

1.0 INTRODUCTION

For both developing and developed countries, small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, Small Medium businesses create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth. However, the seminal role played by Small Medium businesses notwithstanding its development is everywhere constrained by inadequate funding and poor management. The unfavourable macro economic environment has also been identified as one of the major constraints which most times encourage financial institutions to be risk-averse in funding small and medium scale businesses. The reluctance on the part of financial institution to fund Small Medium businesses can be explained by the insufficient capital base of banks and information asymmetry that often exists between Small Medium businesses and lending institutions.

This study critically examines the availability of business credit to small business in Nigeria, and how more funding can be made to support small businesses. However, this chapter, forms the basic foundation for this study as it presents the objectives of the study, and the statement of problem that motivated the researcher to undertake the study.

1.2 BACKGROUND OF THE STUDY AND ORGANIZATIONAL PROFILE

During the 1990s, a number of studies documented that lending to small businesses and the economic activity of small businesses were affected by financial sector disruptions, such as the widespread merging of banks of all sizes and the capital shortfalls occasioned by large loan losses.

Although not much previous research has examined discrimination in small business credit markets, there has been an active debate on the question of whether banks discriminate against minority applicants for mortgages. In an influential study in that area, researchers at the Federal Reserve Bank of Boston tried to collect any information that might be deemed economically relevant to whether a loan would be approved along with the borrower's race and financial status (Munnell et al., 1996). In the raw data larger firms had 10 percent of their loans rejected versus rejection rates of 28 percent for small scale businesses. After controlling for the large number of variables collected to establish the credit-worthiness of the borrowers (including, the amount of the debt, debt/income ratio, credit history, loan characteristics, etc.) small scale businesses were still percentage points less likely to be granted the loan.

A variety of criticisms have been launched at this study (see, for example, Horne 1994; Day and Liebowitz, 1998; Harrison, 1998); responses to these criticisms are found in Browne and Tootell (1996). The most common critique indicates that we cannot make a determination of discrimination unless those small businesses whose loans are approved have a greater likelihood of repayment. This argument rests critically upon an implied assumption that the distribution of repayment probabilities for large companies and small businesses is identical. His figure indicates that if this assumption is met and if firms discriminate against small businesses by setting a higher bar for loan approval, then the mean rate of repayment among small businesses conditional upon loan approval will be higher for large and smaller firms.

1.3 PROBLEM STATEMENT

Small businesses and entrepreneurial ventures which are usually considered as the engine that run the

economy are usually denied access to credit due to their risky nature. This disturbing threat has existed for a very long time and needs proper attention from both government agencies and non governmental agencies as well. The importance of small businesses in the development of Nigeria cannot be overlooked. Without proper credit availability to small businesses, the economy as a whole will suffer. The objectives of economic planning cannot be achieved if small businesses do not do well. Keeping this in view, the Bank of Nigeria has streamlined Bank's lending operations to ensure that banks' credit actually benefits small and medium businesses in Nigeria. This strategy is intended to improve the economy and to develop rural areas in Nigeria.

However, there is some anecdotal evidence that most beneficiaries of business credit from most financial institutions are salaried workers and large scale companies, whose ability to repay loans are believed to be better than that of small scale businesses. Moreover, this belief is not always the case as some small businesses who go for loans are well profitable and well managed.

1.4 RESEARCH OBJECTIVES

This paper is aimed at the following objectives:

- To examine the relationship that exist between small scale businesses and financial institutions that grant business credits in Uyo.

- To identify the challenges faced by small businesses in securing business credit in Uyo.

- To examine the degree of business credit availability to small businesses in Uyo.

- To identify the effects of businesses credit availability on small businesses in Uyo.

1.4 RESEARCH QUESTIONS

The following questions were used by the researcher in achieving the research objectives of this study:

- What relationship exists between you and financial institutions that grant credit in Uyo?

- What challenges do you face when securing credit for your business?

- How often business credit is made available to you when you apply for it?

- What effects have the availability of business credit had on your business?

1.5 SIGNIFICANCE OF THE STUDY

This study is very important because it is aimed at examining the effects of business credit availability and its effect on small businesses in Uyo. The paper will provide some relevant recommendations for policy makers, development agencies, entrepreneurs, and small business managers to help seek better ways to increase business credits to small businesses, and appropriate strategies to improve the small business sector in Nigeria.

Secondly, the study is also vital since it suggest to small businesses certain strategies they can adopt before seeking business credits, to make their borrowing process easier and more effective. This will go a long way to increase the efficiency and profitability level of small businesses in Uyo. Any time these strategies are put in place, access to business credit increases, and the participation of more people in entrepreneurial activities will also increase, hence the economy of Nigeria will be improved.

1.6 SCOPE OF THE STUDY

The area chosen for this study is Uyo in the Eastern region of Nigeria. The study is limited to the effects of business credit availability on small businesses in Uyo, using various small businesses in Uyo as a focus

point.

1.7 LIMITATION OF THE STUDY

In undertaking this research, the researcher encountered the following problems;

1. The time used to undertake the study was limited. The time was loaded with other academic activities and as a result limited time was made available the study.
2. Also, response from the various small business owners through the questionnaire provided by the researcher was also a bit slow. This is because of reasons such much work load on the part of the respondents.

1.8 CHAPTER SCHEME

The project will be organized around following chapters;

Chapter one gives an introduction to the research work. It gives the basic information about the company and the research being undertaken. This chapter therefore consists of the background of the study and organizational profile, statement of the problem, objectives, research questions, significance of the study, scope of the study, and limitations encountered by the researcher.

Chapter Two consists of the literature review and the theoretical framework

Chapter three gives details of the research methodology. The research methodology represents the various ways and methods which the researcher used in order to gain his information.

Chapter Four gives the analysis and interpretation of the information gathered by the researcher.

Chapter five gives the findings and conclusion of the researcher. Here, conclusions will be drawn based on the findings and their implications will also be given.

BUSINESS CREDIT AVAILABILITY AND ITS EFFECT ON SMALL AND MEDIUM SCALE ENTERPRISES IN GHANA

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