaac and Abimbola (2005) identify low level of management and technical competence as a problem of SMEs access to SMIEIS fund. Dogondaji (2006) reported that poor familiarization of SSEs operators with government and bank loan are some of the problems that threaten the growth of small businesses in Nigeria, hence their continuous poor access to credit. The major reason is the inability of the SMEs to provide relevant information that will help banks assess the worth of the enterprise and determine the risk involve in giving credit (Santiago, 2005).

2.1.5 Interest Rate as Determinant of Credit Delivery

High interest rates are significant obstacles against credit delivery to small business as high interest rates often discouraged them from taking loans from banks. Beck and Huselid (2004) used the World Business Environment Survey (WBES) to show that high interest rate is the most important financing obstacle for small businesses among 12 examined financing obstacles. Accordingly, some studies reported interest rate as a major factor that deter the flow of credit from banks and other financial institutions to small businesses. In previous research conducted by Dogondaji (2006) SMEs often express strong feeling on the problems that they take as critical and prevent them from accessing credit. These problems are: interest rate, inadequate technical capacity to develop sound feasibility studies, short repayment period and lack of collateral security.

Similar research by Mensah (2004) reported that SMEs sector are short of both debt and equity financing because of high interest rate charged by financial institutions. Similarly, Binks and Ennew (1996) mention interest rate as one of the major problems rated as important that prevent SMEs from accessing credit. The World Bank, Nigeria SMEs Finance report (2015) revealed that the main reasons for SMEs not applying for loans through the formal channels: interest rates not being favorable (18%), the collateral requirements being too high (18%) and the application procedures being a deterrent (34%).

2.2 Theoretical Review

2.2.1 Innovation Theory of Small Firms

In literature, theories such as theory of planned behaviour, bank channel model, human capital theories have been used to support small firms' growth. However, this work adopts the innovation theory which was first advocated by Joseph Schumpeter in 1934. The theory considered entrepreneurs as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Schumpeter introduced the concept of innovation as a key factor in an entrepreneurial process in addition to assuming risks and organizing factors of production. Schumpeter defined entrepreneurship as a creative activity, and an entrepreneur as an innovator who brings new products or services into economy. Schumpeter argued that anyone or any enterprise seeking profits must first innovate.

In view of the above, small businesses must innovate in order to lubricate employment of economic system's existing supplies of productive means (Schumpeter, 1936). Schumpeter believed that innovation is considered as an essential driver of competitiveness and economic dynamics. He regards innovation as a tool of an entrepreneur. The entrepreneur is also viewed as the engine of growth which sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources.

The theory of innovation as relevant to small business hangs on the ability of new or small firms to create innovation. The work of Schumpeter (1987) addresses not only the economic factors of entrepreneurship but other important aspects from the viewpoint of an innovative, growth-oriented venture of small enterprises. However, on the contrary, Drucker (2001); Kirchhoff (1991); and Hornaday and Aboud (2014) emphasized that not every new small business is entrepreneurial nor represent entrepreneurship; hence, the connection between a new and small business and entrepreneurship appears thin. Notwithstanding, as small business owner who is innovator is more than an inventor because he does not only originate as the inventor does but goes much farther in exploiting the invention in commercially ways.

2.3 Empirical Review

Having reviewed various concepts and theories; there is a need to evaluate previous empirical studies relating to the subject matter of the research becomes imperative. It gives insight into unraveling the salient issues being investigated. For ease of presentation therefore; and to facilitate easy understanding of this section; the researcher decides to review empirically according to the variables in the study's objectives. In recent times, various empirical works have studied growth dynamics and or performance among small scale enterprises.

Binks and Ennew (1996) studied the extent to which the 5Cs of lending (collateral, character, capacity, capital and conditions) influence credit access to small enterprises among 580 small firms in North America. The study emphasized that character and collateral are the security required in lending which acts as a cushion against borrower's inability to repay. Conditions are those set by the bank such as turnovers levels and profitability, purpose of loans, period of business operations and repayment arrangement among others. The study found that these 5Cs are essential to any small enterprise in accessing loan and inadequate of any may deter access to credit. The scope of this work was limited to the 5Cs of lending and how it affects credit access to small businesses. This forms a major area of critique of the work and the need for the current study.

