

## SMALL AND MEDIUM ENTERPRISES FUNDING IN NIGERIA AND DEPOSIT MONEY BANKS: AN EMPIRICAL ASSESSMENT

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### ABSTRACT

This study examined the link between deposit money banks and the funding of small and medium-sized enterprises in Nigeria using Auchi Metropolis, Edo State, as the reference region. The purpose of this study is to look at how bank sector loans affect small and medium-sized businesses' (SMEs) total contribution to economic growth in Nigeria. The study will also examine the financial sources that these companies employ. Using a descriptive survey research design, this study was conducted. As a result, a random selection technique was used to pick a sample of seven (7) banks for study. This study employed a questionnaire as its research tool, and the study utilized Yamane's techniques to determine the sample size of forty-four (44) participants. The fifty (50) employees make up the sample population. Descriptive and inferential statistics was applied in order to identify trends within the dataset. In the study, frequency tables, percentage analyses, and mean were among the metrics employed along with the chi-square test. The finding reveals that  $\chi^2_c > \chi^2_t$ ;  $60.48 > 9.48$ , that financial discipline on small and medium-sized businesses has a major beneficial impact on deposit money banks in Nigeria, and that  $\chi^2_c > \chi^2_t$ ;  $60.69 > 9.48$  that lack of collateral security among small and medium enterprises hurts deposit money banks in Nigeria. Conclusions, the financial discipline of small and medium-sized firms plays a significant role in assisting Nigerian deposit money banks in promoting suitable lending facilities. According to the report, deposit money operators should have adequate staff members on standby to monitor borrowers and ensure they adhere to their repayment schedules in order to prevent lenders from seizing the assets of borrowers.

Keywords: **Small, Medium, Enterprises, Deposit Money Banks**

### INTRODUCTION

Small and medium enterprises are underfunded for a variety of reasons, including as low demand for their products due to declining Nigerian purchasing power, banks' reluctance to lend to small and medium enterprises because of insufficient collateral, and a lack of support for locally produced goods. Many Nigerians think that the nation's financial institutions aren't doing enough to help small and medium-sized enterprises (SMEs). Despite repeated requests and recommendations from supervision bodies like the Central Bank of Nigeria (CBN) for Nigerian banks to increase their lending to small and medium-sized enterprises, the existing trend has not changed (SMEs). It is essential to bear in mind that financial institutions maintain profitable operations while adhering to regulatory standards. Empirical study indicates that around 25% of Nigerian small and medium enterprises' success may be attributed to funding (Takats, 2004).

The World Bank reports that 39% of Nigeria's small and 37% of its medium-sized enterprises are experiencing financial difficulties. Nigerian (SMEs), or small and medium-sized businesses, are forced to close their doors despite easy access to funding. Nigerian financial institutions are hesitant to lend money to small and medium-sized enterprises (SMEs) due to insufficient familiarity with the sector (Okere et al., 2020). Unfortunately, a significant portion of relationship managers and credit officers are unaware of the (SME) company. They are not equipped with the necessary technical knowledge to do comprehensive loan packing and inspections. To make matters worse, a large number of banks in Nigeria lack (SMEs) desks manned by specialists, which prevents them from assessing the risk elements (Ogujiuba et al., 2004).

Any property or thing that might be used as security to protect a loan is considered collateral, according to the lender's definition. The borrower has not given any collateral. Lenders have the power to take collateral in order to recoup damages when debtors fail to make payments. In Nigeria, the capacity of deposit money banks to extend credit is crucial in this regard. The difficulty of many small and medium-sized firms to get bank loans owing to inadequate collateral is a significant obstacle (Ayuba&Zubairu, 2015). Extremely high default rates for government-sponsored loans: Notably, a significant fraction of small and medium-sized businesses (SMEs) taking part in these programs were unable to make their loan payments on schedule. Due to their history of loan defaults, financial institutions are hesitant to grant them loans (Eluhaiwe, 2016). Banks see a great deal of uncertainty in the loan processing of small and medium-sized businesses (SMEs). Deposit money banks believe that small enterprises pose a substantial risk (Green, 2003, as mentioned in Pogoson, 2021). As a result, these financial institutions are reluctant to provide small businesses loans. Modest and medium-sized firms (SMEs) have a greater mortality rate than bigger organizations because of their comparably small size and the inherent fragility of the market.

