EXTENT BANK COLLATERAL SECURITY DEMAND ON LOANS AFFECT THE GROWTH OF SMALL SCALE ENTERPRISES IN ONITSHA, ANAMBRA STATE

Prof.Titus, I. Eze
tylodubaeze@yahoo.com
Dept. of Vocational Education,
Nnamdi Azikiwe University,
Awka.

Dr. Okoli, Constance .I.
okoliconstance@yahoo.com
Dept. of Vocational Education,
Nnamdi Azikiwe University,
Awka.

Orafu Blessing Tochukwu
tochukwuorafu@gmail.com.
Dept. of Vocational Education,
Nnamdi Azikiwe University,
Awka.

Abstract

Small scale enterprises are catalyst in achieving nation's economic objectives, but not without constraints that impede their growth. This paper ascertained the extent bank collateral Security demand on loans affect the growth of small scale enterprises in Onitsha, Anambra State. One research question guided the study, while one null hypothesis was tested at 0.05 level of significance. Descriptive survey research design was adopted for the study and a population of 352 owners of small scale enterprises in Onitsha, Anambra State was used for the study. Data were collected for the study using validated structured questionnaire on a five -point rating scale. The internal consistency of the instrument yielded an index value of 0.83, which was established with Cronbach Co-efficient Alpha. The findings of the study revealed among others that bank collateral securities demands on loan affected the growth of small scale enterprises at moderate, low and very low extents. However, the study showed that gender did not affect the opinion of the small scale enterprises on the extent collateral security demand affect the growth of their enterprises in Onitsha, Anambra State. Based on the findings of the study, it was recommended among others that entrepreneurs' in Onitsha, Anambra State should embark on capacity building of their members to ensure better understanding of financial institutions requirements for loan and the collateral demands on them.

Key Words: collateral securities, growth and small scale enterprises

Introduction

Small Scale Enterprises (SSEs) are a highly diversified sector and play a dominant role in the economy of developing countries. They employ a large proportion of the labour force and in many developing countries they are the source of income for many people (Okpala, 2011). Small scale enterprises have also been influential in bringing about economic transformation by providing goods and services to a large number of people without requiring high level of training, large capital outlay or sophisticated technology (Nzelibe, 2009). They utilize local resources and skills to produce variety of products for the market. Small Scale enterprises are described as the natural home of entrepreneurship (Solomon, 2008). It has the potential to provide the perfect situation for enabling entrepreneurs bring out their talents and attain their professional goals.

Researchers in many economics are yet to reach any consensus on what constitutes Small Scale Enterprises (SSEs). Nzelibe (2009) using the position of United Nations Industrial Development Organization (UNIDO) opined small enterprises as characterized by localised area of operation, capital supplied by the owner with policy decisions held by individual or small group of entrepreneurs. Others are that the owners participate in all decision making in its daily operations. From Nigeria's setting, Eni (2010) noted that a small scale enterprise is any business that is owned, managed and controlled by a sole proprietor or partners of about two persons that has total asset of less than four million naira and relatively small share of the markets and does not have more than fifty employees for its growth.

In Nigeria, small scale enterprises abound and found in manufacturing/industrial sectors agro-based distributive and general service firms. They contribute significantly to Nigeria Gross Domestic Product and creating over 70 percecnt of total jobs in the country (Okoli & Ezenwafor, 2015). Considering these contributions of SSEs to economic and social development of Nigeria, one therefore considers the growth of these enterprises critical especially in improving the living standard of citizens.

Growth as used in this study refers to business growth that is characterized by increase in revenue and reduction in overhead cost that leads to business expansion and success. Growth also leads to increase in production and reduced unemployment levels and creates better prospects for the economy.

However Chaston and Mangles (2009) opined that there is no single strategy to a firm's growth. Hence, the probability of achieving growth is increased by avoiding excessive emphasis on singlestrategy transformation initiatives, and by giving different capabilities and priority depending upon development stage of the firm. They identified three factors that can limit the growth of small businesses; namely ability, need and opportunity. Kolveired (2008) concluded that owners of small business who want their firms to grow start their businesses by doing their best to solve the societal needs. They go extra miles to look for credit facilities to ensure effective performance of their enterprises for success.

Credits are powerful financial weapons for the establishment, sustainable and growth of small scale enterprises. Small scale enterprises like other business rely on financial institutions to finance their business operation. They borrow credit in the form of short term and long term loan for procurement of assets and other necessary facilities needed for their daily business activities. This is expected to motivate business owners to increase productivity, make higher profit, create job, generate income and improve the general well being of the populace.

Unfortunately the small scale enterprises in Nigeria and Anambra State in particular in recent times have witnessed some financial challenges regarding credits acquisition from banks. Eni (2010) noted that poor capitalization by these enterprises due to their inability to borrow from banks may have not only contributed to their failure but could also be identified as the obstacles to the expansion of the existing businesses. Such challenge of small scale enterprises in borrowing from bank includes collateral demands on loans, high interest charges on loans, among others. (Osuala, 2008 & Olorushala, 2010).

