Developing Informal Financing Option for Rural SMEs Growth: a Case of Selected Local Government Areas of Kwara State, Nigeria

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Abstract: Based on statistical evidences in the last couple of years, Nigeria’s economy is one of the rapidly growing in the world and the fastest growing in Africa. However, in real terms, its people are the most impoverished with high poverty concentration in the rural areas. This study investigates Small and Medium Enterprises (SMEs) and how the informal financing option could boost their performance in the rural areas. A sample of 185 SMEs was selected in a cross-sectional survey research design across two (2) Local Government Areas of Kwara State who are typically rural areas. The returned questionnaires of 125 i.e. (78.1%) were according analyzed using regression and t-test analyses. The findings show that 91.2% of the sample relied only on informal sources of finance for their businesses while 4.0% and 4.8% have accessed the formal and government funding respectively. The study concludes that informal financing option is germane to improving rural SMEs as this will create business expansion, provide more jobs and ultimately reduce high rate of poverty in the rural communities. The paper recommends that government should through Central Bank of Nigeria (CBN), Bank of Industry (BOI), Bank of Agriculture (BOA) etc. provide special intervention fund for informal financing channels. Furthermore, international NGOs such as FATE, MTN, Bill and Merlyn Foundations, and other international financial institutions such as African Development Bank (AfDB) International Finance Corporation (IFC) should develop a partnership programme with informal finance providers in Nigeria.

Keywords
Informal financing, Small and Medium scale Enterprises (SMEs), SMEs financing, Rural poverty, Economic growth

Introduction
As the global debate on reducing world poverty increases, rural communities have been identified as mostly affected poverty ridden areas. Poverty is a global phenomenon which threatens the survival of mankind (Appleton and Song, 1999). Hence, effort to bridge the gap of poverty reduction through job creation especially at the rural areas is a priority for international organizations. Part of the giant stride taken for instance, is the millennium declaration of the United Nations signed by 189 countries commits the global community to reduce by half the proportion of the world’s poor and hungry by 2015 Millennium Development Goals (MDG, 2013). In addressing this, various measures at improving rural economic conditions have been advanced by international communities among such are United Nations, World Bank and ECOWAS among others. A common and most recommended solution towards achieving this has been ‘conscious development of Small and Medium Enterprises (SMEs) at the rural areas’. Globally, SMEs have been considered to be the engine of growth of modern economies and serve to provide more employment to a large portion of the population in a given economy than the big organizations, hence contribute in reducing poverty (Fatai, 2011). More so, recent researches have linked rural economic growth with small business development (Eme, 2014; Oba and Onuoha, 2013; Masanai and Fatoki, 2012). In Nigeria, it is evident that SMEs have various constraints, among which are; poor access to finance, inadequate infrastructure, weak government regulatory support, poor demand for local made goods, among others (Kadiri, 2012; Eme, 2014). Among the various constraints, poor access to finance is proved to be most vital and critical to SMEs in sub-Saharan Africa (World Bank, 2013). Therefore, availability of alternative sources of finance is a priority issue at developing rural SMEs as an engine for employment creation and poverty alleviation in the rural areas, and socio-economic stability at large.

Problem of Statement
Nigeria is a rapidly growing nation with an annual population growth of 3.2% (NBS, 2013). Statistics have further shown that Nigeria is one of the fastest growth economies of the world and the fastest in Africa (World Bank, 2013). The above notwithstanding, a large proportion of her vast population is under the poverty line of 2 dollars per day while abject poverty is domicile in the rural areas (Word Bank, 2014). This becomes more evident as Nigeria records a slow progress towards her fulfillment of many of the Millennium Development Goals.
Goals, as the country ranked 153 out of 186 countries in the 2013 United Nations Human Development Index (Word Bank, 2014). In an attempt to address this, the federal government of Nigeria has initiated different policies and structural programmes between 1977 till date. However, many of these programmes have not significantly addressed poverty especially at the rural areas. Recent scholars have therefore linked increased rate of poverty to poor Small and Medium Enterprises (SMEs) development, hence, government has concentrated more attention to its development as alternative option. Similarly, Oni and Daniya (2012) posit that governments over the years have formulated several policies with a view to developing SMEs in Nigeria as they have been recognized as organ for achieving self-independence, employment creation, import substitution and ultimately poverty reduction.