"Unmet Expectation" is a situation in which operators of (SMEs') expectations are not met; however, such expectations are related to loan application requirements, products, services, and other areas including communication between the two parties. In the view of small and medium enterprises and deposit money banks in Nigeria, Unmet expectations would happen when a commercial's products or services do not meet the needs or wants of SMEs. This would lead to frustration, dissatisfaction, and anger on the part of the (SMEs) when working with banks. This experience may ultimately affect the relationship between the SMEs and banks. The purpose of this study is to look at how bank sector loans affect small and medium-sized businesses' (SMEs) total contribution to economic growth in Nigeria. The study will also examine the financial sources that these companies employ.

Financial institutions view small and medium enterprises as high-risk customers and may see a high default rate if they lend loans to them. This might lead to small and medium enterprises operators' loan requests being rejected or devalued, which is problematic when the loan amount is high or the business is just getting started. When one side has more knowledge than the other, either in terms of number or quality, there is an information imbalance. When banks do business with owners of small and medium-sized businesses, this puts them at a disadvantage and may cause some transactions to fail. A lack of financial discipline is the main thing preventing small and medium-sized enterprises (SMEs) from being able to get bank loans. Businesses frequently reinvest firm capital in unrelated endeavors. As a result, there will be a risk to the business's capacity to carry on with operations and repay the loan (Afolabi, 2013).

Inadequate infrastructure: Many financial institutions blame the status of the national economy for their incapacity to provide financing to small and medium-sized businesses (SMEs), pointing to the poor

performance of public utilities as one example of a problem that undermines fund managers' trust (Okere et al., 2020). The fundamental factor is that Nigeria's infrastructure is in an untenable state. Unpredictability, high costs, and illness are traits of the electricity-generating industry. The water supply is unsustainable, roads aren't being repaired or built, and so forth. Each of these elements was properly taken into account before banks would lend money to SMEs. The capacity of banks to recover the capital invested by their investors is called into question by the generally acknowledged high cost of doing business in Nigeria. On the other hand, SMEs bear a disproportionate share of these additional costs. These kinds of facility cost delays will always have an impact on organizations since they can eat up to 50% of projected industrial take-off budgets. However, financial limitations prevent small and medium-sized firms (SMEs) in Nigeria and most emerging Sub-Saharan African nations from growing (World Bank, 2013). In theory, financial institutions deposit money banks, specifically should support small and medium-sized enterprises (SMEs) because of their critical role in advancing industrial development globally. This research has benefits for the general public, financial authorities, private companies, small and medium-sized businesses (SMBs), lawmakers, the state, and academic institutions. The results of this research will offer significant perspectives to Nigerian monetary and political authorities, allowing them to improve economic management by evaluating the supply and demand of loans to small and medium-sized enterprises (SMEs), a crucial factor in GDP growth. As previously mentioned, the study looks at SME funding in Nigeria.

The following research questions were asked to provide answers to the study:

- How does the impact of financial discipline manifest itself in relation to deposit money banks?
- Does the absence of collateral safeguard deposit money banks?

This study aims to analyze the impact of bank sector loans on the overall contribution of small and medium companies (SMEs) to economic growth in Nigeria, as well as the funding mechanisms of these businesses. Among the particular aims of this research are:

- To ascertain the effect of financial discipline influence deposit money banks
- To identify how lack of collateral security would prevent deposit money banks

In line with the stated research objectives, this study would test the following null hypotheses

Hypothesis one

H<sub>0</sub>: the effect of financial discipline does influence deposit money bank

Hypothesis two

H<sub>0</sub>: lack of collateral security does not affect deposit money banks

## REVIEW OF RELATED LITERATURE

### Concept of Small and Medium Enterprises (SMEs)

Regarding the exact definition of "small and medium firms," there is no agreement (SMEs). In one nation, a firm that is deemed modest could be viewed as a large enterprise in another. SMEs in Nigeria are classified as businesses that employ between 10 and 300 people and have a total capital employed of between 1.5 million and 200 million naira, according to the Small and Medium Industries Equity Investment Scheme (SMIEIS) (including working capital, but excluding land costs).