McMahon (1998) investigated the determinant of access to finance among Libya small firms. The study adopted a survey method to investigate 285 small scale enterprises in the northern part of Libya. The study observed that enterprise characteristics, entrepreneurs' network and cultural orientation are the major determinants of small business access to finance in Libya. It was also found that financing small enterprises in Libya depends on informal channels by 81% of the overall financing while formal financing accounted for only 19%. This study was critiqued on the ground that it was carried out in Libya, and it focused limited to determinants of access to finance amongst small firms. The above justifies the need for current study.

Amonoo, Acquah and Asmah (2003) studied the impact of interest rates on demand for credit and loan repayment among 320 small firms in Ghana. The study found that demand for credit among small firms in Ghana is majorly influenced by interest rate, owners' equity and firm's annual profit. It was also found that there is a negative relationship between interest rate (defined as the lending rate at which small firms borrow from credit institutions) and small firms' demand for credit and loan repayment at both bank and non-bank financial institutions. The geographical scope of this work was Ghana, as it focuses on interest rates and access to credit. This forms a major critique of the work and the need for the current study.

Angaine and Waari (2014) in the study of factors influencing loan repayment in micro-finance institutions in Kenya established that 47.6% of the SMEs have high credit risk exposure due to their servicing of more than two loans. This raises their credit risk profile which the lenders may not be aware of due to information asymmetric. The study clearly demonstrated that generally, small businesses are usually more credit constrained than other segments of the economy. The reasons adduced was because of financial sector policy distortions, lack of collateral, information asymmetries, lack of sufficient collateral as well as high risks inherent in lending practices to these enterprises. This work was critiqued on the ground that it focused on loan repayment factors amongst small and medium businesses in microfinance institutions in Kenya.

Adeoti, Gbadeyan and Olawale (2015) studied the impact of microfinance institutions credit on the survival of SMEs. A survey of 300 clients of two microfinance banks in Irepodun area of Kwara State was investigated and analysis was carried out through frequency distribution and ANOVA. The study found among others that facilities provided by these microfinance banks have increased the survival rate of businesses hence reduced graduate unemployment in the area. This work is critiqued on the ground that it only focused on sourcing credit facilities from microfinance banks in Irepodun Local Government area of Kwara State. Hence, another empirical work is needed to cover a wider scope in terms of location and more formal credit institutions in Nigeria.

Woldeyohanes (2016) studied dimension and determinants of growth of micro and small enterprises in Mekelle city in Ethiopia. The study adopted a semi-structured questionnaire to investigate 178 SSEs in the North of the city. The study found that 76.4% of the enterprises were only surviving while 23.6% were actually growing. More so, the study found that gender composition of business owner, startup capital, location and sector in which MSEs operate are essential determinant for their growth. This work through structured questionnaire was used to generate data; however, it is critiqued on the ground that it did not link the growth of SSEs to a particular source of financing besides the difference in the location of the study.

Aliero and Yusuf (2017) studied the constraints to credit access among small businesses in Sokoto state. The study through a survey of 295 registered SMEs in the state found that only interest rate significantly affects credit access, while firm's age, size, ownership structure, education and collateral have no significant impact. The study hence concluded that to improve credit access to small businesses in the study area, lower interest policy must be implemented. This study was critiqued on the premise that the geographical scope was Sokoto state and limited to generic constraints of SMEs in the area. The above limitation justifies the current study.

Chowdhury and Alam (2019) investigated factors affecting access to finance among SSEs in Bangladesh. A sample of 86 SMEs was collected directly through interviewing the respondents with the help of a questionnaire for self-guidance. The findings of the study shows that the size and age of the firms, education and skills of the owners, and unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials etc. are some of the biggest hurdles that SSEs in

Bangladesh face in getting loans from financial institutions. This study was critiqued on the premise of the data collection and location of the study; hence, the justification for the current study.

3.0 Methodology

The main focus of this chapter is to demonstrate the overall approaches and perspectives of this research process as it relates to why, what, where and how relevant data are collected and analyzed. As postulated by Kirsten (2013), the main determinant of the quality of any research work is the method employed in data generation, processing, presentation and analysis. This chapter therefore outlines the research hypotheses and the methodological approach taken in the empirical element of the work and the methodology used in the study.

3.1 Research Design

For this study, descriptive survey design is considered appropriate hence, adopted. the population of interest consists of small scale packaged water enterprises operating in Ilorin, Kwara state. A non-probability sampling design was adopted and a purposive sampling procedure used. For this study, a total of 27 packaged water enterprises spread across the five-clusters in Ilorin metropolis and that have enjoyed credit facilities from Deposit Money Banks are considered as our population.