Despite the huge potentials of the SMEs sector to achieve these, the finance gap remains a major problem particularly to the rural operators with access to credit as the biggest problem. This gap 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; 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 SMEs, and this results to negative consequences on employment generation, poverty incidence and ultimately, poor economic development. In a similar view, Oba & Onouha (2013) state that SMEs poor performance has resulted to high level of poverty, unemployment and low 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%.

Research Objectives
This study aims at examining if developing informal financing option for SMEs could be a means of poverty reduction in the rural areas of Nigeria. In order to achieve a proper investigation, the following specific objectives were set:

- To examine if the informal financing option such as personal servings, contribution from relations and friends, mobile bankers etc. contribute to rural SMEs growth.
- To ascertain the major factors responsible for SMEs poor access to finance in the study area.

Research Questions

- Would the adoption of informal financing option such as personal servings, contribution from relations and friends, mobile bankers etc. improve rural SMEs?
- Are there major factors responsible for SMEs poor access to finance in the rural areas?

Research Hypothesis

- The adoption of informal financing options would not significantly contribute to SMEs growth in rural areas.
- Factors such as small asset base, poor financial literacy, information asymmetry, low capital base and collateral requirement do not significantly contribute to SMEs access to formal financing in the study area.

Literature Review

SMEs and SMEs Financing
Interest in the development of small and medium-sized enterprises (SMEs) and their contribution to economic development process have continued to be in the forefront of policy debates in many developing countries (IFC, 2013). Conceptually, the meaning of SMEs varies across industries and nations. In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and the number of paid
employees. In Britain, small-scale business is defined as those industries with an annual turnover of 2 million pounds or less with fewer than 200 paid employees. In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. 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 (Appleton & Song, 1999).

In Nigeria, a Micro/Cottage enterprise is such with a total capital employed of not more than 1.5 million naira including working capital but excluding cost of land, and or labour size of number not more than 10 workers. A Small Scale Enterprise is such with a total capital employed over 1.5 million naira, but not more than 50 million naira, including working capital but excluding cost of land and or a labour size of 11 to 100 workers. While a Medium Scale enterprise is such with a total capital employed of not less than 50 million naira, but not more than 200 million naira, including working capital but excluding cost of land and/or a labour size of above 100 but not more than 300 workers (National Council of Industry, 1996). Different administrations in Nigeria have adopted various means of developing the SMEs sector in form of special financial intervention, regulatory and policy support, infrastructural development among others (Eme, 2014). The advantages claimed for this are diverse, including: the encouragement of entrepreneurship; the greater likelihood that SMEs 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 (Kauffmann, 2005).

**Strategic Importance of SMEs for Economic Growth**

- **Capacity Development:** in Nigeria, SMEs serves as an incubation Centre for many of the large businesses. Owualah (1996) stated SMEs may be regarded as the ‘university’ where entrepreneurs usually receive their trainings. It is therefore more important to lay the foundation of an enterprise class by promoting young entrepreneurs that it is to build s few large factories that may likewise fail.

- **Promoting Even Growth:** the very nature of SMEs sector is such that that the sector is propelled by rudimentary economic activities which depends mostly on locally sourced materials (Safiriyu & Njogo, 2012). This places the sector in a position to achieve high value added operations. The multiplier effect of this is rural raw material produces will have a steady supply of their produce. This will obviously enhance productivity, reduce rural urban migration and increase standard of living among the rural dwellers.

