FINANCIAL OPENNESS AND ACCESS TO CREDIT AMONG SMALL AND MEDIUM SCALE ENTERPRISES IN ABIA STATE, NIGERIA.

Ogbe, S. E. and P. Ejim
Department of Entrepreneurial Studies, Michael Okpara University of Agriculture Umudike
talk2samogbe@yahoo.com

ABSTRACT
The study was on financial openness and access to credit among small and medium scale enterprises in Abia State, Nigeria.Specific objectives include todetermine the socio economic characteristics of small and medium scale enterprises, determine the level of financial openness, determine the level of access to credit,determine relationship between the level of financial openness, factors influencing the level of access to credit. A random sampling technique was used in selecting 60 SMEs respondents. Primary data were used in this study. The primary data were collected by the use of structured questionnaire. Data were analysed using means, percentages, frequency distributions, rankings and inferential statistics such as logistics regression and Pearson Moment Correlation.The study showed that majority of the respondents were males, single, and educated. Result showed that 40% of the respondents had low financial openness. There is a positive and significant (5% level of probability) relationship between financial openness and access to credit (financial inclusiveness).Business worth, level of education, sector of the economy, membership of group association, business location and level of income were significant (at 1% level of probability) variable affecting the level of financial openness. The study therefore recommends that young, married and educated operators of SMEs should be enlightened on the benefits of keeping visible financial record rather than mental storage of financial data that cannot be verified to reduce the rate of exclusion.Relevant government agencies should help operators of SMEs build capacities on the type of records to be kept, its handling and availability.Operators of SMEsshould be encouraged to form or join one group association or another. This measure will help reassure potential lenders (creditors of the safety of their financial resources (aid) to borrowers (SMEs operators).

Keywords: Financial openness, access, small and medium scale enterprises and credit

INTRODUCTION

Financial openness is defined in relation to international trade as the extent of openness in cross-border financial transactions (Kennedy, 2013; Chinn and Ito, 2007). It describes how demand sides fully disclose, without material reservations, their track records, financial position and performance to the supply sides to aid lending processes. It is a kind of due diligence carried out by the financiers and beneficiaries to proof all reasonable doubts. Financial openness refers to the willingness of a nation to adopt liberalized policies regarding business and commerce. Financial openness usually includes an overall absence of government regulation to the ownership of the means of production, government encouragement of private financial interests, and a liberal relationship between businesses and its shareholders (Mahendra, 2006). Financial openness is a reflection of how much a participant -a member nation is in the "globalized" economy. In fact, financial openness is probably one of the best markers related to whether or not a nation is a part of the global economy because of its ability to trade and engage in commercial growth with any other nation. Given the global marketplace, financial openness is a very good indicator of how involved a nation is in it (Enotes, 2010). From the definitions above, financial openness involves working together to ensure reciprocal trust between the demand and supply sides and establish a system of transparency, participation, and collaboration. This implies that openness will strengthen procedure for processing credit facilities and promotes efficiency and effectiveness. Transparency promotes utmost trust and accountability and provides reliable information to the financiers for decision making and control. It is a means to minimize the high rate of risks and defaults. The contemporary approach to objectively screening and approving credit facilities is the financial openness. It is a method that reveals the secrets behind lending and borrowing money. This criterion supersedes the traditional criteria for accessing credits from financialinstitutions.

Financial inclusiveness is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors which affect it (Thingalaya*et al*, 2010). A review of literature reveals that there is no universally accepted definition of financial inclusiveness. Broadly, financial inclusiveness means access to finance and financial services for all in a fair, transparent and equitable manner at an affordable cost (Thingalaya*et al*, 2010). The term 'financial inclusiveness' was coined in the British lexicon as they found that nearly 7.5 million persons did not have a bank account (Raju, 2006). In the Indian context the concept emerged prominently in the post-openness period with the rising exclusion in the country. Hence, it is necessary to understand the concept of financial exclusion before defining financial inclusiveness.