Collateral security is a form of secondary protection sometimes required by a bank and intended to guarantee a borrower's performance in credit repayment. If the borrower do not repay as promised, the lender can seize the collateral to recoup his money (Agu, 2008).

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Small Scale Enterprises finds this as a difficult task to accomplish. Small scale owners failure to meet up with banks collateral demand may be as a result of lack of asset to be offered and asset offered could not be accepted by bank. In such case banks tends to reject their loan applications. If the collateral demand is strong, it will increase margin call activity and thereby pushing up the cost risk and creating operational problems for the firm.

Nnanna (2011) posited that collateral demands are just one of the several important aspects of lending decision. According to him most of owners of small scale enterprises cannot provide the required items thereby, reducing their access to credit which will negatively affect the growth of the business. Owualla (2009) noted that small scale enterprises cannot achieve their normal growth where there is a high demand on collaterals. It will limits the ability of enterprises from engaging in efficient production, thereby hindering their ability to engage in competitive market and also leads to subsidized rediscounting to maintain their existence, which reduces the production level of the enterprise. Ogunkeye (2009) asserted that lack of collateral security among SSEs stands as a major factor in limiting them from obtaining loans. According to Ogunkeye such security demands from Nigeria banks are high that SSEs cannot satisfy them.

Government over the years have instituted financial policies and programmes that are aimed towards promoting SSEs by providing them friendly financial support. Such effort includes the establishment of conventional banks such as Nigerian Agriculture Cooperatives and Rural Development Bank in 2002 and now Bank of Agriculture, Bank of Industry (BOI), and non government micro credit institutions such as community banks to provide SSEs credit on soft terms. These actions are expected to motivate the SSEs for better performance and growth in their business.

Despite these efforts, the SSEs in Nigeria are still performing below expectations (Osuala, 2008). These perceived difficulties in obtaining loans could hamper their growth and business operation in the country. This situation has become worrisome to the researchers; could collateral security demands for loans as it affects the growth of SSEs be influenced by gender? Eni (2010) opined that gender could be a factor due to cultural beliefs regarding land possession in Igbo land.

Does it mean that small scale enterprises in Onitsha North and South still face same problems in the area of collateral security? Perhaps as a result of these factors, small scale enterprises owners in Onitsha North and South may have inherited low turnover and profitability, low income and poor citizen welfare (low standard of living), retrenchment or laying off of employees, as well as premature closure. These could increase the rate of unemployment and poverty in the state.

It is against this background that this research seeks to find out the extent collateral security demand on loan affect the growth of small scale enterprises in Onitsha Anambra State in the opinion of the owners.

Research Questions

1. To what extent do collateral securities demands on loan affect the growth of small

scale enterprises in Onitsha, Anambra State?

Hypothesis

One null hypothesis was tested at 0.05 level of significance.

There is no significant difference in the mean ratings of male and female owners of small scale enterprises on the extent collateral security demand on loans affect the growth of their businesses in Onitsha, Anambra State

Method

The population for this study comprised 352 owners of registered small scale enterprises in Onitsha, There are 193 small scale enterprises are in Onitsha North local Government Area and 159small scale enterprises in Onitsha South local Government Area of Anambra State, based on the data available at the Ministry of Commerce and Industry in Awka in September 2015. Anambra State is an Igbo land in South- east, Nigeria. The entire population was studied due to manageable size. Data were collected with a validated structured questionnaire on a five point rating scale of Very High Extent (VHE), High Extent (HE), Moderate Extent (ME), Low Extent (LE) and Very Low Extent (VLE). Three research assistants helped the researcher in administration of the questionnaire in the area where the researcher could not reach. They were briefed on the purpose of the study and the content of the questionnaire. Cronbach Alpha Coefficient was used to determine the reliability of the instrument which was established at 0.83.Out of the352 copies of questionnaire distributed, 335 were returned and were all found usable.

The data collected were analyzed using mean score and z- test statistic. The following boundary limits were used to determine the extent each factor affect the SSEs.

Very High Extent	4.50-5.00
High Extent	3.50-4.49
Moderate Extent	2.50-3.49
Low Extent	1.50-2.49
Very low Extent	1.00-1.49

z- test statistics was used to test the null hypothesis raised at 0.05 level of significance. The hypothesis was rejected if z-calculated is equal or greater than z- critical value if not the hypothesis was not rejected.

Results

The results of the study are presented in Tables 1and 2

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Table 1
Respondents Mean rating on extent collateral security demands on loan affect the growth of small scale enterprises in Onitsha, Anambra State

S/N	Collateral Securities Factors	Mean	Remark
1	Perceived high cost of lending	3.51	ME
2	Reduces access to credits	1.31	VLE
3	High interest rate ceiling	2.54	ME
4	Lead to subsidized rediscounting	2.35	LE
5	Inadequacy of small business to provide assets	2.48	LE
6	Increased incentive to evaluate loan	2.66	ME
	Cluster mean	**2.48**	**LE**

Data contained in Table 1 shows that out of five factors rated on collateral security demands on loans affecting SSEs, three were at moderate extent while two items have low extent effects. One factor was rated as affecting the SSEs at a very low extent. Mostly rated is item 1, which is perceived high cost of lending.