- **Labour Intensity:** Small firms employ a large share of the labour force in Kwara State just as many other States in Nigeria. Theoretically, SMEs are regarded to be more labour intensive than large firms. However, some research evidence suggests that many SMEs are in fact more capital intensive (Little, Mazumdar & Page, 1987). Labour intensity exhibits more variation across industries than among firm-sized groups within industries.

- **Job Creation:** In many developing economies, providing jobs for the growing population is a major challenge. Therefore, the major focus of SMEs development is usually to create enterprises that will engage the teeming population of the unemployed. This is no different in Kwara State as many of the SMEs intervention policies focus on employment generation especially for the youth. However, as it is often argued that SMEs are important for employment growth, this conviction has not been supported by empirical evidence, while job creation rates are substantially higher for small firms, so is gross destruction rates, SMEs exhibit high birth rates and high death rates and many small firms fail to grow (Kauffmann, 1993).

- **Efficiency and Innovation:** Many studies in developing economies show that small firms are efficient and there is some evidence that both small and medium firms are relatively efficient compared to large-scale firms (Little, Mazumdar & Page, 1987). It is also argued that SMEs are more innovative than larger firms due to the adoption of ‘niche strategies’, such as high product quality, flexibility and responsibility to customer needs as means of competing with large-scale businesses (Garry, 2012). This
is not different from what is obtained in Kwara State. Efficiency and continuous innovation is a major feature of SMEs.

- **Social, Political and Equity Justifications:** SMEs are often said to contribute to a more equal distribution of income or wealth. However, SMEs owners and workers are likely to be the poorest of the poor, so that SMEs promotion may not be the most effective poverty alleviation instrument. In reality, the desire of governments to promote SMEs is often based on social and political considerations rather than economic grounds.

- **Poverty Alleviation:** SMEs help to reduce poverty and inequality in Kwara State. Ojo (2006) states that SMEs require affordable capital to start up operations and the nature of the enterprise allows both skilled and unskilled labour, this essentially reduce poverty among the unskilled and contribute to economic development process of any economy. In Kwara State, part of the SMEs policies by the government aim at alleviating poverty especially among the rural dwellers by providing and the urban unskilled populace.

- **Large-Scale Enterprise Servicing:** Another major role of SMEs in Kwara State is to continuously service the large-scale enterprises. This is done in two major ways: - supplying inputs and assist in the output distributions of the large-scale industries. This collaborating role of SMEs is crucial to economic development of the State, thus the Government policies focus towards strengthening this sector.

### Informal SMEs Financing

The weaknesses of the formal financial system in form of administrative sluggishness, high management costs, payment delays, high and unstable interest rates and structural rigidities necessitated the existence and development of the informal financial institutions (Aryeeey, 1998). This was supported by International Finance Corporation (IFC, 2013), that less than a quarter of adults in Sub-Saharan Africa have access to formal financial services hence, lacks a financial infrastructure that includes a place to save money securely, safe and efficient means of transferring money and access to credit and insurance. Kadir (2012) describes informal financial transaction as financial activities that are not regulated by Central Bank supervisory authorities. Hence, such transactions rarely use legal documentation or the legal system to enforce contracts.

#### Personal Savings

This is the oldest and most common source of finance especially among rural SMEs in Nigeria. Personal savings is a self-finance mobilization in which the intended business owner set aside certain sum of money for future business intention. Several studies have revealed the significant contribution of personal savings to SMEs financing in Nigeria (e.g. Ojo, 2009; Terungwa, 2011). Ojo (2009) posits that fund from personal savings was 96.4%, 3% from informal sector and only 0.21% from the formal financial institutions. This trend is in conjunction with a 1983/84 study by the Nigerian Institute for Social and Economic Research (NISER) whose findings show that about 73% SMEs obtained their funds from personal savings while only about 2% obtained their funds from the financial institutions (Terungwa, 2011).