Different Nigerian agencies—NERFUND, the CBN, and the National Council of Industry (NCI) have used different terminology and provided different definitions of small and medium-sized companies (SMEs) at different points in time (National Association of Small and Medium Enterprises, 2001). For example, the NCI describes SMEs as businesses that employ a number of people (rather than its

erstwhile consideration of capital invested). Godwin and Ezekiel (2019) state that any company with fewer than 300 people and operational assets of N200 million is considered a medium-sized corporation by the Federal Ministry of Industries. Conversely, a small-scale business is defined as having less than 100 employees and total assets under N50 million. Within the framework of this concept, annual income will be considered arbitrary. The National Economic Reconstruction Fund classifies organizations with total assets under N10 million that do not reveal their annual income or staff as small and medium-sized enterprises (SSEs).

These and other classifications are the result of contributions from the Central Bank of Nigeria, the National Association of Small and Medium Enterprises (NASME), and the National Association of Small Scale Industries (NASSI). The Small and Medium Industry Equity Investment Scheme (SMIEIS) designates as a small or medium firm (SME) any organization with 10 or more workers and assets of five hundred million Naira or less (excluding land and working capital) (Sanusi, 2003; Eniola et al.,2003).

The majority of "small and medium" businesses employ between five and one hundred people and bring in an annual revenue of about four hundred thousand Naira (N400,000). Small and medium-sized companies (SMEs) are defined by the Federal Ministry of Commerce and Industry as businesses with a maximum paid employment of fifty (50) people and a total investment of N750,000 (including capital but excluding land expenses) (Mba& Cletus, 2014). When discussing a smaller-scale firm, the words "small and medium businesses," "small-scale industries," and "small-scale enterprises" are interchangeable. The term "small business" does not seem to be widely used, not even in Nigeria. Divergent opinions are held by a large number of writers and researchers about the changes in capital spending, sales volume, workforce size, fixed capital investment, plant and machinery availability, market share, and degree of development (Ayozie et al .,2013).

The Nigerian Industrial Policy states that industries categorized as small-scale invested between 100,000 and 2,000,000 Naira in total (excluding working capital but including land investments). In the end, medium-sized businesses outperform micro and small businesses in every area with the exception of labor capacity, workforce size, structure, and capital investment. As per the classifications established by Afolabi (2013), the following types of organizations qualify: small businesses (characterized by 15 or fewer employees in the United States); medium businesses (comprising 250 or fewer employees in Australia); and enterprises with annual balance sheets not exceeding EUR 43 million in Europe.

According to Adigwe (2012), a small or medium-sized firm (SME) is any company with between eleven and one hundred employees or total expenses under N50 million (including working capital but not land). Small and medium-sized businesses (SMEs) are defined by the National Council of Industries (2009) as those whose total costs do not exceed two hundred million naira (N200,000,000) (excluding land). However, experts and decision-makers cannot agree on the exact characteristics of a small or medium-sized business.

The exact definition of a small or medium-sized firm (SME) is a topic of debate among Nigerians, although the central bank of the nation has chosen the SMIEIS definition, which includes any organization with 10 or less workers and up to 300 employees (otherwise classified as a micro-enterprise). This is on top of the N200 million (about \$1.43 million) maximum asset base cap, which excludes working capital and land (Sanusi, 2003; and SMIEIS, 2006).

Furthermore, the current definition of SMEs was developed building on the updated definition that was released by the National Council of Industry in 2001.