Hypothesis

One null hypothesis formulated for the study was tested at 0.05 level of significance. z test statistics was used for testing the hypothesis.

Hypothesis

There is no significant difference in the mean ratings of male and female owners of small scale enterprises on the extent collateral security demand on loans affect the growth of their businesses.

To test the hypothesis, the mean of two groups were computed. These means where used to compute the z calculated which was compared to z critical value at 0.05 level of significance. The result of the computation is shown in Table 2

Table 2
Z test analysis of the difference between the mean ratings of male and female owners of SSEs on the extent collateral security demands affect the growth of their business

Gender	N	X	SD	Z- Cal	a	df	Z crit	Remark
Male	177	2.27	0.58					
				0.22	0.05	333	1.960	Not significant
Female	158	2.25	0.65					

The data contained in Table 2 shows that the z- calculated is 0.22 and less than its critical value, 1.960 at, 0.05 level of significance. The null hypothesis was therefore not rejected. There is no significant difference in the mean ratings of male and female owners of

small scale enterprises on the extent collateral security demand on loans affect the growth of their businesses in Onitsha Anambra State.

Discussion and Implication of the Study

The findings of this study revealed that collateral security demand on loans affect the growth of small scale enterprises at varying levels (moderate, low and very low extents), depending on factors rated. Items rated to moderate extents are perceived high cost of lending, high interest rate ceiling and increased incentive to evaluate loan. Items rated at low extents are such factors as inadequacy of small business to produce assets and demand leading to subsidized rediscounting. The findings of the study also discovered that collateral security demand on loans reduce access to credits at very low extents. This is in line with Owualla (2009) that most problems of small scale owners regarding collateral security is the inability of the owners to provide what is equivalent to the fund they required. The small business owners do not have assets to meet up with the demands of the banks, which make the banks to put up more stringent measures for loan evaluation. This also attracts high interest charges from the banks. The finding of this study that collateral security demand on loans reduces access to credits at very low extents is worrisome. Does it mean that the small scale business owners do not know about bank collateral demands on loans? This confirms the findings of Eni (2010) who noted that understanding collateral requirement of banks and the characteristic features of bank loan is important to channel resources to their best use. This could mean that most of the owners of small scale enterprises in Onitsha do not have a good idea or knowledge of what bank collateral demands have on their businesses. However, they prefer to borrow from relations and friends for business start up and may consider banks for expansion of their business.

Although the findings of the study did not show in any case that collateral charges affect small scale enterprises at high extent but this still had effect as noted by the study. Bank collateral security demands on loan as perceived by the owners of SSEs to a moderate extent leads to high cost of lending and will discourage the entrepreneurs from further investment. The chance of making profit is reduced when collateral security demand is high. This is in line with Nnanna (2011) finding that affirms that investment is most sensitive to collateral security demand and Okenwa (2007) who opined that collateral security demands compel the SSEs to subsidized rediscounting thereby reducing their profit making and survival of the enterprises.

The study also discovered that there is no significant difference in the opinion of male and female owners of small scale enterprises on the extent collateral security demands on loans affect their business. This is in line with the view of Hunt (2007) that gender has no significant effect on the extent collateral security demands affect small scale enterprises. Banks do not consider gender as a factor in determination of collateral demands for loans. The culture of the Igbos do not prevent women from acquisition of land and such their women entrepreneurs face the same financial challenges with the men folk regarding bank collateral demands on loans.

The study has implication for government to review the policy on collateral demand

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issues. Small scale enterprises are essential spring board for economic growth, job creation and social progress. Government should encourage them to flourish more. Small scale enterprises require the existence of appropriate government policies and regulations such as soft conditions for issuing of loans to intending entrepreneurs, endorsement of low taxes on SSEs and intellectual property protection. Government support is a critical factor in fostering SSEs and has an important role in overcoming the financial challenges of small scale enterprises in Nigeria. Also owners of SSEs, to provide training to their members with learning experiences in financial management. This will help them to be aware of the collateral issues and how to manage them for the growth of their businesses.

Conclusion

Based on the findings of the study, it was concluded that collateral security demand on loans affect the growth of small scale at moderate, low, and very low extent. It was also concluded that the male and female owners of small scale enterprises in Onitsha, Anambra State do not differ in their opinion on the extent collateral security demands on loans affect their businesses.

Recommendations

Based on the findings of this study, the following recommendations are made:

1. Entrepreneurs' in Onitsha Anambra State should embark on capacity building of their members to ensure better understanding of financial institutions requirement for loan and the interest rate charges on them. This could be achieved by collaborative efforts with the relevant educational institutions, government agencies and consultants through the organization of seminars, workshop, conferences and trainings programmes for both the entrepreneurs' and the staff of the financial institutions.
2. Federal and state government should be consistent in their policies and regulations concerning small scale enterprises especially in the area of financing.. This could be achieved through collaborative effort of the government and the entrepreneurs even with financial institutions in formulating long term policies concerning SSEs for their survival and growth.

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