#### Relative and Friends Contribution

Due to high cost of formal financing, family and friend are often considered as a better alternative. While documenting financial decisions of households in developing economies over several years, Owualah, (1999) found that family finance is the most prevalent and usually the cheapest form of informal financing and often the most preferred among rural SMEs. He emphasized that before approaching a friend or family member, it is important to create or revise ones’ business plan as this will demonstrate plans for the business and their investment in it. It is also important to establish a business case that will persuade them (family and friends) to finance ones’ business instead of their own personal plans. The essence of this is to assure friends or relatives on how their money will be used and the bigger picture for the business. The plan must also make them aware of all risks and worst-case scenarios in the business operations.

### Mobile Bankers (Esusu)

http://www.ijmsbr.com
The activities of the mobile bankers are increasing dominating the rural SMEs financing. The most predominant type of informal finance in Nigeria is the Esusu. Among the Yoruba, it is called either Esusu or Ajo. Among the Igbo, it is called Isusu or Utu while the Edo calls it Osusu. The Hausa call it Adashi’, the Nupe Dashi, the Ibibio Eibe, while the Kalahari call it Oku (Okorie & Miller, 1976). Some Esusu groups operate with written laws while others operate with unwritten laws but on oath of allegiance and mutual trust. The general practice is that esusu associations contribute a fixed amount periodically and give all or part of the accumulated funds to one or more member(s) in rotation until all members have benefited from the pool. The importance of mobile bankers as observed by Aryeetey (1998) helps at mobilizing savings through the people’s daily or weekly collection of deposits, which are in turns used as capital to restock supplies hence expands outputs.

**Methodology**

This study adopts a survey research design and self-administered questionnaire was utilized for data collection. This design was adopted as it offers the opportunity to increase the commitment of the respondents. A sample of 160 SMEs was selected in a cross-sectional survey research design across two (2) selected Local Government Areas of Kwara State that are typically rural areas – Moro and Ekiti Local Government areas. The questionnaire was designed to generate responses on questions on relevant variables such as SMEs, informal financing options and poverty level. The answers were ranked on a 5-point Likert attitude scaling ranging from Very Low, Low, Fair, High and Very High. The returned questionnaires of 125 copies i.e. (78.1%) out of 160 copies distributed were analyzed by SPSS 16.0 version using simple percentage, standard deviation, and t-test analytical tools. The reliability of the data was tested using Cronbach’s Alpha Reliability Test and the result shows 0.614 which means that the instrument used in gathering the data was reliable and therefore exhibited internal consistency among items (questions) measuring each construct in the questionnaire.

**Data presentation**

<table>
<thead>
<tr>
<th>Table 1: Gender of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>---</td>
</tr>
<tr>
<td>Valid</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*Source: Field Survey, 2015*

Table 1 above shows the gender distribution of the respondents. It is revealed that Fifty-eight (58) respondents were male which constitute 46.4%, while sixty-seven (67) were female which constitute 53.6% of the total respondents. This indicates that there were more female SMEs operators in the study area than male.

<table>
<thead>
<tr>
<th>Table 2: Nature of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>Valid</td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*Source: Field Survey, 2015*

Table 2 above shows the nature of the business of the respondents. It is revealed that sixty-eight (68) i.e. 54.4% operate agricultural related businesses, eight (8) i.e. 6.4% operate manufacturing businesses, forty-two (42) i.e.
33.6% operate trading while seven (7) i.e. 5.6% is for others business. This indicates that in the rural areas, majority of the SMEs operates agricultural related businesses.

### Table 3: Sources of Finance for SMEs

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Informal</td>
<td>114</td>
<td>91.2</td>
<td>91.2</td>
<td>91.2</td>
</tr>
<tr>
<td>Formal</td>
<td>5</td>
<td>4.0</td>
<td>4.0</td>
<td>95.2</td>
</tr>
<tr>
<td>Government</td>
<td>6</td>
<td>4.8</td>
<td>4.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

Table 3 above shows the sources of finance of respondents. The table reveals that one-hundred and fourteen (114) respondents’ i.e. 91.2% accessed their funding through informal sources; five (5) respondents i.e. 4.0% through formal sources while six (6) respondents i.e. 4.8% accessed government funding. This indicates that informal sources of finance are the most common and accessible to the rural SMEs operates in the study area.