As a result, small and medium-sized businesses (SMEs) have propelled the growth and expansion of the world economy. This is particularly the case in emerging nations like Nigeria, where SMEs have made a substantial contribution to the growth of the local economy (GDP). Small and medium-sized companies (SMEs) have historically been present in almost every nation. Because of their critical roles in promoting economic growth and development, small and medium-sized enterprises (SMEs) are regarded as the "engine of growth" and "catalysts for socio-economic change" of a country (Basil, 2005 as cited in Pogson, 2021).

### **Concept of Deposit Money Banks**

Employers and organizations are allowed to use the services provided by deposit money banks. Every person uses a deposit money bank once a month on average. How closely a financial institution adheres to federal and state rules depends on how it is set up and what kind of services it offers. The Federal Reserve System also keeps an eye on banks that take deposits.

According to the Financial Times Lexicon, a deposit money bank is an organization whose main functions are accepting deposits and making loans (2011). According to the World Bank's 2003 lexicon, a commercial bank is any organization or activity connected to a for-profit business. According to 2016 investor criteria, a deposit money bank is a type of financial organization that takes deposits, provides loans to companies, and offers other associated services. There are several different kinds of deposit accounts offered by deposit money institutions, including checking, savings, and time deposits. Some of the owners of these profit-driven businesses may even be Federal Reserve System members; money is their only source of incentive. Deposit money banks serve companies as their main clientele, while some individuals may use them.

### **Financial Discipline**

Financial Discipline in the context of small and medium enterprises means the ability of a business to maintain sound financial practices and to adhere to the terms and conditions of a term loan agreement with a commercial bank. This may involve ensuring that the business is profitable, accurate records, and ensuring payments are made on time. A lack of financial disciplines can lead to a business defaulting on its loan, which could have negative effects on the business and the business, In most cases, (SMEs) are likely to divert funds meant for fund banks, and commercial banks may require other project SMEs) to provide certain financial information or to meet speed for financial ratio as part of their term loan requirements.

### **Collateral security:**

Collateral security means an asset that is offered as security for a borrower of the loan in the banks. Lack of collateral security is a word that applies to financial arrangements used in the context of a loan. If a borrower lacks collateral security, it means that they do not have any assets that can be pledged as security for the loan. This eventually makes it difficult for the borrower to obtain a loan; the lender will perceive the loan as more risky. However, some borrowers may obtain a loan without collateral, but they may still be able to obtain a loan without security hence paying a higher interest rate than other fees.

### **Performance in SMEs and Banks**

The performance" of small and medium-sized enterprises (SMEs) about commercial banks means the ability of these businesses to meet their financial obligations such as loan repayments, on time. The

performance of (SMEs) is important to banks because it can affect their financial health. If SMEs are not able to meet their obligations, it leads to defaults and increased risk for the bank. Some metrics that banks may use to measure the performance of SMEs include their credit score, profit profitability, and cash flow.

## **Theoretical Framework**

### **Finance-led Growth Theory**

The premise of this study is that growth is driven by monetary expansion. The finance-led growth hypothesis may be applied to more thoroughly conceive the link between bank loans and the expansion of small and medium-sized companies (SMEs). In 1912, Schumpeter postulated that the activities of financial institutions may greatly increase the economy's potential for production. More specifically, the existence of financial institutions and the prompt availability of their assets, liabilities, and associated financial services would encourage investment, which in turn would promote economic growth. This is the theory behind the finance-led growth hypothesis. In comparison to units with surplus expenditure, this would allow deficit spending units to obtain resources more effectively.

All financial systems perform some functions, although the quality of such functionalities varies greatly across them. When financial instruments, markets, and intermediaries improve the performance of the five financial functions by lessening, but not completely eliminating, the effects of information, enforcement, and transaction costs, financial growth is attained (Levine, 2005). Therefore, advancements in financial development include the following: (i) the production of forecast data regarding possible investments; (ii) the oversight of investments and the application of corporate governance; (iii) trading, risk management, and diversification; (iv) the mobilization and pooling of savings; and (v) the exchange of goods and services. Monetary operations may have an effect on people's propensity to invest and save, which may have an effect on the GDP's growth. Depending on the various market frictions at play, improvements in one area may have different consequences on welfare and resource allocation. This is explained by the significant differences in laws, rules, and policies between economies and historical times (Levine, 2005).