World Bank (2008) has presented the concept of financial inclusiveness in a comprehensive manner. It defines financial inclusiveness or broad access to financial services as absence of price or non-price barriers in the use of services. The report also stressed the distinction between access to and use of financial services as it has implications for policy makers. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply.

The poor people do have demand for financial services; in fact, they often bear the high costs charged by the informal financial markets for various types of services, apart from the risk involved in such products. A higher percentage of indebtedness to the informal sources not only indicates the failure of formal sources but also the demand for the financial services. Empirical research in Asian and African countries has demonstrated this fact (RBI, 2006). The informal sources have an edge over the formal sources to address these issues successfully with its basic features like suitability, timeliness, convenience, flexibility, adequacy and better understanding of the demands of the needy, by virtue of being an insider (Goyal, 2008; Sinha and Subramanian,2007).

According to Ray (1997), the demand for credit or capital can be divided into three parts. First, fixed capital that is required for new startups or a substantial expansion of existing production lines, i.e., for the purchase and organization of fixed inputs such as factories, production processes, machines or warehouses. Second, working capital that is required for ongoing production activities, which occurs because of the shortage of enough savings to fill up the substantial gap between the expenditure required for normal production and sales receipts.

Facility of deposits is one of the key elements of financial inclusiveness. This is particularly important for the people with low and irregular income. The fact that these are capable of weekly repayments shows that the poor are capable of savings, even if it is only in small amounts. Given a suitable product they might make use of it. Access to facility of safe deposits would not only enable "these people to plan their expenditure with convenience but also promotes thrift and develop the culture of savings. Safe deposits ensure withdrawal of money from accounts as and when required, whereas, the absence of such facility forces people to keep their savings in various informal forms such as cash at home or deposit with relatives/moneylenders and as such the possibility of losing money becomes very high (RBI, 2006).

Different opinion abounds as to why SMEs have not been able to perform; Some said it was lack of access to credit facilities and financial openness, others think otherwise arguing that inappropriate management skills, difficulty in accessing global market, lack of entrepreneurial skills, poor infrastructures, insecurity challenges etc. are largely responsible.

Onugu, (2005) opined that there are challenges and problems which frustrate SMEs'. These problems either make them to die within their first two years of existence or perform below standard even after surviving in their early years. Some of the key ones are inadequate infrastructural facilities (road, water, electricity) insecurity of lives and property, inconsistent regulations, fiscal and industrial policies, limited access to market, multiple taxes and levies, data inadequacies, fragile capital base, and harsh operating environments. The problems and challenges of SMEs' in Abia State are operating environment (Government Policies, Globalization effects, financial institutions, attitude to work, while other challenges are driven by themselves.

Furthermore, financial institutions are demanding unattainable conditions and terms (high interest rate) for the granting of loan. They are claiming that SMEs are not presenting bankable project (good project proposal), inadequate collaterals, lack of trained personnel's, lack of good accounting system coupled with high enterprise mortality. Thus, it would appear that greatest problem facing SMEs could be lack of accessibility of credit facilities.

Still worrisome is the position of Federal Government in the implementation of SMEs policies. How far the apex bank has gone in the enforcement and control of the laws that guide SMEs even after the emphasis on budgetary allocation? How have she ensured that the 10% profit before tax set aside by the commercial banks is made available to SMEs? It would appear that the commercial banks even prefer to pay a penalty of 20% to CBN instead of choosing the option of granting loans to SMEs.Despite the general vigorous marketing of these facilities by the financial institutions, SMEs have little or no access to them. The overall objectives of this study is on the assessment of financial openness and access to credit among small and medium scale enterprises in Abia State, Nigeria.The specific objectives of the study includes to; determine the socio economic characteristics of small and medium scale enterprises, determine the level of financial openness among SMEs Operators, determine the level of access to credit among SMEs, determine the relationship between level of financial openness and level of access to credit and determine the factors influencing the level of access to credit.