### Test of Hypothesis I (Using Regression Analysis)

\[
Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + E
\]

Where:

- \(Y\) = Dependent variable representing SMEs growth
- \(X\) = 1 to 3 represent independent variable representing informal financing options
- \(X_1\) = Personal Savings
- \(X_2\) = Relations and Friends
- \(X_3\) = Mobile Bankers (esusu)

\(E\) = Error term, (0, 1) normally distributed with mean 0 and variance 1.

\(\beta_0, \beta_1, \beta_2, \beta_3\), are the parameters to be estimated to fit the regression line.

\(\beta_0\) = is the intercept on the Y-axis.

### Table 4

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.859a</td>
<td>.820</td>
<td>.812</td>
<td>.29678</td>
<td>2.864</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), RF, MB, CS

b. Dependent Variable: SG

Table 4 reveals that the coefficient of multiple determination is 0.820; the implication of this is that about 82.0% of the variation in informal financing measures is explained by variables in the model; that is Personal Savings (PS), Relations and Friends (RF), Mobile Bankers (esusu) (MB), while the remaining 18.0% is explained by other factors which are not included in the model. The regression equation (model formulated) appears to be very useful for making predictions since the value of \(R^2\) is close to 1.
Table 5

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>305.424</td>
<td>3</td>
<td>85.441</td>
<td>827.606</td>
<td>.0000*</td>
</tr>
<tr>
<td>Residual</td>
<td>46.694</td>
<td>122</td>
<td>.088</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>317.118</td>
<td>124</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PS, RF, MB

The calculated ANOVA table is analyzed to see if any of the variables are significant. The F-statistic is compared with 3 and 76 degrees of freedom using stats tables. From the ANOVA table, $F = 827.606$, $p$-value $= 0000 < 0.05$ (sig.)

Since $p$-value $< 0.05$ (critical value), the null hypothesis is rejected and the alternative accepted. This implies that at least one of the predictors is functional for measuring informal financing for SMEs, therefore the model is useful.

Table 6

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.816</td>
<td>.492</td>
<td></td>
<td>9.797</td>
</tr>
<tr>
<td>Personal Savings</td>
<td>.266</td>
<td>.098</td>
<td>.096</td>
<td>2.395</td>
</tr>
<tr>
<td>Relation and Friends</td>
<td>.518</td>
<td>.093</td>
<td>.422</td>
<td>4.191</td>
</tr>
<tr>
<td>Mobile Bankers</td>
<td>.483</td>
<td>.091</td>
<td>.407</td>
<td>6.915</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SMEs Growth

The table 6 provides information effect of individual variables (the "Estimated Coefficients" or "beta") on the dependent variable. The coefficient of Personal Savings is 2.395 with $p$-value of 0.004 less than 0.05% (critical value), the coefficient of Relation and Friends (RF) is 4.191 with $p$-value of 0.000 less than the 0.05% (critical value) and the coefficient of Mobile Bankers (MB) is 6.915 with $p$-value of 0.002 less than the 0.05% (critical value). This implies that each of the variables has contributed to the model. Hence there is a significant relationship between informal financing and SMEs growth in the study area.