The arguments supporting the finance-led growth idea have been discussed in a number of academic studies. The following are among them: (Patrick, 1966; Shaw, 1973; King & Levine, 1993). According to the results of these research, banks help technology progress by lending money to business owners who have the lowest chance of successfully launching new goods.

### **Critiques of Finance-led Growth Theory**

Levine (2005) asserts that there are two key points that need to be addressed right away when discussing how to combine growth theory with finance. Prior to this, a significant body of growth accounting research argues that sustained economic expansion is not much aided by investments in fixed assets (Fernando & Fitzgerald, 2006). Building a theoretical framework that investigates how financial development affects decisions about resource allocation is crucial to promoting productivity growth and providing a financial explanation for economic growth that goes beyond simple aggregate savings.

Umar and Ndidi (2020) looked on how bank loans affected the expansion of a number of Nigerian SMEs. This study's methodology is based on both qualitative and quantitative approaches. In all, three research questions were answered. For data collection, a random sample of 200 respondents was

selected from a larger pool of 400. A research-purpose questionnaire was created in order to gather these data. To evaluate the data, simple percentages and tables were used. The results of the study show that lending to small and medium-sized enterprises (SMEs) in Nigeria lowers crime and unemployment rates by promoting self-employment. Moreover, it strengthens the country's economy and promotes industrialization. Essentially, bank lending raises the overall level of economic activity and promotes the expansion of small and medium-sized enterprises (SMEs). The central bank, commercial banks, and Nigerian government should increase financing to small and medium-sized firms (SMEs) in order to promote industrialization, lower unemployment and crime rates, and create more employment opportunities. This is the most important recommendation based on the findings.

### **Neo-classical Growth Theory (NGM)**

The neoclassical growth model serves as the foundation for all research on economic growth (Solow, 1956 and Swan, 1956). The model's fundamental tenet is that, in the short term, capital accumulation fuels economic growth. Economic policies that encourage people to save more can help achieve this. Ultimately, nevertheless, the NGM comes to the conclusion that growth rates will eventually return to the rate of technological advancement, which it regards as being exogenously set and unaffected by economic factors. As a result, the NGM has low expectations for long-term economic growth. The theory of declining marginal productivity, which sets a limit on how much output an individual can produce by merely working with increasing amounts of capital, is used to explain this pessimism.

To put it another way, picture an economy where the supply of labor and technology is fixed at a certain level and will not change over time. Assume that this labor utilizes a total capital stock. An aggregate production function determines the maximum amount that can be generated based on  $K$ . A Cobb Douglas production function is taken for convenience. In this production function, it is often assumed that there are constant returns to scale, meaning that doubling all units will result in doubling output. However, when one input increases (in this case, capital) and the other stays constant (labor), falling returns will occur due to the assumption of a constant labor supply. This suggests that given fixed labor, the contribution of capital to output decreases as more capital is used.

The NGM describes the changes in output as input factor rises based on the Cobb Douglas production. The buildup of capital is crucial here. According to this concept, capital is created by setting aside a certain percentage of output each period and investing it in new capital. However, each year, a component of the capital stock depreciates.

### **Empirical Review**

Lyndon and Opinion (2021) investigated the influence of small and medium-sized firm expansion on Nigeria's economic growth from 2000 to 2018. The National Bureau of Statistics 2018, the Statistical Bulletin 2018 of the Central Bank of Nigeria, and the National Survey of Micro, Small, and Medium Enterprises (MSMEs) 2013 and 2017 conducted by the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) covering the years 2000 to 2018 were the sources of secondary time series data. The data were analyzed using multiple regression analysis and descriptive statistics in line with the OLS technique. For this purpose, SPSS version 19 was used. The findings show that the GDP is not significantly impacted by either the total capitalization or the collective asset base of SMEs. Even though the complete regression model did not show statistical significance at the 5 percent level, it was shown that the variables do show a long-term link. Among other things, it was suggested that the government step up its efforts to gather enough information about SMEs from the right sources. SMEDAN should work with the Federal and/or State Ministries of Industry to provide reporting

guidelines for Nigeria's small- and medium-sized businesses (SMEs). The sector's asset base and total capitalization should be highlighted in this reporting, along with suggestions for revitalizing it.