METHODOLOGY

The study was conducted in Abia State of Nigeria. It is one of the five states in the South-East geo-political zone of Nigeria. Abia State comprises of 17 Local Government Areas (LGAs), group into three Agricultural Zones. The Agricultural Zones are Aba, Ohafia and Umuahia.The state is approximately within latitudes $4^o\ 41^1$ and $6\ ^o\ 14^1$ N and longitudes 7^o10^1 and 8^oE. It occupies a land area of about 5243.775 sq. Km which is approximately 5.8% of the total land area of Nigeria with less than half of this land area being economically utilized (ABSEEDS 2005). Abia State is located within the forest belt of

Nigeria and temperature ranges between 20^{o}C and 36^{o}C. According to the 2006 National Population Census result, Abia State has a population of about 2,845,380.Majority of the population lives in the rural areas with a population density of about 580 per km which is adjudged to be one of the highest among the states of the Country (FRN, 2009). Agriculture is the major occupation of the people especially in the rural area involving over 70% of the population. They cultivate such crops like cassava, yam, rice, plantain, maize, melon, oil palm, cocoa, rubber and coconut among others while livestock like pig, poultry, and goat are reared. Agribusiness industry occupies a prime position in the economic activities of the people. This is not only because of enterprising, entrepreneurial and industrious spirit of the labour force, but also for the highly oriented market reputation of the state. A random sampling technique was used in this study. Sixty SMEs registered within Abia State Ministry of Trade/Commerce and Industry were randomly selected from the list of registered not less than 3000 SMEs. This list formed the sampling frame for the selection of SMEs.Primary data were collected from the 60 operators of SMEs with the use of a well-structured questionnaire and complimented with an oral interview. Statistical tools such as mean, percentage and frequency distribution andlogit regression were used in analyzing the data generated. The implicit form of the regression is shown as follows;

$$\log y = \frac{p}{1-p} = \alpha + BX_1 \;\ldots\ldots \quad (1)$$

Y= Access to credit (1), Non access to credit (0)
X_1 = Age of the firm (measured in years)
X_2 = Level of auditing of financial books (high=1,low=0)
X_3 = Membership of group association (Yes=1, No=0).
X_4 = Viable business plan (yes = 1, No = 0).
X_5=Functional Bank |Account (Yes = 1, No = 0)
X_6 = Collateral (Measured in Naira)
X_7= Bank Verification Number (Yes=1, No=0)

RESULTS AND DISCUSSION

Socio-economics characteristics of Small and Medium Scale Enterprise

Socio-economics characteristics of Small and Medium Scale Enterprise operators is presented in Table 1.

Table 1 shows that 78.4% of the respondents had age raging between 21-40 years. The mean of the age was about 34years. This means that majority of the respondents were young energetic and could be highly willing to adapt financial (openness) innovations. Willingness to adapted financial innovation could position the respondents to access credit facilities. In addition, 56.7% and 43.3% of the respondents were males and females.This means that majority of the respondents were males. The relatively high number of males this study could be due doggedness and willingness to acquire relevant knowledge that promote their functionality and financial prosperity. The greater the respondents are able to acquire relevant knowledge that promote their functionality and financial prosperity, the greater their level of financial openness and consequently their access to credit. Furthermore, the Table shows that 61.6% and 38.4% of the respondents were single and married.This means that majority of the respondents selected for study were singles.The high incidence of singles could be due to their level of innovation, regular mind concentration and availability. Their level of innovation, regular mind concentration and available could increase their competitiveness on the use of relevant financial tools that position them for success. Table 1 shows that 93.3% of the respondents had completed secondary school education. However, majority of the respondents had post-secondary school education. This means that majority of the respondents are literate. Being literate could mean higher greater competency to comprehend financial ideas effectively and profitably applying these ideas to product, services, procedures, and process that are desirable and viable.