3.2 Method of Data Collection

For the purpose of this study, primary data was gathered through the use of self-administered questionnaire to obtain opinions directly from the respondents, i.e. selected sample. To obtain the required data/information, a detailed questionnaire was prepared and administered to the small scale enterprises operators (packaged water ventures) who constitute the study respondents. A total of twenty-seven copies of questionnaire was distributed. The questionnaire was divided into two sections and designed with the use of nominal, ordinal and interval scales of measurement. Section ‘A’ consists of demographic data such as questions ranging from gender, age, to educational qualification of the owner/manager, while Section ‘B’, consists of questions relating to data on relevant variables on, access to finance and credit delivery.

4.0 Results

4.1 Test of Hypothesis I

H_0: banks’ interest rate policy has no significant impact on fixed asset financing of small scale enterprises

Table 4.1 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863[a]	.326	.807	.31678

a. Predictors: (Constant), IRP

b. Dependent Variable: FAF

Table 4.1 reveals that the coefficient of multiple determination is 0.326; the implication of this is that about 73.6% of the variation in fixed asset financing measures is explained by variables in the model as interest rate while the remaining 26.4.0% is explained by other factors which are not included in the model. The regression equation (model formulated) proved to be very useful for making predictions since the value of R^2 is close to 1.

Table 4.2

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	319.205	3	85.441	835.414	.0000[a]
	Residual	49.684	17	.088		
	Total	368.899	20			

a. Predictors: (Constant), IRP

b. Dependent Variable: FAF

The calculated ANOVA table is analyzed to see if *any* of the variables are significant. The F-statistic is compared with 3 and 24 degrees of freedom using stats tables. From the ANOVA table, $F = 835.414$, p-value = 0000 < 0.05 (sig.). Since p-value < 0.05 (critical value), the null hypothesis is rejected and the alternative accepted.

4.2 Test of Hypothesis II (Correlation Analysis)

H_0: there is no significant relationship between collateral requirements of deposit money banks on access to working capital loan by small scale enterprises

Table 4.2 **Correlations**

Model	R	Working Capital Loan.	Landed Facility.	Other Assets/Facilities.
Working Capital Loan.	Pearson Correlation	1	.740	.820
	Sig. (2-tailed)		.000	.000
	N	20	20	20
Landed Facility	Pearson Correlation	.740	1	.640
	Sig. (2-tailed)	.000		.014
	N	20	20	20
Other Assets/Facilities.	Pearson Correlation	.820	.640	1
	Sig. (2-tailed)	.000	.014	
	N	20	20	20

b. Dependent Variable: Collateral Requirements

In table 4.2 above, the correlation between work capital loan and landed facility is r=0.740 and, p<0.000 significant level. The same holds for work capital loan and other assets/facilities is r=0.820 and p<0.000; landed facility and other assets/assets equals 0.640, and p<0.000. These correlation coefficients are highly significant as they are close to 1. This shows that the relationship between the variables is strong and positively correlated.

4.3 Test of Hypothesis III

The statistical analysis adopted to analyze the data generated is t-test statistics

H_0: there is no significant relationship between business records requirement and access to trade financing by small scale enterprises.

Table 3 T-test statistics

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Financial statement	30	4.02	.981	.110
Sales records	30	4.34	.810	.091
Bank account records	30	4.28	.811	.091
Business plan	30	4.32	.689	.077
Customers' record	30	4.20	.802	.090
Insurance Services	30	4.02	.712	.082

From the one sample t-test above, the average response is above 4.02 and standard error of the mean is not significant. Five-point Likert-style rating scale of 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1 = strongly disagree was used to scale the responses.

One-Sample Test

	α = 0.05					
					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Financial statement	326.716	29	.000	4.025	3.81	4.24
Sales records	427.870	29	.000	4.338	4.16	4.52
Bank account records	417.152	29	.000	4.275	4.09	4.46
Business plan	506.110	29	.000	4.325	4.17	4.48
Customers' record	426.846	29	.000	4.200	4.02	4.38
Insurance services	426.846	29	.000	4.020	4.12	4.21

The result of the above t-test shows that p-value is 0.000 while the critical value, $\alpha = 0.05$. This means that there is a significant relationship as probability value (p-value) of 0.000 is less than the critical value of $\alpha = 0.05$. With this result, the null hypothesis III is rejected meaning that financial statement, sales records, bank account records, business plan, customer record and evidence of insurance service significantly contribute SSEs access to secure trading financing from deposit money banks.