Eze and Okpala (2015) examined the quantitative impact of Small and medium scale enterprises (SMEs) on Nigeria's economic growth performance for the sample period 1993 to 2011. Multiple regression analysis based on the ordinary least squares method was the econometric approach used for the investigation. The results of the Johansen test demonstrated a long-term equilibrium between small and medium-sized businesses and economic expansion. But for the time being, Nigeria's economic growth performance is not significantly impacted by the output of SMEs (SMEO). The study came to the conclusion that the absence of entrepreneurial development centers, bad infrastructure, bribery and corruption, poor government policies regarding tariffs and incentives, and inadequate policies regarding tariffs and incentives all hinder the expansion and development of SMEs in Nigeria. The recommendations are as follows: governments at all levels should work to create microfinance institutions so that SMEs can easily access credit; financial literacy should be taught in schools; entrepreneurial development centers should be established to build capacity; adequate infrastructure, particularly in the form of electricity and a road network; and, lastly, agencies should be established to combat bribery and corruption.

Nwosa and Oseni (2013) looked into how bank loans to SMEs affected Nigerian industrial output from 1992 to 2010. Using an error correction modeling approach, the study found that bank loans to the SME sector had little effect on manufacturing production over the long and short terms. Based on the results, the study suggested that the government make a more deliberate and intentional effort to guarantee that loans are granted to the intended recipients. In order to attract stakeholders in the SMEs sector, banks must moderate the collateral requirements and interest rates associated with their loans to SMEs.

**Critique:** By exploring the heretofore undiscovered drivers that impact the aggregate asset base and aggregate capitalization of small and medium-sized firms, this research will fill a knowledge vacuum in the body of existing information SMEs.

#### **Gaps in literature**

The frustration SMEs experience with deposit money banks in Nigeria's banking sectors leads to many factors such as complex procedures, long wait times, and higher interest rates. Unmet expectations can also trigger a negative impact on the relationship between SMEs and banks, these hindrances may delay loan approvals or decrease business growth. To avert frustration and unmet expectations banks should work to improve transparency and communication with SMEs and to reduce their due process. This is the knowledge gap missing in other empirical findings of other people's work. Small and Medium Enterprises may predict to be transparent and open about their policies and procedures. Perhaps, deposit money banks in Nigeria are not transparent in their dealings with SMEs and such causes dissatisfaction or misled. SMEs may have expectations about low interest rates in banks rather than higher interest rates in favor of commercial banks. SMEs may have respective levels of service from deposit money banks such as timelines, accuracy, and responsiveness. More so, when these unmet expectations are not met, it can lead to frustration and a negative perception of the bank.

#### **METHODOLOGY**

In conducting this inquiry, a descriptive survey research approach was implemented. Commercial banks located in the state of Edo, specifically Eco Bank Plc, First Bank Plc, GTB Bank Plc, Access

Bank Plc, Union Bank Plc, Fidelity Bank Plc, and Zenith Bank plc, comprised the study's population. The selection of these institutions was random which involves the selection of 44 staff.

The convenience sampling technique was adopted.

A questionnaire will be used in this study as the research tool. Workers at commercial banks in the Auchi metropolitan region answered the survey. To find patterns in the dataset, descriptive and inferential statistics were used. The chi-square test was used to conduct the study, and the measurements included frequency tables, mean values, and percentage analysis. Examining the Chi-squared equations ( $X^2$ ).

$$X = (O - E)^2$$

$$X^2 = \text{Chi-square}$$

Where; O = Observation; E = Expected frequency;  $\sum$  = Summation

### DATA ANALYSIS AND DISCUSSION OF FINDINGS

A total of forty - four (44) questionnaires were administered to the respondents and thirty-eight (38) were found usable.