Table 1: **Socio-economic characteristics of Small and Medium Scale Enterprise operators**

Age	Frequency	Percent
21.30	34	56.7
31-40	13	21.7
41-50	8	13.3
51-60	4	6.7
61-70	1	1.7
Total	**60**	**100.0**
Sex		
Female	26	43.3
Male	34	56.7
Total	**60**	**100.0**
Marital status		
Single	37	61.6

Married	23	38.4
Total	**60**	**100.0**
Level of education		
No formal education	4	6.7
Primary Education	-	-
Secondary Education	6	10.0
Tertiary Education	50	83.3
Total	**60**	**100.0**

Source: Field Survey, 2017

Level of financial openness among SMEs operators.

Level of financial openness among SMEs operators is presented in Table 2.

Table 2: Level of financial openness among SMEs operators

Financial openness	Frequency	Percent
Financial openness	24	40.0
Non-financial openness	36	60.0
Total	**60**	**100.0**

Source: Field Survey, 2017

Note: financial openness is the ability of respondents to keep records of sales and expenditure that can be verified.

Table 2 shows that 40% of the respondents indicated financial openness while 60% of the respondents indicated non-financial openness. This means that majority of the respondents are not financially open. The implication is that the level of financial openness among respondents is how low and their level of access to credit may be tampered (low). In other words, their level of financial inclusiveness will be poor. In order to increase the level of financial inclusiveness (access to and use of credit) operators of SMEs should be encouraged through regular financial training and capacity building on need to keep relevant books of accounts. These books would without any reservation show their financial position and performance to any lending institution.

Level of access to credit (Inclusiveness)

Level of access to credit among SMEs operators is presented in Table 3

Table 3: Level of access to credit among SMEs operators

Level of Access to credit	Frequency	Percent
Access to credit	22	36.7
Non access to credit	38	63.3
Total	**60**	**100**

Source: Field Survey, 2017

Table 3 shows that 36.7% of the respondents had access to credit while 63.3% of the respondents had no access to credit. This means that majority of the respondents did not access credit. The high level of non-access credit could be due to the poor level of financial openness (poor record keeping). Poor access to credit would increase the level of financial exclusion among the respondents. In order to address this situation, operators of SMEs should keep proper financial records especially those that shows their financial returns and expenditures.

Degree of relationship between level of financial openness and access to credit.

In order to analyze the degree of relationships between level of financial openness and access to credit, Pearson moment correlation was used.

Pearson moment correlation is a statistical tool used in showing the degree of relationship between two or more variables. The result of the relationship is presented in Table 4.

Table 4: Degree of relationship between level of financial openness and access to credit

Variables	Financial openness	Access to credit
Financial openness	1.000	0.264*
Access to credit	0.264*	1.000

Source: Field Survey, 2017 *Correlation is significant at 5%

Table 4 shows that the correlation coefficient was 0.264. This correlation coefficient signifies that there is about 26% strength (degree) of relationship existing between financial openness and access to credit among respondents. This also means that there is a positive and significant relationship between openness and access to credit. Indicating that as financial openness increased, access to credit also increased.

Factors influencing the level of access to credit (inclusiveness)

Factors influencing the level of access to credit (inclusiveness) is presented in Table 5.

Table 5: Factors influencing the level of access to credit (inclusiveness)

Parameters	Estimate	Std Errors	Z score
Age of firm	−0.044	0.000	−259.778***
Auditing of account	−0.051	0.002	-27.875***
Membership of association	0.152	0.002	69.950***
Variable business plan	0.624	0.003	238.722***
Functional bank account	0.883	0.010	90.021***
Business worth	0.000	0.000	990.699***
BVN	0.079	0.002	35.916***
Intercept	- 1.471	0.010	-148.773***
Pearson	Chi-square	Df	Sig.
Goodness-of-fit test	2404006.867	52	0.000

Source: Field Survey, 2017 Note:*** significant at 1% BVN-Bank Verification Number.

Table 5 shows that increased age of the firm decreases the probability of accessing credit by 95.6%. Decreased access to credit could be linked to lower level of financial dynamism and innovations.