4.4 Discussion of Findings

The study investigated the impact of deposit money banks' lending policies on credit access to small scale enterprises in Ilorin metropolis. The findings of the study revealed that all the interest rate policy affect credit lending to small scale business. Thus, fluctuation in interest rates should be looked into as a major determinant of credit access to SSEs. This implied that for small firms' to improved access to credit from DMBs, issues relating to interest rates must be top priority. The finding of the study revealed that interest rate policy has direct effect on credit access by total variance of 73.4%. (R. Square = 0.734). This finding agreed with the positions of (Kadiri, 2012; Kadiri & Adeyemi 2014; Adeoti, Gbadeyan & Olawale, 2015; Olagunju, 2019) who finds out that access to credit significantly determine SMEs growth. It also corroborated the finding of Kahya (2007) which submitted that high interest rate substantially contributed to the poor level of SMEs inability to access credit facilities from commercial banks which have negate the expansion potentials of SMEs in Nigeria.

Finding further indicated that all collateral requirements by deposit money banks do significantly prevent SSEs from DMBs credit access. The two (2) identified components of collateral requirements discussed were of significant effect on credit access in the selected small firms in Ilorin metropolis, Kwara state. The findings show that landed assets of Beta = 0.740, and $P<0.05$; while other assets/facilities of Beta = 0.820; $P<0.05$). Collateral such as landed assets are major component of collateral requirements was admitted to serve as major security against SMEs credits from DMBs by (Fadahunsi, 1997). Also this amplified the findings of Ewehere and Nmadu (2017), that collateral requirements have negative impact on credit access amongst SMEs in Nigeria.

This study measured the strength of collateral requirements on credit access in the packaged water ventures in Ilorin metropolis and it was discovered that the two components examined have strong strength on credit access by SSEs in Ilorin metropolis. This finding supports former investigations by Kola and Olalekan (2011); Yahaya, Osemene and Salman (2011); and Onakoya, Fasanya and Abdulraheem (2013) that poor financial and management skill, small asset base and high vulnerability to liquidation are the major constraints of SMEs access to finance in Nigeria.

5.2 Conclusion

The findings of the study submitted that lending policies affect credit access to SSEs in Ilorin metropolis, Kwara state. The findings established that the interest rate policies and collateral requirements combined affect credit access from DMBs to SSEs. Therefore, if DMBs would encourage SSEs, there is a need to focus on moderately low interest rates, and less emphasizes on collateral requirements from SSEs operators. This will significantly make improve credit access to finance the expansion of SSEs in the study area. More so, the study established on the other hand that SSEs operators need to have good business records for proper business assessment during credit facilities processing. The findings indicated that business records such as financial statement, sales records, bank account records, business plan, customer record and evidence of insurance service play a major role on credit decision to SSEs. This implies that, mangers, owners and operators of SSEs in Ilorin metropolis must be versatile at keeping business record for onward credit access from DMBs.

5.3 Recommendations

Based on the findings of the study and the conclusion thereof, the following recommendations were made:

1. Management of deposit money banks should be tactical at implementing and or executing interest rate while the regulatory body and other stakeholders should regularly review the market trends and other parameters while making interest rate policies.
2. Management of deposit money banks should on regular basis review their collateral requirements for easy access of credit facilities to small firms as rigid collateral requirements would discourage potential entrepreneurs from accessing the facilities.
3. Small scale enterprise owners, managers and operators should cultivate the culture of proper business recording and book keeping. In this wise, how to prepare and safely keep business records such as financial statement, sales records, bank account records, business plan, customer record and evidence of insurance service must be learnt.
4. Workers should adequately be informed at all times on development that are imperative to industrial hazards and training and re-training of workers on the importance of maintaining hazard free work environment.

5.4 Suggestions for Further Research

This study basically examines the impact of deposit money banks' lending policies on small scale enterprises credit access in Ilorin metropolis. However, other factors such as, the nature of the business, location of the business, quality of the management, cultural practices among others which could potentially influence credit access were not covered in this study. Hence, the following areas of research could be suggested:

i. The impact of any of the above listed factors on credit access to SSEs in Ilorin metropolis, Kwara State

ii. Impact of deposit money banks' lending policies on credit access of other locations not covered in this study.

iii. Impact of deposit money banks' lending policies on credit access on other scale of businesses such as micro, medium or large scale enterprises in Ilorin metropolis, Kwara State.

iv. Any related study that adopts different research design or method of data collection on the same topic could as well be investigated.

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