Test of Hypothesis II (Using one-sample t-test)

<table>
<thead>
<tr>
<th></th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower</td>
</tr>
<tr>
<td>small asset base</td>
<td>36.716</td>
<td>124</td>
<td>.000**</td>
<td>4.025</td>
<td>3.81</td>
</tr>
<tr>
<td>poor financial literacy</td>
<td>47.870</td>
<td>124</td>
<td>.000**</td>
<td>4.338</td>
<td>4.16</td>
</tr>
<tr>
<td>Information asymmetry</td>
<td>47.152</td>
<td>124</td>
<td>.000**</td>
<td>4.275</td>
<td>4.09</td>
</tr>
<tr>
<td>collateral requirement</td>
<td>56.110</td>
<td>124</td>
<td>.000**</td>
<td>4.325</td>
<td>4.17</td>
</tr>
<tr>
<td>vulnerability to liquidity</td>
<td>46.846</td>
<td>124</td>
<td>.000**</td>
<td>4.200</td>
<td>4.02</td>
</tr>
</tbody>
</table>
From the result 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. We reject Ho if the p-value for two-tailed test is less than value for $\alpha= 0.05$, otherwise accept.

**Discussion**

Tables 2 and 3 presented above show the nature of business and the sources of SMEs finance in the rural areas. Specifically, table 2 shows that agricultural related businesses are the most common and operated enterprises in the rural areas. This supports the empirical investigations of Olorunsanya, Falola and Ogundeji (2011) that in rural areas, agriculture is the predominant occupation and it spreads across farming and agribusiness. On the other hand, table 3 shows the available sources of finance for SMEs in the rural areas. It was revealed that informal sources contribute 91.2% of total funding accessible to SMEs in the rural areas. This supports similar investigations by Arueeyey (2005) and Nwagu (2014) that informal financing plays an integral role to rural SMEs and poverty reduction; hence, it must be consciously developed in the sub-Sahara Africa.

The result of the hypothesis one revealed that SMEs informal financial options such as Personal savings, Contribution from relations and friend, mobile bankers contribute significantly to rural SMEs growth in the study areas. This is made evident since p-value of each of the informal financing options is greater than the critical values obtained. More so, each of these options contributes positively to the model constructed. This result validates that findings of Kadiri (2012) who observed that majority of SMEs operating in Nigeria relied on the informal sources of finance to start their businesses. The result of the hypothesis-test two (2), shows that there are some striking barriers that hamper SMEs access to formal financial facilities and prominent among these are; small asset base, poor financial literacy, information asymmetry, collateral requirements and high vulnerability to liquidity. Since p-value of 0.000 for two-tailed test is less than $\alpha$-value of 0.05, we reject the hypothesis and conclude that small asset base, poor financial literacy, information asymmetry, collateral requirement and vulnerability to liquidity are major constraints to SMEs access to formal finance. However, poor financial literacy and collateral requirement are the two major factors that contributed the highest constraints. This finding supports former investigations by Kola and Olalekan (2011); Yahaya, Osemene & Salman (2011); Safiriyyu & Njogo (2012); and Onakoya, Fasanya & 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.

**Conclusion and Recommendation**

This study has brought to bear the imperative of financing SMEs for rural poverty reduction in Nigeria. Driven by the findings of this research, SMEs in Nigeria must be focused, productive and play the crucial role it is expected to in relation to employment generation, poverty reduction and general contribution to economic development. In achieving this, the informal financing option must be fully developed and well explored especially at the rural areas where high percentage of SMEs financing is from, and where high rate of poverty resides. The paper hence recommends the following:

i. Agencies such as SMEDAN and NDE should be given the responsibility of providing support in the areas of identifying sources of funds with attractive interest rates, initiating in consultation with SMEs, trade and professional associations capacity building programmes that will assist in accelerating the pace of rural SMEs growth for effective delivery of intended goal of poverty alleviation.

ii. Government should through Central Bank of Nigeria (CBN), Bank of Industry (BOI), Bank of Agriculture (BOA) among others provide special intervention fund for informal financing channels as this will increase their lending capacity.

iii. More Schemes such that provide financial incentive to SMEs such as YOUWiN Project at national level and QUICKWIN project at the state level should be encouraged and promoted especially at rural areas to prevent rural SMEs exclusion.
iv. Finally, international NGOs such as FATE, MTN, Bill and Melinda Foundations, and other international financial institutions such as AfDB, World Bank, IFC should improve partnership with informal finance providers in Nigeria.

References