Poor level of auditing books of account decreases the probability of accessing credit by 94.9%. Poor level of auditing books of account could mean difficulties in tracking financial records, position and performance.

Membership of association increases the probability of accessing credit by 84.8%.Membership of association could mean a financial cover that can be explored in case of any default. Most financial institutions uses the benefits of group/joint liability as a viable window in recovering their loans.

Viable business plan increases the probability of accessing credit by 37.6%. Viable business plan could mean sustainable flow of income and fulfilment of financial responsibility to creditors.

Functional bank account increases the probability of accessing credit by 11.7%.Functional bank account could mean greater business transparency on financial returns and withdraws. The greater the level of transparency, the greater the level of access to credit.

Business worth increases the probability of accessing credit by 100%. Increased business worth could mean greater evidence for potential for expansion.The greater the evidence for potential expansion, the greater the access to credit.

Bank Verification Number by respondents increases the probability of accessing credit by 92.1%. Obtaining Bank verification number could mean transparency in bank transactions. The more the transparency in bank transactions, the more the access to credit.

CONCLUSION/RECOMMENDATIONS

Based on the findings, since extension work is an out of school system of education in which adults and young people learn by doing,the study therefore concluded that a particular system be dedicated to the dissemination of knowledge on financial openness and inclusiveness to operators of SMEsin both urban and rural areas in the State. This measure would strengthen any existing partnership between the government, Financial institutions (financial service providers) and meet the financial education/literacy needs as well as financial inclusiveness of SMEs operators.The study therefore recommends that young, married and educated operators of SMEs should be enlightened on the benefits of keeping visible financial record rather than mental storage of financial data that cannot be verified. This measure will aid in increasing the rate of financial inclusion and drastically reduce the rate of exclusion.Since there is a positive and significant relationship between financial openness and access to credit, relevant government agencies should help operators of SMEs build capacities on the type of records to be kept, its handling, and availability. This measure will enable potential creditors to quickly access the performance of their enterprises. Financial service providers should help operators of SMEs form or join one group association or another. This measure will help reassure potential lenders (creditors of the safety of their financial resources (aid) to borrowers (SMEs operators).

REFERENCES

Chinn, M. D. and Ito, H. (2006); What Matters for Financial Development? Capital Controls, Institutions, and Interactions. *Journal of Development Economics*, 81(1), 163-192.

Enotes (2010). What is financial openness? Retrieved 19/03/2015 from http://www.enotes.com/homework-help/what-financial openness 81567.

Goyal, C. K. (2008). "Financial Inclusion in the North Eastern Region of India with Special Reference to Assam". ICFAI Journal of Applied Finance, Vol. 14, No. 12, December, pp. 54-64.

Kennedy, A. (2013); Financial Openness and Growth: 2000 -2010. Pepperdine Policy Review, 6(4), 5-27.

Mahendra, D. S. (2006). Financial Inclusion: Issues and Challenges. Economic and Political Weekly,41(41), 4310-4313.

Onugu, B.A. (2005). SMEs in Nigeria: "Problems & Prospects" Dissertation presented to St. Clement University Lagos.

Reserve Bank of India (RBI) (2006). Report of the Committee on Financial Sector Plan for North Eastern Region, Reserve Bank of India, July.

Ray, D. (1997). Development Economics, Oxford University Press.

Raju, B. Y. (2006). "Financial Inclusion: Reaching the unreached", accessed from http://www.financialexpress.com/fe_full_story.php?content_id=146855 on 15/12/2006.

Sinha, J. andSubramanian, A. (2007). The Next Billion Consumers: A Road Map for Expanding Financial Inclusion in India, The Boston Consulting Group (BCG) Report, Boston, November.

Thingalaya, N. K., Moodithaya,M. S.and Shetty, N. S. (2010). Financial Inclusion and Beyound: Issues and Challenges, Academic Foundation, New Delhi.

World Bank (2008). Private Sector Development in Low Income Countries.The World Bank Annual Report 2008.Year in Review.http://worldbank.org.