#### Hypothesis one:

H0: The effect of financial discipline does not influence deposit money banks in Nigeria

	O	E	O - E	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
Strongly agree	26	7.6	8.4	338.56	44.55
Agree	8	7.6	0.4	0.16	0.02
Neutral	2	7.6	-5.6	0.16	4.13
Disagree	2	7.6	-5.6	31.36	4.13
Strongly disagree	0	7.6	-7.6	57.76	7.6
Total	38	38			60.43

**Degree of Freedom = N - 1 = 5 - 1 = 4**

$X^2$  Table Value ( $X^2 = 0.05, 4$ ) = 9.48

#### Decision Rule

Given that the  $X^2$  computed value of 60.48 exceeds the  $X^2$  table value (9.48). The alternative hypothesis, which contends that financial discipline on small and medium-sized businesses has a major beneficial impact on deposit money banks in Nigeria, will be accepted and the null hypothesis would be rejected.

#### Hypothesis two:

H0: lack of collateral security does not affect deposit money banks

	O	E	O - E	(O - E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
Strongly agree	25	7.6	17.4	302.76	39.84
Agree	11	7.6	3.4	4.56	1.52
Neutral	0	7.6	-7.6	57.76	7.6
Disagree	2	7.6	-5.6	31.36	4.13
Strongly disagree	0	7.6	-7.6	57.76	7.6
Total	38	38			60.69

$X^2$  Calculated = 60.69

Degree of freedom =  $N - 1 = 5 - 1 = 4$

$X^2$  Table value ( $X^2$  0.05, 4) = 9.4

### Decision Rule

Since the  $X^2$  calculated is 60.69 which is greater than the  $X^2$  table value (9.48). The null hypothesis will be rejected while the alternative hypothesis will be accepted which states that Lack of collateral security among small and medium enterprises hurts deposit money banks in Nigeria.

### Summary of findings

Based on the empirical analysis, the following findings were made;

- The effect that financial discipline has on small and medium-sized businesses leads deposit money banks in Nigeria to urge adequate lending opportunities. In agreement with the results stated by Pogoson (2021), this research verifies the influence of (SMEs) financial discipline on deposit money institutions.
- When SMEs borrowers neglect to furnish security for their loans, Nigerian deposit money banks suffer greatly. In the event that the business owners are unable to pay back their loans, the financial institutions will keep the collateral. The results of this study are consistent with those of Austin and Emmanuel (2021), who also found that SMEs without collateral are not required to receive credit facilities from commercial banks.

### CONCLUSION AND RECOMMENDATIONS

SMEs in Nigeria have faced significant challenges in securing funding. Because of this, they mostly rely on their own resources, charitable donations, and the assistance of friends and family to pay for their investments. Commercial banks' outrageous lending rates have forced small and medium-sized businesses (SMEs) out of the market. On the other hand, macroeconomic variables such as inflation and currency instability have neither helped the country's general economic growth or development, nor have they aided in the success of SMEs.

To sum up, the findings of this study indicate that significant work has to be done in order to further empower small and medium-sized enterprises (SMEs) in Nigeria. These difficulties still exist despite attempts to simplify credit access processes, put plans in place to lower credit costs, and lessen the bureaucracy involved in loan access. The Central Bank of Nigeria (CBN) is dedicated to carrying out its duties in spite of these challenges.

It is crucial to release a number of policy measures that are based on the research's results in order to promote the Nigerian economy and small and medium-sized enterprises (SMEs).

- To prevent defaults, which would require the lender to sell collateral and cover losses, deposit money operators should designate a sufficient number of monitoring team members to keep borrowers informed about the repayment plan.
- Nigerian lawmakers must make a concerted effort to increase the value of the naira since the nation is heavily dependent on imports. Nigeria is not a production-oriented country, despite the adoption of a flexible currency rate system and the depreciation of the naira being praiseworthy actions nonetheless. These laws would benefit a producing nation more than an import-dependent one.

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